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INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS
Fourth Session
June 1979

DRAFT REPORT OF THE INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS

Rapporteur: Mr. Peter OSVALD (Sweden)

INTRODUCTION

1. The Intergovernmental Working Group on Support Costs held its third session at the United Nations, New York, during the period 22-24 January 1979. Mr. Sarfraz Khan MALIK (Pakistan), Chairman of the Group, presided and Mr. Peter OSVALD (Sweden) served as Rapporteur.

I. ORGANIZATION OF THE SESSION

Attendance

2. Represented at the session of the Working Group were members of the Governing Council, States represented by Observers, and organizations and entities in the United Nations System and other intergovernmental bodies. A list of attendance is included as the Annex to the present report.

Agenda and organization of work

3. The Chairman reviewed the progress of the Group's work to date. He thanked and commended the Administrator for his report, as contained in document DP/WGOC/25. This report reflected the consensus reached in the Group's June session to seek a modified system of reimbursement which would primarily reflect adjustments for economies of scale and for variations in the mix of project components.

4. The provisional agenda as contained in document DP/WGOC/24, consisting primarily of consideration of proposals for a modified formula, was adopted.

5. In addition to the agenda, the following documentation was before the Group:

(a) Report of the Administrator (DP/WGOC/25 and Corr.1)

(b) Note by the Administrator attaching a note of the Joint Inspection Unit on the report of the Administrator (DP/WGOC/26)

- (c) Twenty-second report of the Advisory Committee on Administrative and Budgetary Questions (A/33/7/Add.21)

The last mentioned report was transmitted to the Working Group by the Fifth Committee of the General Assembly.

II. INTRODUCTORY STATEMENTS

6. In his introductory statement the Administrator recalled that he had been entrusted by the Working Group to make another effort, in consultation with the Agencies and within the framework of the guidelines and criteria enumerated by the Group at its June session, to recommend a modified formula for reimbursement of support costs. The framework, as agreed by the Working Group, was to take into account primarily the variables of economies of scale, component mix of projects and mode of execution. The Administrator pointed out that he would have been reluctant to accept the mandate had he understood at that time that there were objections of principle to these variables. He explained the consultative process followed in the preparation of WGOC/25 and the reasons underlying his proposals.
7. With respect to economies of scale, he recalled that the Advisory Committee on Administrative and Budgetary Questions had recommended exploring the possibility of applying regressive scales and that the ACC also recognized that economies of scale are achieved by Agencies with larger programmes and that a support service does not normally grow in cost proportionately to the value of the funds administered. His proposals in this respect, including the transitional arrangements to avoid any significant impact on other sources of funding of the Agencies most likely to be effected, were formulated with this in mind.
8. The Administrator noted the Advisory Committee's comments that his proposals did not address themselves to the ways and means of reducing the totality of support costs and would transfer additional costs to regular budgets. In this regard he recalled the difficulties in trying to identify the precise costs of providing support services. Furthermore, he pointed out that an adjustment which recognizes that future additional programmes will not necessarily give rise to mathematically proportionate additional support costs should not be regarded as an automatic transfer of charges to other sources of funding. Moreover, such an adjustment beyond certain levels of activity would serve as an incentive to take maximum advantage of the absorptive capacities of large secretariats and thereby to contain overall support costs. As to the potential impact of the proposed, modified formula, on the basis of some broad assumptions there could be savings in support costs reimbursements in the order of some \$50 to \$60 million for the third IPF cycle as a whole.
9. In closing, the Administrator emphasized that the issue of support cost reimbursements was one that must be resolved at a broad policy level by inter-governmental dialogue and decision. He had essentially responded to the request of the Working Group within the framework of the guidelines which the Group had stipulated. He thanked the Executing Agencies for the understanding and co-operation they extended during the several consultations with them and expressed

the hope that the deliberations of the Working Group would produce a viable solution which would resolve the complex issue.

