



Report on the overhead costs of extra-budgetary programmes
and on methods of measuring performance and costs

M. Bertrand
Joint Inspection Unit

January 1969

Contents of the report

- 1.1. In April 1968 the Joint Inspection Unit undertook a study of the methods of calculation which might be used to determine the amount of the "overhead costs" of "support costs" of extra-budgetary programmes.

This study resulted in the preparation of two notes (A and B) which were sent to the executive heads of the various organizations on 2 August 1968. Note A dealt with the problem of the overhead costs of extra-budgetary programmes and with itemized operational accounting.^{1/}

Note B dealt with the problem of standardization of budgetary presentation between the various organizations in the United Nations family.

Questionnaires were attached to these two notes.

- 1.2. In the course of September, October and November, the secretariats of all the organizations addressed replies, in some cases very precisely and in great detail, to the questionnaires attached to notes A and B.

- 1.3. Since the problems raised in note B (standardization of budgetary presentation) were being studied at the same time by Mr. McCandless, an expert appointed by ACABQ, the Joint Inspection Unit decided to defer the preparation of a report on that subject until the expert's report had been submitted. Useful contacts were, however, established between the inspector responsible for that study and Mr. McCandless, and in particular all the secretariats' replies to the questionnaire attached to note B were communicated to the ACABQ expert.

^{1/} It is reproduced as annex 1 to this report.

- 1.4. The present report will therefore deal only with the questions raised in note A, concerning overhead costs and itemized operational accounting.
- 1.5. As to the problem of fixing a mean rate of overhead costs as a basis for calculating such costs, no solution will be proposed here. In the author's opinion this problem is inscutable in the absence, for the time being, of the technical resources to deal with it. The information collected on the subject will be analysed, but it suggests that only the institution of an itemized cost-accounting system or some other system of measurement would provide the necessary figures on which to base valid proposals.
- 1.6. It would seem, therefore, that one of the few means of solving the problem (that is to say, of resolving the difference of opinion between the executing organizations on the one hand, which find that the funds supplied are well below the level of real expenditure, and the disbursing organizations on the other, which have no means of knowing how the funds supplied are used and whether they are used properly) would be to discover a method whereby a system of measurement and control acceptable to all concerned could gradually be instituted.
- 1.7. This report will describe the position taken on this subject by the secretariats of the organizations. On the whole - with one exception - they are uncertain about the desirability and the cost of instituting such a system; but at the same time they point out that, if any system were instituted, it would be required to solve a great many other problems which have hitherto been handled inadequately.
- 1.8. In reality, as will be seen, this problem of overheads is directly bound up with that of modernizing a vast array of administrative techniques in most of the organizations in the United Nations family.

- 1.9. But such modernization requires the services of outside consultants who specialize in these problems, and perhaps entails some increases in staff, at any rate on a temporary basis. Such an operation is an intellectual investment and undoubtedly profitable in the long run, but it must inevitably be expensive at first.
- 1.10. In these circumstances it seemed to us that a very slight modification in the procedure now applied to overheads might be of considerable help in finding the desired solution: all that seems to be needed is that UNDP, over and above the percentages currently paid,^{1/} should undertake to earmark special credits to finance the studies and, where appropriate, minor increases in staff required for the application of modern methods (including itemized operational accounting) to a number of activities. These provisional earmarkings would be accepted only by organizations wishing to carry out such modernization: on the other hand, those which did accept the arrangement might gain a good deal of enlightenment on a number of difficult problems.
- In these existing circumstances we felt it possible to recommend that a very small fraction of the sums paid as overheads should be charged to the budget in this way.
- 1.11. On the basis of an analysis of the replies received, and drawing on all the information collected, this document will deal with the following points:
- (1) The impossibility, in the absence of any system of measurement, of laying a technical foundation for a rate at which to calculate overheads;
 - (2) Other problems contributing to the need to institute modern methods of measurement and calculation;
 - (3) Procedure for ascertaining the cost and efficiency of such methods. Bringing a very small fraction of overheads within the budget.

^{1/} The same percentage might continue to be used, or they might be increased if ACABQ and the General Assembly considered this feasible and desirable; that would entail a political decision on which it is not for the Joint Inspection Unit to express an opinion.

