

UNITED NATIONS DEVELOPMENT PROGRAMME



UNDP

Distr.
GENERAL

DP/WGOC/28/Add.2
17 April 1979

ORIGINAL: ENGLISH

GOVERNING COUNCIL
INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS
Fourth Session
June 1979

AGENCY SUPPORT COSTS

Note by the Administrator

Attached is the information submitted by the United Nations Industrial Development Organization (UNIDO), and the Asian Development Bank (ASDB) in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January, 1979 (DP/WGOC/27, paragraphs 3 and 4).

Contents

	<u>Page</u>
United Nations Industrial Development Organization.....	2-4
Asian Development Bank.....	5

Information submitted by the United Nations Industrial Development Organization in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

In response to your request for my further comments, let me state that I will find it very difficult to envisage a reduction in the rate of UNIDO's overhead earnings, mainly because of an increase in our delivery, despite the fact that the bulk of our projects will continue to be of a rather small-scale nature with low equipment and subcontracts components.

Such a situation will only harm the delivery capacity of UNIDO, which has shown a marked improvement over the last few years, and will also certainly have a negative impact on the particular features of our activities which, by their very nature, should not often lend themselves to projects of larger dimensions. Our calculations show that, if applied to us, the modified formula will cut our reimbursement by one million dollars in 1982, and much more in later years. It would also have repercussions on the other UNIDO technical assistance delivery.

Moreover, the local exchange rate moved against us again in 1978; it averaged 6.62 schillings to the dollar in 1977; in 1978, it averaged 14.57. In spite of this, I am glad to say that our support cost percentage for our technical assistance delivery dropped to 24% in 1978 due mainly to an increase in delivery accompanied by a less than proportionate increase in our support costs, i.e. our efficiency improved. A comparison with recent years is as follows:

	Delivery based on disbursements only	Delivery based on disbursements and unliquidated obligations
1974	31.5%	
1975	28.5%	24%
1976	29.7%	26%
1977		26%
1978		24%

However, in 1978 we still had to use \$5.9 million of our limited regular budget resources to subsidize our UNDP delivery. As far as the future is concerned, less improvement can be expected since by the end of 1979 we will have used our staff resources to the maximum extent possible.

At the appropriate time, therefore, I would be glad if you would invoke the flexibility arrangements envisaged in the last sentence of operative part II para. 3 (i) of the draft decision and apply them to UNIDO.

UNIDOUNDP Delivery\$s millions

Year	DELIVERY				EARNINGS		
	Total	UNIDO			14%	Formula I <u>a/</u>	Formula II <u>b/</u>
		Equipment/ Contracts	Other	Total			
1979	630 <u>c/</u>	10 <u>e/</u>	40	50 <u>f/</u>	7	6	6
1980	660 <u>c/</u>	11	45	56	8	7	7
1981	694 <u>c/</u>	13	53	66	9	8	8
1982	776 <u>d/</u>	16	62	78	11	10	10
1983	881 <u>d/</u>	19	78	97	14	12	12
1984	1000 <u>d/</u>	22	88	110	15	14	13
1985	1135 <u>d/</u>	25	100	125	18	15	15
1986	1290 <u>d/</u>	28	114	142	20	17	17

a/ Formula I

- (1) 7% on projects where procurement and contracts represent 75% or more of the total.
- (2) 14% up to \$50m per year, exclusive of project expenditure under (1)
13.5% between \$50m and \$75m
13.0% between \$75m and \$100m
12.0% beyond \$100m.

b/ Formula II

- (1) 5% on projects where procurement and contracts represent 75% or more of the total.
- (2) 14% up to \$75m per year, exclusive of project expenditure under (1)
13.5% between \$75m and \$100m
13.0% between \$100 and \$125m
12.0% beyond \$125m.

c/ UNDP - IPFs X 115%.

d/ UNDP figures.

e/ We established that about 20% of our projects by value would attract reimbursement at 7% (or 5%) by virtue of the fact that they consist of 75% or more Equipment and Subcontracts. We don't know whether that will continue to be the case, but we've assumed it will.

f/ We doubt if we'll exceed \$50m in 1979. We are currently getting around 11% of your total programme. We don't know if this will continue, but we've assumed so. So from 1982 onward, we've assumed our delivery will be 11% of your total estimated.

Information submitted by the Asian Development Bank in response to the request of the intergovernmental Working Group on Support Costs, contained in its decision adopted in January 1979 (DP/WGOC/27, paragraphs 3 and 4)

It is noted that in the revised proposals, Operative Part II Para. 3, B. (i), it has been provided that in the case of agencies with annual programme delivery levels below \$15 million, reimbursement will be made in excess of 14 per cent upon presentation of detailed cost information justifying the increased reimbursement. As the reimbursement of the Bank would continue at 14 per cent, the revised proposals will not financially affect the Bank and therefore, it is not proposed to submit information relating to the effects of the revised proposals.

A related question is whether the 14 per cent reimbursement is adequate to cover the actual cost to the Bank; the actual cost could be determined only by using a sophisticated cost accounting system and would entail considerable amount of time and effort. Therefore, it has not been possible to determine exact support cost incurred for the UNDP-financed technical assistance projects executed by the Bank.

For your general information, the administrative costs of Bank's technical assistance programme with reference to the technical assistance disbursements during the last 4 years have been as follows:

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
	\$	\$	\$	\$
1. Administrative cost relating to TA program	1,375,964	1,561,070	1,923,400	2,547,500
2. Total TA Amount Disbursed (in million \$)	4.51 M	3.76 M	6.54 M	9.21 M
3. Percentage of Cost to Amount Disbursed	30.5%	41.5%	29.4%	27.3%

In our opinion, the above figures would be indicative of the levels of support cost being incurred by the Bank for its technical assistance projects. The Bank would continue to receive reimbursement at 14 per cent for the support cost on the UNDP-financed projects and it is not proposed to deal at this stage with the gap between the actual support cost and the reimbursement being received.