III. SUMMARY OF DISCUSSION

10. The Chairman opened the discussion by referring to the proposals contained in the Administrator's report (DP/WGOC/25) which, in his view, faithfully followed the Working Group's decisions of June 1978 and provided for modifications reflecting differing sizes of programmes, component mix of projects, special arrangements for the World Bank and the Office of Projects Execution (OPE) and for government execution. While introducing the concept of a floor, the proposals also attempted to protect 1981 reimbursement levels and contained many checks and balances. As mentioned by the Administrator, there could be estimated potential savings of \$50-\$60 million over the third cycle which could be redistributed in favour of additional programmes for the developing countries. The Chairman noted that all but three Agencies were agreed to the Administrator's proposals and that the work of the Group would be to find a consensus among Governments.

11. There was unanimous appreciation for the Administrator's efforts to seek a solution which, while reflecting faithfully the Working Group's guidelines, could find favour with all parties concerned, and for the clarity and directness of his report. Most members regarded the proposals contained in document DP/WGOC/25 as realistic, easy to understand and practical and as providing a basis for a long-term solution. In the view of some, the proposal represented a good interim solution pending further study of a long-term formula. One or two members however considered that the further efforts were needed before a change in the present arrangements could be decided.

12. Several members expressed full support of all of the Administrator's proposals since reduced reimbursements would mean that additional UNDP resources would be available for assistance to the developing countries. Other members underlined that a reduced reimbursement rate would lead to requests for proportionate increases in the regular budgets of the Agencies. These members could not accept such a shift of the burden. In reply to this, some other members pointed out that they could not accept the argument that a slightly lower reimbursement rate meant an automatic proportionate increase in the regular budgets. Instead, the reduction would result in genuine, long-term savings for the system as a whole.

13. Other members expressed qualified support for applying the new proposals to only the third cycle with the hope that in the meantime, more information regarding the magnitude of costs would be made available to the Working Group by the Agencies permitting a more concrete approach to the problem in the long run. Several members expressed disappointment at not having cost data available at this session and suggested that the Working Group might recommend to the governing bodies of the Agencies that standardized procedures for providing cost data and for scrutinizing extra budgetary income be adopted among the Agencies. These members considered at the same time that it was essential, even for an interim period, to apply some modifications to the present formula along the lines contained in the proposals in DP/WGOC/25.

14. Another member considered that in the absence of any concrete data on which to base a decision for a modified formula, the present system should be maintained and other approaches examined to achieve the central goal of reducing the totality of support costs.

15. Another member suggested that the Agencies be invited to provide information on costs again in June in order to permit member Governments to make a more reasoned judgement at that time.

16. With respect to the elements of the Administrator's proposal, there was general agreement expressed to his treatment of government executed projects and, with a few reservations, to his proposals regarding the World Bank.

17. With regard to component mix, some members thought that a lower reimbursement figure, perhaps 5 per cent, could be applied to the special category projects. It was also suggested that the percentage of equipment and/or subcontracts which defined the special category of projects could be set at 70 rather than 75. Another member suggested a sliding scale depending on the percentage of equipment and/or subcontracts in a project, beginning at 50 per cent.

18. On the proposal for economies of scale, members regretted that three Agencies had not agreed to the Administrator's proposal and asked to hear comments from the Agency representatives. Several members supported the proposals as they were. Others suggested that they could be modified, for example by raising the "thresholds" at which adjustments would be applied, to take into consideration the reservations of the Agencies concerning the negative impact on their regular budgets. A few members supported the Advisory Committee's suggestion, which the Administrator had accepted, that provision should be made to take account of inflation in respect of the "thresholds".

19. Several members mentioned other possible solutions, including inclusion of all costs in the regular budgets of the Agencies or in the project budgets. The Chairman recalled that the Group had already agreed in June 1978 on the direction along which a solution should be sought and urged members to use that decision as the point of departure for further consideration of the matter.

20. The representative of the Food and Agricultural Organization (FAO) clarified that his Agency could not accept any reduction in reimbursement of support costs without approval of its Council. With respect to cost data, he pointed out that, previous attempts at cost measurement have not been taken into account and that, although FAO does have a limited cost measurement system, it was reluctant to carry out new studies if the results are ignored.