The impossibility, in the absence of a system of measurement, of laying a technical foundation for a rate at which to calculate overheads

- 2.1. As we explained in paragraph 2.1. of the annexed note A, it is at present impossible in most of the organizations to single out from the rest of their expenditure the overhead costs of extra-budgetary programmes; the reason being that, in both general departments and programming departments, the same officials are concerned both with the regular programmes and with the programmes financed by UNDP (or by any other source of external financing).
- 2.2. The replies received from the organizations' secretariats to the questions on the mean rates of calculation which should be adopted (questions A.1 and A.2), on the possible variations in these rates in the event of an increase in the amount of the extra-budgetary programmes (A.3 and A.4) and on the additional expense which Government counterparts may entail (A.5) confirm that the organizations at present have at their disposal only the results of very rough-and-ready surveys, or else have no means of making a valid estimate of these rates.^{1/}
- 2.3. Where figures are supplied, the estimated percentage rate which would be needed to cover all the expenditure incurred by the organizations varies from 20 to 30 per cent.

The specific answers are as follows:

UNESCO	: Over 20 per cent and approaching 22.5 per cent
ILO	: 30 per cent
WMO	: 20 per cent
UPU	: 26.1 per cent
United Nations	: For "identifiable additional costs" alone, 12.4 per cent ^{2/}
FAO	: Over 20 per cent

^{1/} See annex 2, analysis of the answers given to the questionnaire attached to note A.

^{2/} See the foot-note to paragraph 2.9.

2.4. The comments show:

- That, as stated in note A, only UNESCO and FAO have made studies from which a mean rate can be established;
- That, on the whole, the organizations consider that the amounts paid fall far short of the real costs.

2.5. The organizations have only estimates to rely on for determining the variables on which this mean rate depends, and consequently for predicting how it would change if the amount of the programmes were increased. The ILO draws up a list of these variables (proportion of the various technical components, geographical distribution, size of projects, etc.). It is obvious that only a cost analysis would reveal the effects of these various factors.

2.6. As regards the effect of "counterparts", the Secretariat of UNESCO (probably owing to the existence of a number of very large projects to which the local Governments contribute more than UNDP) seems to be alone in the opinion that the counterparts add considerably to the organization's expenses. The secretariats of the other organizations, by and large, consider that this additional expense is negligible.

2.7. In the last analysis, the replies received are characterized by:

- Diversity in the estimates supplied;
- Agreement on two points - that the real costs exceed the amounts paid, and that the studies made form an inadequate basis for accurate calculations.

2.8. It is thus confirmed that a calculation of real overhead costs is a technical impossibility as matters now stand. The Joint Inspection Unit is therefore unable to contribute even a technical basis towards the solution of this difficult problem; only the institution of measurement machinery can provide the relevant information. We shall see below that various techniques may be

applied to obtain these results; but until they have been put into practice, no reliable answer can be given.

- 2.9. This conclusion means that the controversy between the executing organizations and the disbursing organizations, such as UNDP, concerning the amount of the payments which should be made over and above the direct cost of executing the programmes in the field can be resolved only by a political decision. It is extremely likely that the percentages at present paid by UNDP to the principal organizations fall well short of the real costs. In the last analysis, the main point at issue is whether the existing difference between the funds paid and the real costs (assuming that the latter are clearly defined by agreement) should be covered by the organizations' regular budget or by payments from the bodies which finance the extra-budgetary programmes. In the light of the basic legislation governing technical assistance and the Special Fund, it seems certain that the intention of the founders of those institutions was not to cover the whole of the expenses in question,^{1/} but to leave it to the executing organizations themselves to make up the difference. The obligation to share the burden between the extra-budgetary funds and the regular budget is laid down in the basic instruments; short of amending those instruments, this point seems beyond dispute. There is no denying that this situation is a serious one for the secretariats of the organizations, which have difficulty in obtaining funds for this purpose out of their regular budgets; and the result is that the appropriations made are probably insufficient for the proper performance of some functions (such as the definition of the programmes themselves, or recruitment) which, though vital, do not represent "identifiable additional costs". In the absence of clear information, however, there is no way of settling this issue. Consequently a political decision, based on an intuitive appraisal of the needs and possibilities, is at present the only likely source of a solution.

