



GOVERNING COUNCIL
INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS
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AGENCY SUPPORT COSTS

Note by the Administrator

1. The report of Mr. J.I.M. Rhodes, independent consultant appointed pursuant to Governing Council decision 79/40 of 2 July 1979, is contained in document DP/WGOC/31.
2. Briefly stated, Mr. Rhodes recommends:
 - (a) Minimum desirable modifications to the present formula to provide 10 per cent reimbursement in respect of equipment and subcontracting components and 15 per cent for the balance of project expenditures (personnel, training and miscellaneous costs) - that is, a 15:10:10 formula; continuation of flexibility arrangements for smaller Agencies, with the defining limit raised to \$15 million of UNDP programme or, preferably, \$25 million of all technical co-operation programmes executed by the Agency;
 - (b) Optional refinements:
 - (i) A disincentive against project cost over-runs by providing reimbursement at 20 per cent to the first half of the original estimate for the personnel, training and miscellaneous components and 10 per cent to the second half and all subsequent expenditures; the 10 per cent reimbursement for equipment and subcontracting components would also hold;
 - (ii) A cost-of-living adjustment by providing a 1 per cent increase/decrease for each complete five points difference in the post adjustment index for a headquarters station above/below the weighted average of post adjustment indices at all headquarters stations.
3. The Administrator has, as of this writing, received comments on the Rhodes report from the International Labour Office, United Nations Educational, Scientific and Cultural Organization, World Bank, International Civil Aviation Organization, International Telecommunication Union, Universal Postal Union, World Meteorological Organization, United Nations Industrial Development Organization, Asian Development Bank and the International Atomic Energy Agency. These views are summarized in the following paragraphs.

There is a unanimous view, in which the Administrator joins with appreciation, that the report is extremely well-written and clear and has a constructive thrust. Practically all these Agencies reaffirm that the need is for a policy-level firm decision on reimbursement of support costs which would be reasonably fair to all parties concerned, effective for a long period of time, relatively simple to administer and could be applied, if so desired, to other technical co-operation programmes of the United Nations system. The Agencies also share the view that any further study of this issue will add little to the United Nations system's knowledge, greatly to its cost, and that a decision should therefore be taken at this time.

The Agencies accept the concept of partnership implicit in the present 14 per cent arrangements and note with satisfaction the consultant's statement that "since nearly all Agencies incur costs in excess of 14 per cent, it would be unwarranted to ask them to expend their money and energies on cost measurement merely to establish precisely what part of their support costs is borne on their regular budget". One of the smaller Agencies points out, however, that it has not yet abandoned the original concept that clearly identifiable additional costs of administrative and technical support for extra-budgetary technical assistance must be met by the funding source.

In the light of the considerations cited in paragraph 4 above and of the concept of partnership, the basic 15:10:10 formula is generally regarded as acceptable though not ideal. One Agency, while questioning whether the proposed formula would be preferable to the present uniform rate of 14 per cent, commented that it would not be in the interests of developing countries to create an incentive in favour of one form of execution, e.g. subcontracting, over another and that the lower rate for subcontracting should not discourage adequate supervision and monitoring of subcontracts. Another Agency, which has a large number of small projects involving short-term experts, underlines the point made in the report that the duration of an appointment has an important bearing on the ratio of support costs to project costs and suggests that consideration might be given to reimbursement in respect of short-term experts at a rate rather than 15 per cent.

There is also general support for the continuation of the flexibility arrangements for the smaller Agencies and for the proposal to raise the limit for this purpose to \$25 million of UNDP-financed programme or \$25 million of all technical co-operation programmes of the Agency.

There is general opposition to the incentive scheme (paragraph 2(b)(i) above) although its objective is recognized as valid. It is argued that project extensions result from many and varied factors, most of them outside the direct control of the Agency: lack of programmed inputs at scheduled times often through governmental delays, arbitrary fluctuations of available resources including the tendency of the expenditure-ceiling constraint to compress initial approved budgets, upheavals in the project environment and often and importantly from Government requests for project extension. It is not altogether easy to distinguish between such genuine extensions and what may seem to be cost over-runs. Furthermore, the expertise

associated with the operation of the initial project may help in identifying essential further dimensions to the project which may have been overlooked previously. The proposed scheme is also generally regarded as administratively complicated to operate; doubt has also been expressed that it will in fact lead to effective project planning and cost management. The general view is that a disincentive to cost over-runs should continue to be sought through proper project design, realistic work plans and effective monitoring with the tripartite participation of the Government, the Executing Agency and UNDP.

9. Those among the responding Agencies that are located in Geneva, Vienna and Paris are in favour of adjustments for high cost of living and for the effect of both inflation and fluctuations in exchange rates, with the Geneva and Vienna based organizations attaching priority importance to this element. They thus strongly support the recommendations for a cost-of-living adjustment. At the same time, one Agency considers that the consultant's specific recommendation will offer only partial compensation and is insignificant in comparison with the combination of inflation and exchange rate loss since 1973. Another suggests that further refinement to the proposal will be needed to restore more fully the loss in purchasing power and to avoid compensating some Agencies at the expense of others.