21. The representative of the United Nations explained that the United Nations was prepared to study the situation further and that it had no rigid position. After the restructuring of the Department of Technical Co-operation for Development was complete, it would be in a better position to determine what its costs are.

22. In view of the patterns that were emerging, the Chairman suggested that the Group would wish time for informal internal consultations. The Chairman outlined

the three sets of views he had discerned. One set supported the Administrator's proposals set forth in DP/WGOC/25 with further modifications to meet the concerns of the governments and the Agencies. Another view raised the question as to why actual support costs could not be identified and called for more information in order to base a decision on precise data. A third position was that there could be an interim solution limiting the modifications to the third cycle, with studies being continued based on which a more rational solution could be adopted for the fourth cycle. The idea of an approach distinguishing between a short-term solution for the third cycle and a longer-term solution based on precise cost data found wide support. The Working Group then went into a series of informal meetings.

Decision of the Working Group

23. At its formal meeting on 26 January 1979, the Working Group adopted by consensus the following decision:

The Intergovernmental Working Group on Support Costs,

1. Decides to consider the draft decision, contained in annex I of DP/GC/WGOC/III/CRP.1/Add.1 and the amendments proposed in annexes II and III, at its fourth session in June 1979, prior to submitting its report to the Governing Council,

2. Decides to transmit to the Executing Agencies the text of operative parts I and II of the draft decision,

3. Recalls its earlier invitation to the Agencies, contained in operative paragraph 8 of its decision of 9 June 1978, and again invites the Agencies individually to submit information on the application of the modified formulae outlined in the draft, which would indicate the impact of the formulae, including alternatives shown within brackets, on the level of their support costs financed from different sources. This information should:

(a) Relate to cost data for the years 1977, 1978 and 1979 on the assumption that the modified formulae were in effect and also to projected cost data for the period of the third IPF cycle; and

(b) Take into account measures to reduce costs and the savings resulting therefrom;

4. Invites the Agencies individually to submit comments on the other points included in the operative parts of the draft, and the Joint Inspection Unit to submit any comments it may have on the draft decision and on the comments of the Agencies;

5. Further invites the Agencies to submit the information and comments requested above to the Administrator before 15 March 1979 in order to give him time to transmit them to Governments, members of the Working Group, well in advance of its fourth session in June 1979.

TEXT OF DRAFT DECISION TO BE CONSIDERED BY THE WORKING GROUP AT ITS FOURTH SESSION

The Intergovernmental Working Group on Support Costs,^{1/}

Recalling its decision of 9 June 1978 in which it outlined the criteria and guidelines on the basis of which the Administrator was requested to recommend a modified formula, in consultation with the Executing Agencies, for reimbursement of support costs; recalling further that in that decision the Working Group had specifically underlined the importance of adjustments to take account of economies of scale, nature and component mix of projects and method of execution,

Having reviewed, with appreciation, the report of the Administrator (DP/WGOC/25 and Corr.1) and the comments thereon by the Advisory Committee on Administrative and Budgetary Question (A/33/7/Add.21) and the Joint Inspection Unit (DP/WGOC/26),

Taking into account the comments, observations and suggestions made during the discussion of this question,

Having continued the examination of this question bearing in mind the terms of reference and criteria laid down by the Governing Council in its decision establishing the Working Group at its 588th meeting on 29 June 1977, in which reference was made, inter alia, to the question of the reduction of overhead costs with the purpose of achieving an over-all reduction in programme support costs,

Recalling the statements in its decision of 9 June 1978 that over-all programme and project support costs have reached significantly large levels, that any new reimbursement formula should provide an incentive to review and reduce over-all support costs and that any UNDP funds released by a reduction of support costs would be fully available for additional programmes in developing countries through a corresponding increase in resources available for IPFs,

Believing that any reduction in UNDP reimbursement of support costs designed to make the System somewhat more rational cannot be regarded as automatically calling for an increase from other sources of funds or as a mere redistribution of costs among different sources,

Considering that the proposals contained in document DP/WGOC/25 constitute a constructive, pragmatic and practical system of modifications in response to the concerns and criteria outlined in the Working Group's decision of 9 June 1978,

Noting at the same time that the several organizations have not provided, or are not in a position, under present organizational and accounting arrangements and procedures, to provide specific information on identified support cost elements or comparable cost data relating to them,

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^{1/} This text will be recast as a draft decision of the Governing Council which the Working Group would recommend for adoption by the Council. Such recasting is already reflected in operative parts I and II.