^{1/} Their intention was, it would seem, to cover no more than what are called the "identifiable additional costs" - the only ones taken into account in the calculations made by the United Nations; this explains the difference between the percentage calculated by that Organization and the estimates produced by the others.

Other problems which may be solved by the use of itemized accounting

3.1. The problem of calculating overhead costs is only one example of the present shortage of statistics and detailed analyses concerning the activities of the organizations' secretariats. The replies to the questions on the possible institution of an itemized operational accounting system are significant in this respect. The secretariats of the organizations consulted seem, on the whole, to be of the opinion that:

- Instituting an itemized operational accounting system solely in order to solve the problem of overhead costs might be too expensive and cumbersome;
- If, on the other hand, the idea is to extend this type of method to the solution of other problems, the question deserves consideration even though it is difficult (see para. 3.3. below).

3.2. The replies to question A.6 (whether it seems possible and desirable to institute itemized cost-accounting machinery) can be summarized as follows:

As to possibility: all the organizations consulted consider that the introduction of such machinery is possible;

As to desirability: UNESCO is the only organization to take the view that "the advantages to be gained from such a system would far outweigh the problem of calculating support costs. It would be a useful way for the Director-General to ascertain the productivity of the Secretariat." Among the other organizations:

- Some consider that the system would be much too expensive or complicated, and that the results to be expected of it would not be commensurate with the effort involved (FAO, WHO);
- Some, without taking such a definite position, wonder whether the advantages would be sufficient to offset the additional expense and complications (ITU) or, in other words, whether the cost of the system would stand comparison with its performance (ILO);
- Some consider the system inapplicable to small organizations (WMO, IMCO, UPU);
- One does not think that the accuracy of the system itself can be relied upon (United Nations).

All these replies, however, relate to the proposal that an itemized cost-accounting system should be organized solely to solve the problem of support costs.

3.3. The replies to question A.12 (if an itemized operational accounting system is developed, what purposes ought it to serve in addition to the calculation of support costs?) go a considerable way to amend the foregoing appraisals. Except for FAO, which says that such a system should be limited to the calculation of support costs, the organizations consider that:

- The suggestions made with regard to the "by-products" of such a system are very interesting (quantitative appraisal of the work of the staff, information on the performance of particular departments, and an opportunity to compare performances) (WHO);
- Any work done on the calculation of costs should also supply other information (ILO, ITU and WMO);
- Such a system might provide a considerable body of information (possibility of comparing anticipated with actual expenditure, information on time spent by staff according to a classification of projects, etc.). ((United Nations) This appraisal is subject to reservations: only a small proportion of the body of information could be used, and research of this nature could be done in other ways.)

Generally speaking, then, the secretariats consider that many other problems might be solved in this way -- principally the problems arising in all calculations of the administrative efficiency of departments, in programming and budgeting, in making comparisons of efficiency and in auditing. It is thus clearly realized that, if methods were modernized, it might be possible to improve general performance.

3.4. In addition, the secretariats generally (again with the exception of the UNESCO Secretariat) feel unable to estimate the cost of such a system. The reply from UNESCO is extremely precise:

- Staff requirements are specified; one professional and three general service posts;
- It is affirmed that the savings to be derived from the application of such a system would be far in excess of the cost of the new posts, and that the machinery could be put into operation six months after the appointment of the staff and the installation of a computer.

The secretariats of all the other organizations, in contrast, consider that there are too many unknowns, that a detailed study would be needed, and that it is premature to estimate the cost of a system which has not been adequately defined.

These replies are on the whole somewhat inconsistent with those given by the same organizations to the effect that the system would be expensive, or in any case too expensive for the results that could be expected from it (any such assertion prejudices the results of the detailed studies that would be needed to ascertain the cost).

3.5. However, the presence of some inconsistencies in the replies received (either from one and the same organization or from different organizations) is in no way a matter for criticism: it merely confirms the existence of some uneasiness at the magnitude of the problems raised.

In other words, it seems no exaggeration to say that:

- There is a very clear awareness of the need for precise numerical information on a great many aspects of the work of the secretariats;
- This awareness stems from two sets of requirements: Firstly to improve and modernize the internal operation of the secretariat, and secondly to facilitate communication with member States where the latter, either directly or through

committees of inquiry or review, raise questions to which it seems at present to be difficult and troublesome to reply;

- On the other hand some dismay is felt regarding the task of equipment and modernization presented by the installation of systems of measurement capable of giving answers to all the questions raised.

