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GOVERNING COUNCIL
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First meeting
January 1978

AGENCY OVERHEAD COSTS

Views of the

International Labour Organisation

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 the text of a letter from the Director-General of the International Labour Organisation (ILO), and an ILO paper containing additional information on the subject of Overhead Costs.

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Communication from the Director-General of the ILO
to the Administrator of UNDP

I personally have little to add to the comments I made in the IACB last April. Developments since then have, if anything, made it more important to seek a generally agreed solution. In the ILO, where our budget was under strong pressure even before the United States decision to withdraw, the cash subsidy towards programme support activities has been totally eliminated from the 1978-1979 programme and budget. At the same time, while we have taken several successive steps to reduce programme support costs to the bare minimum, there is no doubt that they are still very substantially above the 14 per cent figure that we receive from UNDP.

I am sure you will understand that in these circumstances I have to reiterate the view that we must continue to receive a minimum of 14 per cent from UNDP for a number of years to come. Any long-term solution that is proposed should be such as to achieve a consensus of at least the major contributing Governments in all organizations and should allow for ample time for planning any budgetary or organizational changes that it might involve.

I attach a copy of material supplied in February last in connexion with the preparation of document DP/259. Please feel free to use any of this material in your submission to the Working Group. The sectors "Agency legislative history" and "Cost reduction efforts" may be of particular interest.

I share the view of Dr. Mahler that, if the Working Group wishes to have further inputs from the organizations in the United Nations system, we would hope that this could be co-ordinated through a Working Group under the auspices of IACB or ACC. We are fully ready to co-operate in any such Working Group.

International Labour Organisation (ILO)
Additional information

Agency legislative history

1. At the November 1974 Session of the Governing Body, the Programme, Financial and Administrative Committee again discussed the question of overhead costs for programmes financed from outside sources. The paper submitted gave background information on such costs, set out the problem that had arisen with respect to them, and indicated the manner in which the Director-General proposed to deal with the problem. Appended to it was a historical background in which all the ILO decisions which had been taken in the past on this subject were recorded. The following is an extract from the PFAC report to the Governing Body (GB.194/12/47) which approved it:

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"Support Costs for Programmes Financed from Outside Sources

26. The Committee had before it an information paper setting out the position with regard to the costs incurred for the support of extra-budgetary projects and explaining the difficulties which had recently arisen in the financing of these costs.

27. The spokesman of the Employer members urged the Director-General to make strong representations to the bodies financing extra-budgetary projects to the effect that they should provide adequate allocations for support costs, so that the agencies carrying out the projects would not be penalised for doing so.

28. The Director-General said that the ILO had succeeded until recently, through prudent management, in covering support costs for the programmes in question in a relatively satisfactory manner. For the reasons indicated in the paper, this was now no longer possible. He had taken a very firm position on UNDP support cost allocations in the recent meetings of the ACC and the Inter-Agency Consultative Board, but it was unlikely that the UNDP Governing Council would accept any substantial upward revision of these allocations; however, at its next session the Administrator of UNDP would propose increasing them to 14 per cent of project costs. Such an increase would produce additional receipts of some \$300,000 for the ILO in 1975. At the same time, internal measures were under study with a view to trying to reduce ILO support expenditures without harm to the quality of its support work."

2. At the 60th (June 1975) Session of the International Labour Conference the programme and budget proposals for the biennium 1976-1977 were discussed. In order to cover part of the anticipated shortfall of the overhead costs in 1976-1977 the decision to provide an additional credit of \$2.4 million as a subsidy to the Executing Agency Costs Account was taken. The following is an extract from the approved programme and budget for the biennium 1976-1977 confirming the decision:

"290.26. The reserves in the Executing Agency Costs Accounts are expected to be fully exhausted by the end of 1975. There will therefore be no support costs income to carry forward to the 1976-1977 biennium. On the basis of the volume of technical co-operation programme support work anticipated for 1976-1977, and of the staffing level to be financed from the Account in 1975, it is estimated that the costs to be financed through the Account in 1976-1977 will exceed income received during that biennium by approximately \$4.8 million. However, in view of the general budgetary constraints, it is proposed to provide through the regular budget for only a part of the anticipated shortfall, i.e. \$2.4 million as a subsidy to the Account in 1976-1977."

