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Other matters

REQUEST OF THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
FOR ADDITIONAL REIMBURSEMENT OF SUPPORT COSTS

Note by the Administrator

Summary

This note contains a request received from the United Nations Industrial Development Organization for the reimbursement of additional support costs for 1986 as a result of currency fluctuations. The request is based on the provisions in paragraph 5 (a) of Governing Council decision 81/40 of 30 June 1981.

I. TOTAL TECHNICAL ASSISTANCE DELIVERY

1. In 1986, the United Nations Industrial Development Organization (UNIDO) incurred expenditures of \$99.6 million on technical co-operation activities financed from all sources of funds. The direct and indirect programme support costs accruing from those activities totalled \$31,319 million in the same year. The latter amount equals some 31.4 per cent of total project expenditures. Of the total technical co-operation project expenditures, \$72,101,571 were for projects financed by the United Nations Development Programme (UNDP) (including Government cash counterpart contributions) for which UNIDO had been designated executing agency.

II. REIMBURSEMENT OF SUPPORT COSTS

2. Reimbursement of support costs is basically governed by the provisions of paragraph 2 (c) of Governing Council decision 80/44 of 27 June 1980. By virtue of that paragraph and without prejudice to some degree of flexibility granted to certain executing agencies UNDP-financed programmes, it was decided that no executing agency should receive for each of the years 1982 to 1986, under the new formula, less reimbursement in United States dollars than the amount received for 1981, unless 14 per cent of the amount of actual programme expenditures itself were to produce a lower amount. In such an event, the latter amount was to serve as the upper limit of reimbursement.

3. In the case of UNIDO, UNDP reimbursed the Organization \$9,380,067 in 1986. This sum is equal to the amount of support cost reimbursement paid to UNIDO in 1981, since 13 per cent of the expenditures incurred in respect of UNDP-financed programmes in 1986 (\$9,330,619) would have been below the reimbursement actually received in 1981.

4. UNIDO is currently seeking the approval of its Member States for a supplementary budget appropriation. The funds requested will be used to meet some of the additional costs of expenditures incurred in Austrian schillings while carrying out activities under the programme of work approved for financing from the regular budget of UNIDO. Furthermore, UNIDO has significantly reduced certain expenditures in order to offset the adverse effects of the depreciation of the United States dollar. However, it has not proved possible to effect further reductions in support expenditures in 1986 and 1987, nor will it be feasible to introduce reductions in 1988 without impinging negatively on the quality and effectiveness of UNIDO technical backstopping and programme support.

5. Virtually all UNIDO support costs relate to staff costs, of which about 77 per cent is incurred in Austrian schillings. The depreciation of the United States dollar throughout 1986 led to an increase in the dollar costs of UNIDO schilling expenditures of about 35 per cent over the same period. Total project support costs increased concurrently by some 27 per cent.

6. This contingency, however, has been provided for in Governing Council decision 81/40. In the event that the United States dollar depreciates markedly

against the Austrian schilling between one year and the next, UNIDO can claim entitlement to additional reimbursement under paragraph 5 (a) of that decision, which reads:

"Executing agencies which are organizations within the United Nations system and not eligible for support cost flexibility arrangements may submit to the Governing Council, through the Administrator, requests for compensation for losses sustained in respect of support cost reimbursements as a result of currency fluctuations; such requests will be considered only in those cases where the average annual currency exchange rate of an agency's headquarters location has appreciated by at least 11 per cent vis-à-vis the United States dollar between one year and the next and provided that the total support cost reimbursement to an agency does not exceed 14 per cent of its UNDP project delivery for the year in question."

III. APPRECIATION OF LOCAL CURRENCY

7. The average annual Austrian schilling exchange rate vis-à-vis the United States dollar appreciated by much more than 11 per cent between 1985 and 1986. In fact, the average United Nations operational rate of exchange in 1985 stood at \$US 1 = AS 20.70 (or AS 1 = \$US 0.0483). In 1986, the average rate was \$US 1 = AS 15.32 (or AS 1 = \$US 0.0653). The Austrian schilling can thus be seen to have appreciated in terms of United States dollars by no less than 35 per cent (\$US 0.0653 being 135 per cent of \$US 0.0483), while the United States dollar depreciated in terms of Austrian schillings by 26 per cent (AS 15.32 is only 74 per cent of AS 20.70). The rate of appreciation far exceeds that set in paragraph 5 (a) of decision 81/40.

IV. ADDITIONAL REIMBURSEMENT

8. In the light of the foregoing, UNIDO wishes to avail itself of the provision in paragraph 5 (a) of Governing Council decision 81/40, whereby agencies may submit to that Council, through the Administrator of UNDP, requests for compensation for losses in support cost reimbursement ascribable to currency fluctuations. In the case of UNIDO and further to the provisions contained in paragraph 5 (a), the reimbursement thus requested will not exceed 14 per cent of the UNDP project delivery for 1986. On this basis and for 1986, the reimbursement by UNDP of support costs to UNIDO will increase by \$667,001 from \$9,380,067 to \$10,047,068.