3.6. It seems to us very likely that other studies, undertaken on subjects very different from that of "overheads", might very well have led us to the same conclusions; for in general the organizations of the United Nations family do not seem to possess a sufficiently automatic and precise system of statistical information on their own activities.

In addition, for purposes of informed discussion, it would be useful to draw up a list of the problems to which the installation of adequate machinery of measurement might provide an acceptable solution; such a list, if not exhaustive, should at any rate be as full as possible.

3.7. In this connexion it should be noted at the outset that most of the large organizations have equipped themselves, or are in the process of equipping themselves, with a computer (cf. in annex 2 the replies to question A.10 from UNESCO, FAO, WHO, the ILO, ITU and the United Nations).

It is self-evident that such large and expensive items of equipment are worthwhile only if they can be used to obtain precise numerical replies to questions concerning the work of the organizations and the improvement of their operation, instead of being used only to prepare staff pay slips.

The fact that the organizations are turning to such equipment shows a desire for modernization which may apply equally well to administrative management as to the analysis and processing of available information in order to solve technical problems.

At all events, irrespective of the end in view, it is common knowledge that such equipment cannot be put to practical use until studies have been made which afford a clear analysis of requirements.

Until such studies have been carried out, it will not be possible to pass an opinion on the choice of methods immediately applicable or on their respective economic merits.

Moreover, it is understandable that secretariats which have not yet had time to go into these methods should feel some uneasiness at the idea of applying them unaided. Beyond any question, the only quick and efficient way to do preparatory work of this nature is to enlist, for several months, the services of specialists in methods of analysis, in costing and in the various existing systems of measurement.

If the efforts already started by some secretariats (in particular, as the replies show, by UNESCO, the ILO and WHO) are to yield results in the near future, outside consultants or specialist firms must be employed; the whole operation would cost some tens of thousands of dollars.

Hence all that is needed to clear up the matter is the existence of a definite desire to modernize the international administrations and a source of a moderate amount of finance.

- 3.8. There is no denying that the need for a clearer insight into the administration of the various secretariats is felt and expressed not only by those directly in charge of their management but also by the member States. However, the agreement discernible in the matter of desire for improvement or for clarification is replaced by striking differences of opinion, and even uncertainty, when we come to consider the methods of fulfilling that desire. Thus the need for clarity prompts the representatives of member States on the various councils, committees or commissions to put many questions to the secretariats on a wide range of subjects and to call for surveys and similar exercises which in the long run increase the work-load on the staff without producing replies

that throw much light on the matter. This leads on to research and to suggestions for improving the methods to be applied: the establishment of new specialized committees, the institution of new functions (such as those conferred on the Joint Inspection Unit), or, to take a more recent example, the request made by ACABQ and endorsed by the Committee of Seven for a desk-to-desk survey of the United Nations Secretariat.

At the same time the secretariats are striving to learn more about themselves and to improve their management. Their good intentions in this respect are demonstrated by the acquisition of computers as already described. Other projects of research into the best methods of administrative management and into the measurement of results are also in progress in the large organizations.

Alongside this piecemeal research, mention should be made of the large-scale synoptic research now in progress for the so-called "capacity study" on the capability of the organizations as a whole to absorb a putative increase in the volume of projects financed by UNDP.

It will thus be seen that rule-of-thumb methods, or at any rate conventional methods (for example, that proposed for the desk-to-desk study), co-exist with attempts to adapt modern methods, and that all this effort is accompanied by general theorizing in search of a more rational approach to modernization.

- 3.9. It is thus plain that an agreement on methods, if one could be reached, would be a great step forward. However, it is not an easy matter to delimit the basis for such an agreement. We thought that one avenue of approach which might be explored would be an attempt to classify the various problems according to the type of solution that seems prima facie to fit them. On these lines we thought that the following list might be of use:
- (1) Problems relating to quantitative measurements: i.e., the times taken to arrive at a given result or, more simply, all measurable administrative results;

- (2) Problems of measuring costs;
- (3) Problems of economic (social or technical) efficiency:
the "evaluation" of the projects themselves;
- (4) Qualitative appraisals.