Convinced, therefore, that efforts should be continued through appropriate forums of the several organizations, beginning with the General Assembly of the United Nations, to seek ways and means of instituting adequate arrangements and systems in the organizations designed to generate cost data which would give a clear picture of actual support costs arising in respect of technical co-operation activities,

Recognizing that such systems may be useful for the broader purposes of the organizations in providing better financial information to Governments, going beyond the question of support costs; recognizing further that actions to bring about such changes and the collection and analysis of cost data based on such changes will take some time,

Convinced further that any long-term arrangements for the reimbursement of support costs must be based on cost data of the kind referred to above, but recognizing that decisions based on such data will be difficult to bring about in time for the start of the third IPF cycle beginning in 1982,

Believing that the question of support cost reimbursement should be considered separately in its long-term perspective and for the intermediate term, including the third IPF cycle ending in 1986,

Believing further that for the intermediate term, the existing formula must be modified in the light of the criteria which were emphasized by the Working Group in its 9 June 1978 decision and which are reflected in the proposals contained in DP/WGOC/25,

I

The Governing Council,

1. Recommends to the Economic and Social Council and to the General Assembly that they consider the question of seeking ways and means of instituting adequate arrangements and accounting systems in the United Nations designed to generate cost data which would give a clear picture of actual support costs arising in respect of technical co-operation activities and that they consider recommending to the other organizations of the United Nations system the adoption of similar measures designed to generate and provide cost data on a broadly comparable basis;

2. Decides that it will revert to the question of long-term arrangements for support costs as soon as such cost data are available and that, meanwhile, it would retain this item on its agenda (see also below);

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II

3. Pending consideration and establishment of longer-term arrangements at a future date, recommends the adoption of the following arrangements for the intervening period:

(a) The existing arrangements which have been authorized until the end of 1979 should be continued till the end of 1981:

(b) A modified reimbursement formula including the following elements should be applied as an interim measure limited to the third IPF cycle 1982-1986:

(i) Flexibility arrangements

Agencies with annual programme delivery levels below \$15 million would be reimbursed in excess of 14 per cent upon presentation of detailed cost information justifying the increased reimbursement. The Administrator would authorize the amount of reimbursement and would inform the Governing Council of this action. Cases of special hardship arising from significant currency fluctuations and not already covered by the foregoing flexibility provisions would be referred, on an ad hoc basis, to the Governing Council:

(ii) Economies of scale

Agencies with annual programme delivery levels between \$15 and \$50 (75) million would receive, subject to (iii) below, reimbursement at the rate of 14 per cent of programme delivery. For the \$25 million portion between \$50 (75) and \$75 (100) million delivered, the reimbursement rate would be 13.5 per cent; between \$75 (100) and \$100 (125) million, the reimbursement would be at the rate of 13 per cent; and the amount over \$100 (125) million would be reimbursed at 12 per cent;

(iii) Nature and component mix of projects

For projects consisting of 75 (70) per cent or more of the equipment and/or subcontract components, the reimbursement rate would be 7 (5) per cent of total project costs. The totality of these projects would be excluded on an Agency-by-Agency basis before reductions were made with respect to economies of scale. This provision would be superseded by (i) above in the case of Agencies with annual programme delivery levels below \$15 million;

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(iv) Special arrangements with IBRD and UNDP/OPE

The present special arrangements providing for a consolidated reduced rate of 11 per cent reimbursement would continue in respect of IBRD. The present arrangements for approval by the Governing Council of the annual budget estimates in respect of support services for UNDP/OPE projects would also be continued;

(v) Method of execution

In the case of Government execution, Agencies would be reimbursed 14 per cent of the amount of the project elements they were asked to execute on behalf of the Government unless the services were provided for the procurement of equipment in which case the reimbursement rate would be as applicable under subparagraph (iii) above;

(c) Decides that the Council will (periodically) (annually) review the results of operation of the interim arrangements on the basis of cost data to be submitted by each Agency based on the best possible calculations or estimates.