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3. The ILO programme and budget proposals for 1978-1979 which are now before the Governing Body (February-March 1977 Session) for consideration contain a proposal to reduce the subsidy by 50 per cent as the shortfall of income will not be as great as in 1976-1977. The proposed subsidy is therefore decreased to the amount of \$1.2 million. On 23 February 1977, in presenting his revised proposals, the Director-General suggested deletion of this subsidy entirely and meet the resulting reduction in income by further economies on support costs. It is expected that this will be agreed to by the Governing Body and the Conference.

Volume and types of non-UNDP-financed Agency (extra-budgetary) activities in technical co-operation

1966

	<u>\$1 000</u>	<u>\$1 000</u>
- Total ILO regular budget		21 034
- Technical co-operation activities in regular budget <u>1/</u>	1 935	
- UNDP-financed co-operation:		
UNDP/TA	6 260	
UNDP/SF	7 262	
- Trust Fund Accounts	1 173	
Total technical co-operation activities	<u>16 630</u>	

1972

	<u>\$1 000</u>	<u>\$1 000</u>
- Total ILO regular budget		35 751
- Technical co-operation activities in regular budget <u>1/</u>	3 128	
- UNDP-financed co-operation <u>1/</u>	30 541	
- Trust Fund Accounts <u>1/</u>	4 453	
Total technical co-operation activities	<u>38 122</u>	

1/ Provision for field projects only; does not take into account technical advisory services nor provision for service and support of technical co-operation included in regular budget for the three periods.

1977 (Estimate)

	<u>\$ 1 000</u>	<u>\$ 1 000</u>
- Total ILO regular budget		71 991
- Technical co-operation activities in regular budget <u>2/</u>	3 500	
- UNDP-financed co-operation	28 200	
- Trust Fund Accounts	14 540	
Total technical co-operation activities	<u>46 240</u>	

Cost reduction efforts

4. Within an Agency, the level of service and support costs to technical co-operation is not only dependent on the effectiveness and efficiency of the Agency. It also depends on other factors such as mix of projects in terms of technical content, size, geographical location and components; over-all volume and rates of exchange. Consideration must also be given to the wishes and/or demands of UNDP, the donor country and the recipient country. We believe that a part of our service and support costs are fixed or semi-variable which means that we have the capability to deliver a larger technical co-operation programme at a lower percentage cost. Conversely, when the over-all programme declines, the rate of service and support costs will rise. The decline in our over-all UNDP technical co-operation programme; related procedures, controls and restrictions; and revisions in request for financial data have all severely impacted both our technical and administrative areas; in particular, our financial and computer services.

5. In 1968, the ILO initiated its first cost measurement survey to determine the over-all level of service and support costs, the location of these costs and the possibility of reducing them without sacrificing effectiveness. This early study initiated action to improve our lines of communication and reorganize two major technical departments to enable them to furnish improved technical support in a more efficient manner.

6. The Director-General and the Governing Body are deeply concerned about the cost of service and support since the ILO regular budget has continued to support a large portion of these costs.

2/ See foot-note 1/.

7. At the February-March 1976 Session of the Governing Body the Programme, Financial and Administrative Committee considered the question of the cost measurement system. The document submitted (GB.195/PFA/5/18) gave an over-all view of the system and drew the attention to some of the findings. The following is an extract from the PFAC report to the Governing Body. This document was approved by the Governing Body:

"Cost measurement system

"7. The Committee had before it a paper containing an over-all description of the inter-organization cost measurement system, drawing attention to important findings for the year 1973, and indicating current developments.

"8. The spokesman of the Employers' members said that the paper was impressive but noted that cost measurement findings were based upon time reports provided by individual officials. There was thus an element of subjectivity at the base of the system, and for this reason the Employers were sceptical about the results."

8. Up through 1977 there has been a substantial regular budget contribution to service and support. However, in the 1978-1979 programme and budget, the direct subsidy has been reduced by about one-half to \$1.2 million for the biennium. It is now expected to be eliminated entirely in the finally approved budget. This reduction requires still further action to be taken, based on a major management study to reduce duplication of effort between Headquarters and the field and within both, simplification of methods and procedures and transfer of additional responsibilities for project execution to the Chief Technical Adviser.

9. The ILO has always been a strong supporter of cost measurement systems and related techniques, but believes that greater emphasis should be placed on corrective action rather than the collection, analysis and reporting of historical data. We are continuing to make a concerted effort to reduce our level of service and support costs based on the previous cost measurement system data and related studies.