Each set of problems listed (such a classification is of course subject to improvement and expansion) calls for a different type of technique.

3.10. Thus relatively simple and inexpensive methods can be used to measure a fairly large number of administrative actions of which a statistical knowledge would be helpful in making a first evaluation of administrative efficiency.

These include, for example:

- Time spent by a personnel department in performing one operation of recruitment and appointment;
- Time spent by a purchasing department in performing one equipment-purchasing operation;
- Number of letters or telegrams booked and distributed by a postal service in a specified time (incoming or outgoing mail);
- Number of documents to be registered and filed by a reference section;
- Number of pages translated and revised by a translation service.

The statistical technique involved is relatively simple to apply (and will even yield, without much effort, a first approximation of costs) provided that the following are defined:

- The administrative unit whose quantitative performance is to be measured;
- The type of administrative actions which lend themselves to quantitative measurement and which are genuinely significant.

UNESCO tried out such a system - called the "work measurement system" - a few years ago, between 1957 and 1963 (cf. in particular UNESCO documents 11 C ADM 11 and 12 C ADM 15); unfortunately, the

experiment, instead of being followed up and improved upon, was abandoned. Research projects now in progress at the ILO (cf. annex 2, summary of answer to question A.11) and at WHO (cf. annex 2, summary of answer to question A.12) seem to be on comparable lines; it is, of course, highly desirable that such research should be undertaken or continued, improved upon and, where appropriate, co-ordinated and extended to other agencies. Such devices would be enough to provide valuable numerical data, to chart the course for more detailed research with a view to improving the productivity of the secretariats, and to answer a great many questions. They would not, however, suffice to lay the technical foundation for an accurate calculation of costs; hence they would leave unsolved the problem of overheads as stated in note A (annex 1).

- 3.11. There is no doubt that the establishment of a genuine cost-accounting system (on the lines of that discussed in note A) requires rather more cumbersome apparatus than the system just described. As we have already pointed out, some secretariats thought that the burden of such a system had been underestimated in note A; and in any event thorough studies would have to be made before it became possible to tell whether the performance to be expected from such machinery would outweigh its cost.

The necessity for thorough studies is beyond question; very exact and detailed research is needed in order to determine what formulae and time-sheets should be chosen, how they should be adapted to the different types of departments to be analysed (especially if the system is not to be limited to solving the problem of overheads), what methods of processing should be used, and how the machinery should be gradually installed. This is all the more important if a degree of concordance is aimed at between organizations which differ in structure and in purposes.

In view of these considerations it would be a matter for regret if no such studies were made, and a more gloomy prediction of their outcome was accepted instead.

It seems to be generally recognized that no modern private undertaking can function properly, or yield its full return, without an exact knowledge of its costs. The organizations of the United Nations family, admittedly, are public administrations; but an ever-increasing proportion of their activity lies in rendering assistance to the developing countries. The case for calculating the cost and efficiency of this assistance is all the stronger in that private companies (design offices, engineering firms and the like) engage in comparable activities in fields closely related to those of the organizations, and often identical with them. No modern design office could function properly without cost-accounting. Moreover, it is recognized in a fair number of countries that there is no objection in principle to calculating the cost and performance of government departments, and indeed that there is much to be gained by doing so.

- 3.12. If the comparison was taken further, it would doubtless be pointed out that private offices have to discuss contracts with their clients, operation by operation (in a sense, project by project), whereas the United Nations is financed in the round and from public sources; and that the private offices are therefore forced to calculate their costs if only in order to be able to quote and discuss a charge for each operation, whereas the organizations of the United Nations family have a wide variety of other tasks to perform and, being financed by an all-embracing budget, are exempted from the necessity of such detailed calculations, which may consequently seem superfluous. On closer examination, however, it becomes clear that those who finance these activities - in this case the member States - have, in the last analysis, the same concern as the clients of the private offices: they want to know what results have been obtained and at what cost. This concern

explains the many inquiries, investigations and requests for information that they address, through various channels, to departments which are often ill equipped to give a ready answer and which consequently find themselves overburdened. Hence, although the methods are different, the comparison is still valid. It therefore seems to us out of the question that a degree of modernization should not at least be attempted in this matter. The fact remains that the secretariats are not adequately equipped to carry out this type of research quickly at the present time, and would need the aid of outside consultants or teams of specialists for that purpose.