AMENDMENT OFFERED BY THE DELEGATION OF FINLAND TO OPERATIVE
PARAGRAPH 2 OF PART I OF THE DRAFT DECISION

2. Decides to revert to the question of long-term arrangements for support costs and to retain this item on its agenda for the consideration of, inter alia, the following issues:

(a) Annual reviews of the results of the operation of the interim arrangements described in section II below, undertaken on the basis of cost data to be submitted by each Executing Agency based on the best possible calculations of estimates;

(b) Assessments of progress made in the implementation of paragraph 1 above;

(c) Various options for a long-term solution of the support cost problem, such as the establishment of a clear and detailed enumeration of the expenditures to be considered as support costs, methods of calculating support costs on a project basis, full disclosure of support costs to recipient Governments through their inclusion in project budgets and ways and means to provide incentives to all parties concerned to minimize overhead costs;

3. Reiterates its invitation to the Executing Agencies to provide information to the Governing Council on possible measures which could be taken to strengthen their procedures so that the actual level of support cost components can be more clearly identified.

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AMENDMENT OFFERED BY THE UNITED STATES OF AMERICA DELEGATION
ON PARAGRAPH 3 OF THE DRAFT DECISION

Pending consideration and establishment of longer-term arrangements at a future date, recognizes that additional examination of interim arrangements for the Third Development Cycle is necessary, and therefore decides to consider this matter further at its June session, drawing upon such interim possibilities as continuing the present reimbursement arrangements, or adopting modifications of those arrangements recommended by the Administrator in DP/WGOC/25, or other suggestions which may arise at the June session. Further, requests the Specialized Agencies to provide more precise comments on the Administrator's recommendations for consideration by the Working Group and the Governing Council in June 1979.

REPRESENTATION AT THE THIRD SESSION OF THE
INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS

The following members of the Governing Council were represented at the Working Group: Argentina, Australia, Austria, Bangladesh, Belgium, Brazil, Burundi, Canada, China, Colombia, Congo, Cuba, Czechoslovakia, Democratic Yemen, Ecuador, Egypt, Fiji, Finland, France, Gambia, Germany, Federal Republic of Greece, Guinea, Indonesia, Italy, Ivory Coast, Japan, Jordan, Kenya, Kuwait, Madagascar, Mexico, Netherlands, Norway, Pakistan, Poland, Romania, Sierra Leone, Spain, Swaziland, Sweden, Switzerland, Thailand, Trinidad and Tobago, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America.

The following States were represented by observers: Bahrain, Barbados, Bhutan, Burma, Chad, Chile, Denmark, Dominican Republic, German Democratic Republic, Guinea-Bissau, Israel, Jamaica, Lao People's Democratic Republic, New Zealand, Philippines, Republic of Korea, Samoa, Somalia, Suriname.

The following United Nations offices and programmes were represented: United Nations Secretariat, United Nations Industrial Development Organization, United Nations Environment Programme, United Nations Children's Fund, United Nations High Commissioner for Refugees, World Food Programme, United Nations Institute for Training and Research, Joint Inspection Unit, United Nations Fund for Population Activities.

The following specialized agencies and other organizations of the United Nations system were represented: International Labour Organization, Food and Agriculture Organization of the United Nations, United Nations Educational, Scientific and Cultural Organization, World Health Organization, World Bank, Universal Postal Union, International Telecommunication Union, World Meteorological Organization, International Atomic Energy Agency, International Trade Centre.

Observers for the following intergovernmental organizations participated: Asian Development Bank, Organization of American States, World Tourism Organization.

Observers for the following national liberation movements also attended: African National Congress (ANC South Africa), Patriotic Front (Zimbabwe).
