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AGENCY OVERHEAD COSTS

Views of the
Food and Agriculture Organization of the United Nations

Note by the Administrator

At the request of the President of the Governing Council, the Administrator transmits herewith to the intergovernmental Working Group on Overhead Costs a paper dated 14 November 1977 on the views of the Food and Agriculture Organization of the United Nations (FAO) on Overhead Costs.

Views of FAO on the question of overheads

1. At its January 1975 session the UNDP Governing Council considered the rate at which Agency costs reimbursements should be paid. In the light of the results of the CCAQ Cost Measurement System, a decision was taken that there should be a de facto sharing of the overhead costs between UNDP and the Executing Agencies on the basis of UNDP contributing 14 per cent, the balance being met by the Agencies. The 14 per cent reimbursement was conceived as representing two components, i.e., 12 per cent for non-technical backstopping and 2 per cent for project formulation.^{1/} All other costs, i.e. for technical backstopping, project planning, evaluation and follow-up were to be absorbed in the Executing Agencies' Regular Programme budgets. The reimbursement rate of 14 per cent should apply up to the end of 1977. Agreement on this decision was reached after a long period of consideration and on the basis of cost measurement studies especially adapted to UNDP's needs, to which FAO in particular had devoted very substantial time and effort.
2. Now that the current arrangements have been extended up to the end of 1979 and the intergovernmental Working Group is to study the question of overhead costs and make recommendations for future reimbursement arrangements, FAO first wishes to point out that a stable formula that will permit the Executing Agencies to plan the most effective use of all resources available to them, is of the greatest importance. Considering the magnitude of its extrabudgetary field programme, for FAO it is essential. In 1974-75 the income from Agency overhead cost reimbursements from UNDP was the equivalent of 27 per cent of the Organization's assessed budget. If reimbursements from Trust Fund sources were added, the percentage would be 33.
3. Over a number of years, the governing bodies of Specialized Agencies which execute UNDP projects have passed resolutions or made recommendations to the effect that as the reimbursements of Agency overhead costs were inadequate to cover the expenditure incurred, these reimbursements should be increased. On the other hand, in the UNDP Governing Council views have been expressed by some delegates that the support costs of the Agencies are too high.
4. In studying the question, FAO's Council and its Programme and Finance Committees have considered that the extreme solutions of either full reimbursement to the Agencies of all costs incurred or of a full coverage of such costs under the Agencies' own regular budgets, were probably not feasible. It has thus been felt that the current de facto cost sharing represents a fair compromise. At the 71st session of the FAO Council in June this year, the majority concluded that the Organization should request the continuation of the present arrangements for reimbursements calculated at 14 per cent of delivery. It went on to stress that this formula provided the stability necessary to allow the Agencies "to plan the use of their resources and to avoid wasting money and efforts in time-consuming assessments of levels of reimbursement, which could instead be used for the benefit of developing countries. The present solution had the added advantage of recognizing in financial terms the partnership which is the basis of UNDP/Agency's activities."

^{1/} This has never been explicitly endorsed by FAO's Governing bodies.

5. Fortunately, the last time the matter was considered in a forum of heads of organizations of the system, at the April 1977 meeting of IACB, there was complete unanimity among the Agencies that the present system of compensating for overhead costs should be continued without change. Inter-Agency policy on the matter has thus been laid down, and the Director-General of FAO is now happy to express his Organization's continued support of this position. The Director-General also wishes to reiterate at this stage the additional sentiment expressed at IACB, to the effect that the Administrator of UNDP should also lend his support to the joint Agency view, as the only option likely to obtain wide agreement from all concerned, UNDP and the Agencies as well as the Government representatives in all governing bodies affected. The current arrangement, tried by experience, has already been accepted by the governing bodies of many Agencies and is certainly most likely to continue to have their support, also considering the complex legislative process to which any basic change in the overhead cost reimbursement formula must be submitted.

6. This unanimity of Agency views should also be seen on the background of a long process, extending over many years, of negotiations and studies, in various form and by various bodies in the United Nations system, of arrangements for overhead cost reimbursements. Many possible solutions have been intensively studied and their relative merits considered. The conclusion has, however, always been that alternative solutions do not have marked advantages, everything considered, over the current system. It would be inappropriate and futile to begin a new round of studies on different options, methodologies, cost components, or project costs by type or for individual projects. As mentioned, very considerable time and effort has already been devoted to such exercises in the context of the CCAQ Cost Measurement System and related studies, for instance by the Joint Inspection Unit. The cost/benefit ratio of further studies would not justify their being undertaken, especially in current circumstances. In any case, we have no mandate to engage in new studies.

7. Apart from considerations bearing on the maintenance of unity and harmony within the system as well as on the need for stability in the planning of the work and resources of the Executing Agencies over a substantial number of years, there are other important reasons why the Agencies at large favour the current solution. With reference to the views of the FAO Council, referred to above, the Director-General wishes at this juncture in particular to point out that the 14 per cent formula represents a tangible expression of the partnership concept in that the cost of supporting the UNDP field programme is being shared between UNDP and the Agencies, with UNDP largely funding the administrative/logistical support costs, which vary in relation to the size of the programme, and the Agencies carrying the substantive technical support, which should be available to all under the Regular Programmes. Thus, the present arrangement reflects in a striking way the concept of partnership and burden-sharing with a common goal. The partnership concept was in fact always based on the principle of reimbursement of costs by UNDP and by its predecessor organizations. In the opinion of the Director-General, this is still both reasonable and necessary in the present circumstances.

8. Finally, reference is here made to the fact that the problem of support costs extends beyond the UNDP-financed projects. What is done for UNDP will inevitably have repercussions on other extrabudgetary programmes. In FAO substantial support costs are thus incurred on Trust Funds and with respect to WFP. The expenditures on Regular Programme and on field programme support incurred by FAO 1974-75 were as follows:

| | Activities on which funds spent | Sources from which funds received (\$ million) | Subsidy from RP to field programmes |
|--------------------------------|---------------------------------------|---|---|
| <u>Regular programme</u> | <u>93.1</u> | <u>101.3</u> | <u>(8.2)</u> |
| <u>Field programme support</u> | | | |
| UNDP | 31.9 | 29.7 | 2.2 |
| TF | 11.2 | 6.5 | 4.7 |
| WFP | 5.7 | 4.4 | 1.3 |
| Total support | <u>48.8</u> | <u>40.6</u> | <u>8.2</u> |

Apart from the question of repercussions on the non-UNDP extrabudgetary support cost reimbursements, this table shows that the Regular Programme subsidized the total field programme by \$8.2 million in 1974-75 and that the subsidy would have been no less than \$48.8 million if all support costs had been met from the Regular Programme.

* * *

With regard to a definition of "overhead costs", it would be preferable to define these as "programme support costs" which is a clearer and more appropriate description. It is moreover considered that the conceptual work connected with the CCAQ cost measurement study has yielded adequate material. (Reference is made to the report of the Special (1974) CCAQ Session on Financial and Budgetary Matters, document CCAQ/SEC/327/(FB) of 1 May 1974, relevant parts of which were reproduced in Governing Council document DP/77/Add.1, in particular Annex VII.)