- 3.13. If this type of research should be undertaken, it certainly seems highly desirable that it should also cover methods of eliciting the fullest possible numerical information on the efficiency of projects.

The problems involved in measuring the economic (social or technical) efficiency of the projects put into execution can be solved by applying techniques of the same type as those just described for administrative efficiency. The evaluation of project efficiency has become too important a matter to be neglected if research of this kind should be undertaken.

There is scope for quantitative measurements of certain types of results: number of persons trained in a particular way for all education projects, quantitative increase in output in agricultural or industrial projects, etc. Admittedly, the measurements involved are infinitely more delicate and complex than the administrative efficiency measurements enumerated in paragraph 3.10 above. In a number of cases, however, subject to the necessary precautions, results of this type can be obtained.

However, a finer and more comprehensive analysis entails installing somewhat complex and probably expensive measuring equipment, laying down exact standards for describing the situation before and after the execution of a project, etc.

The fact remains that, even if such research had to be limited to certain clearly defined types of projects (establishment of schools, development of particular areas, etc.), it would be very useful to have access to standard devices which could be set up at the same time as the projects, and which would greatly facilitate qualitative evaluation, a posteriori.

- 3.14. No system of measurement, however advanced, will make it unnecessary to carry out any evaluation or research on the human or qualitative plane; but there is no doubt that the existence of such a system is a source of enlightenment and guidance in any such operations.

Administrative activity cannot be checked or evaluated without a direct practical study of the problems involved and contact with the men in charge, but a good deal of time may be wasted, and grave risks may be run, by failure to perceive what questions really matter and by performing such research without advance access to the fullest possible numerical information.

Procedure and proposed solution

4.1. From the considerations just advanced, and from the observations made in the course of the inquiry, it seems to us that:

- There is a great need for modernization in the administrative management methods of the secretariats, methods of measuring productivity and of calculating costs and performances should be devised to meet this need;
- A range of possible methods exist to meet this need but, in most of the agencies, satisfactory information on the feasibility of using these methods economically and profitably does not seem to be generally available;
- In these circumstances more specific studies are needed in order to make an informed choice between these various methods;
- Such research, which may range from the compilation of a few elementary statistics on performance to itemized cost-accounting and even study of numerical methods of evaluating the efficiency of projects, might form part of a programme of analysis and research which it is time to put into operation in order to arrive at a rational utilization, and to make the fullest possible use, of modern tools of management - in this instance, computers (the rest of the research, dealing inter alia with the classification and processing of documentation and the technical and scientific uses peculiar to the various organizations, should be carried on at the same time),
- This programme of research represents a relatively large intellectual investment which cannot be made from the secretariats' resources alone; their staff are fully engaged in the tasks of day-to-day management;
- It is therefore necessary that a special method of financing should be found, and that the origin of the finance should be such as to allow for some co-ordination of the research undertaken in the various organizations.

- 4.2. It therefore seems natural to propose that this finance - which totals only a modest sum - should if possible be provided by using a very small proportion of the overheads at present paid by UNDP.

In addition, out of the sums paid on the existing principle of percentage calculation, specific payments earmarked for research of the type described in this report might be made to organizations at their request; this whole arrangement should follow a coherent over-all plan covering inter alia diagnostic studies, analyses department by department, pilot operations and the execution of a plan of gradual application.

With financing and methods of this kind, outside consultants and specialist firms could be quickly set to work and practical proposals^{1/} could soon be worked out.

- 4.3. It seems neither possible nor desirable to make more specific proposals at the present stage; before this can be done, a decision in principle will have to be taken concerning the procedure proposed.
- 4.4. We feel bound to add, however, that if the method proposed here for the use of a very small proportion of overheads was adopted and proved successful it might be extended as appropriate. As soon as it became possible to calculate within a fair degree of accuracy certain components of overhead costs (e.g. the cost of recruiting experts or of drawing up plans of operations, or even the total overhead expenditure incurred in the field (cf. the breakdown given in annexes 1 and 2 to the attached

^{1/} In this connexion, the proposal made in UNDP document DP/L.99 of 9 January 1969 that a general study of the problem of data storage and retrieval should be undertaken by outside consultants against an allocation of \$64,000 (which might be increased to \$124,000) from the UNDP Governing Council may be regarded as a useful step in the direction recommended here in more general terms.

note A) for a given previous period, it would be possible to make a reasonable forecast, based on adequate information, of the overheads to be expected in the future. It would then be feasible to consider scrapping the percentage method of calculation altogether, probably in stages, and "budgetizing"^{1/} all overhead costs. In our view, however, it will be necessary to begin with the more modest proposal we have made above.