10. Specific examples of recent action to reduce the level of costs can be summarized as follows:

(a) Following the recommendations of the 1975 ILO/UNDP task force, greater responsibility and authority has been given to the Chief Technical Advisers. We are also currently finalizing a CTA manual. These arrangements should result in better quality and improved delivery, reduce and simplify communication, and assign more clearly both authority and responsibility. This means that some work performed at Headquarters and field offices can be reduced, simplified or eliminated.

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(b) We have recently completed a series of meetings with our Regional Directors to clarify and simplify not only the lines of communication, but the role of the field vis-à-vis Headquarters. This is in line with our policy for further decentralization. A circular directing implementation action will be issued within the next month or two.

(c) Implementation action is being taken on the major report of a management consultant firm who made a detailed review of our service and support work at Headquarters. Emphasis is being placed on direct assignment of organizational responsibility, improved communications flow, further elimination of duplication of effort and improved systems.

(d) For recruitment and administration of experts, we have established a central unit within our Personnel Department which has direct responsibility for expert personnel activities. The computerized roster system is operational and is showing benefits in improved selection, better timing and reduced clerical work.

(e) The technical co-operation procurement unit has initiated action to computerize a number of activities which will not only reduce service and support costs but will improve the quality and timing of procurement activities.

(f) The ILO is continuing some work on a modular technical co-operation information system to improve our planning and control. For over one year we have been sending a monthly computerized financial status report to each CTA.

(g) The Cost Measurement System Task Force also served as a useful forum for the exchange of concepts and improved methods and systems information with other organizations ensuring greater cost effectiveness and better quality for all concerned.

11. In his introduction to the programme and budget proposals for 1978-1979 which are now being discussed by the Governing Body, the Director-General has made the following statement:

"60. As mentioned at the beginning of this Introduction, my proposals imply an important shift of resources from administrative expenditure towards substantive and regional activities. They continue the drive for economy and cost reduction that has now been under way in the ILO for a number of years. Particular attention shall be given to the rationalization of administrative operations and procedures. In fact, resources proposed for the general administration programmes fall by some 4 per cent, while those for substantive activities rise by 9 per cent in the case of the technical programmes and by 6 per cent in the case of the regional and relations programmes."

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Total volume of support costs for technical co-operation activities:
distribution between regular budget and extra-budgetary funds

<u>1972</u>		<u>\$ 1 000</u>
<u>Regular budget</u>		
(a)	ILO cash subsidy	150
(b)	Activities included in the budget under:	
(i)	Technical programmes for service and support of technical co-operation	850
(ii)	Service and support programmes	900
(iii)	Regions	900
		<hr/> 2 800 ^{3/}
<u>Extra-budgetary funds</u>		
(c)	UNDP Agency Costs (earnings)	3 950
(d)	Trust Fund Agency Costs (earnings)	410
	Total	<hr/> 7 160 <hr/>

<u>1977 (Estimate)</u>		<u>\$ 1 000</u>
<u>Regular budget</u>		
(a)	ILO cash subsidy	1 200
(b)	Activities included in the budget under:	
(i)	Technical programmes for service and support of technical co-operation	1 500
(ii)	Service and support programmes	1 500
(iii)	Regions	1 500
		<hr/> 5 700 ^{3/}

3/ The figures appearing under (b) (i), (ii), (iii) are very rough approximations as the information available for the programmes concerned deals with global amounts only.

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(1977 (Estimate) (cont'd.))

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\$ 1 000

Total Regular budget ... 5 700

Extra-budgetary funds

(c) UNDP Agency Costs (earnings) 3 950

(d) Trust Fund Agency Costs (earnings) 1 750

Total 11 400

Regular budget total: amount of overhead received from UNDP:
percentage of latter to former: 1975, 1976

\$ 1 000

1975

(a) Gross regular budget for 1975 64 199

(b) Overhead costs received from UNDP in 1975 5 718

(c) Percentage of overhead to regular budget 9 %

1976

\$ 1 000

(Provisional year-end data)

(a) Gross regular budget for 1976 Expenditure 76 028

(b) Overhead costs received from UNDP in 1976 4 697

(c) Percentage of overhead to regular budget 6 %

Costs of subcontracting versus overheads in normal execution

12. The ILO has a limited volume subcontracting. Most of the ILO's projects do not lend themselves to this mode of implementation. However, we have looked at a small number of subcontracts in the management development field and have noticed that a comparison of costs on the basis of man-days actually worked shows that the appointment of ILO staff, even at P-5 grade and taking account of all related expert costs lies by some 15 per cent below that of the corresponding subcontracts.