^{1/} We imply by this, not that overheads should be charged to regular budgets, but that the disbursing and executing organizations should jointly establish a special overheads budget in which the appropriations made would be earmarked for specific purposes. Such a budget might be prepared either for a whole body of projects or project by project.

A N N E X 1

Preliminary note addressed to the secretariats of Organizations
on 2 August 1968

N A T I O N S - U N I E S

U N I T E D - N A T I O N S

Corps Commun d'Inspection

Joint Inspection Unit

NOTE A

Preliminary note on

- the problem of the overhead costs of extra-budgetary programmes
- and itemized operational accounting

- N.B.
1. No immediate solution is proposed in this note, for example by indicating how to set a new percentage for support costs; its purpose is to suggest a method whereby the problem might be more easily solved later on.
 2. Note B, which follows this note, deals with the problem of standardizing the presentation of budgets and accounts.

1. THE PROBLEM OF SUPPORTING COSTS: REASONS WHY IT IS IMPORTANT: REASONS WHY IT CANNOT BE CORRECTLY SOLVED WITH THE INFORMATION AT PRESENT AVAILABLE

1.1 The problem

The problem of the overhead costs of implementing extra-budgetary programmes consists in correctly determining the percentage to be deducted from the amounts paid for the execution of special projects or programmes entrusted to the specialized agencies (UNESCO, FAO, WHO etc.) by the fund-holding agencies: UNDP, EPTA, SPECIAL FUND, IBRD, UNICEF etc.) to cover the administrative costs of those programmes.

If, for example, UNESCO receives \$1 million from the Special Fund for the organization of a teacher-training college in a particular country, how should this amount be apportioned in order to determine:

- the amount which could be earmarked for the direct execution of the project (for example \$750,000, 800,000 or 900,000),
- the amount assigned to UNESCO to cover Headquarter costs and various additional administrative costs incurred by the acceptance of the task (\$250,000, 200,000 or 100,000)?

1.2 History and urgency of the question

The problem has existed for many years. Fairly restrictive principles (cf. para.1.6 below) had been laid down since 1950 for the special account of EPTA and in 1958 for the Special Fund when it was established.

The twenty-second report of the Advisory Committee on Administrative and Budgetary Questions, eleventh session (A/5842 of 4 January 1965) points out that since 1956 studies had been made on the question, particularly with regard to the operation of the Expanded Programme of Technical Assistance (cf. A/4172). Many other studies have been carried out since, both by ACABQ and by certain specialized agencies, particularly UNESCO and FAO.

No satisfactory definition of the calculating method or of the amount of administrative costs seems yet to have been found.

The question, however, may become particularly urgent if, as envisaged by the executive organs of UNDP, the amounts assigned to programmes financed by that agency are soon to be substantially increased, reaching approximately twice the present figures.

1.3 Theoretical calculating formulae

The formulae adopted for the calculation of the "overhead costs" paid by UNDP to executing agencies have varied over the years and seem to have been as follows:

Up to 1965:

EPTA: 12 per cent of the field costs of the preceding biennium

SPECIAL FUND: 3 per cent for the purchase cost of equipment and supplies,
11 per cent of other project costs.

Since 1965 and on the recommendation of ACABQ:

EPTA: 13 per cent of the cost of approved programme projects for the biennium
previous to 1965,

14 per cent of these items subsequently, with some continuing flexibility
in the application of reimbursement rates for small agencies.

SPECIAL FUND: 11 per cent of the total cost of projects.

1.4 Methods of payment and of actual calculation

The above percentages do not apply to exactly the same bases for EPTA and for the SPECIAL FUND.

- For EPTA, they represent a calculation based on the total amount of programmes implemented for its account by the agencies during a previous period (in the case of UNESCO, the preceding biennium).

Thus, in 1965, for example, UNESCO received an amount of \$1,860,000 from EPTA, calculated for the period 1963-1964. The true percentage in relation to the programme carried out for EPTA in 1965-1966 (which was for a higher amount in 1963-1964) was therefore actually smaller than the figure of 13 per cent, officially adopted. On the basis of the budgetary figures in documents 12 C/5 (1963-1964) and 13 C/5 (1965-1966), the true percentage may be calculated as follows:

$$\frac{13\% \times 14}{16.5} = 11\%$$

UNESCO having executed \$14 millions worth of EPTA programmes for 1963-1964 and \$16.5 millions worth in 1965-1966.

For the SPECIAL FUND, every plan of operation provides for three categories of expenditure:

- the cost of the project itself (field costs),
- contributions of the countries in which the project is executed,
- lastly, the administrative costs paid to the executing agency.

As the execution of the project covers several years (for example, five years), a time-table provides for the spreading out of the costs year by year. In such a case, the 11 per cent of the administrative costs based on the total cost of the project, i.e. for five years, is paid to the executing agencies in unequal amounts each year:

generally the payments are higher in the first and last year to take account of the particularly heavy cost of starting and completing the operation. Moreover, certain advances may be paid.

It follows that the funds actually received by the agencies, taking into account the fact that the cost of programmes is rising year by year, may not represent 11 per cent, if the administrative costs provided for in the course of a year are compared with the total cost of the programmes to be executed in that year.

1.5 The amounts actually paid

Specifically, appropriations under the head of "costs of executing agent" have varied as follows:

- (a) For the biennium 1963-1964, the percentage paid to all the specialized agencies averaged 10.08 per cent for EPTA and 8.6 per cent for the Special Fund.

In reality, the percentage varied very considerably from agency to agency:

- In the case of EPTA, from 7.45 per cent for WMO to 24.63 per cent for UPU; however, in the case of the large organizations (United Nations, ILO, FAO, UNESCO, WHO), the percentages vary little: from 9.46 per cent for ILO to 10.14 per cent for WHO.
- In the case of the SPECIAL FUND, the variations range from 3.1 per cent for IBRD to 9.2 per cent for FAO. The variations are greater for the large organizations referred to above (from 5.4 per cent for WHO to 9.2 per cent for FAO).

- (b) We have no basic figures for the years 1965-1966. For UNESCO, for example, the figures for 1966 are as follows:

	<u>Total expenditure under the programme</u>	<u>Administrative costs</u>	<u>Percentage</u>
<u>EPTA 1966</u>			
Amount expended	10,475,188	1,088,480	10%
<u>SPECIAL FUND 1966</u>			
Total amount expended	15,770,432	1,593,737	
	- <u>1,593,737</u>		
Expenditure for programmes	14,176,695		11.24%

1.6 Differences of evaluation regarding the amount which "overhead costs" should reach. Studies by UNESCO and FAO

There are very wide discrepancies in the evaluation of the percentages which should be paid as costs of the executing agent.

- (a) On the one hand, the principles applied by fund-disbursing bodies have always been restrictive.

- Decision by the Technical Assistance Board of October 1950 (TAB/R50/Rev.1) "Chargeable expenditure should be limited to those direct additional and exclusive costs", other than those referred to in paragraph 6(ii) below (i.e. salaries of the regular staff working part-time on the Expanded Programme, which are not chargeable) which are incurred as a result of EPTA.
- Special Fund: "The Managing Director shall rely as far as possible on the existing facilities of the United Nations, the specialized agencies, the International Atomic Energy Agency and the Technical Assistance Board. These facilities should be made available to the Special Fund without charge except when clearly identifiable additional expenses are involved" (General Assembly resolution 1240 (XIII) of 14 October 1958, part B, para.29),

Definite progress, largely as a result of ACABQ's studies, has been made since the inception of the enquiry, and in both cases towards the adoption of the overhead cost percentages indicated in paragraphs 1.4 and 1.5 above. However, they have remained well below the percentages requested by certain specialized agencies, and certainly by the largest ones (with the exception, apparently, of WHO).

- (b) On the other hand, the estimates of the specialized agencies concerning the desirable optimum level reach much higher percentages.

Studies carried out by UNESCO and FAO have led these organizations to consider that the administrative costs of extra-budgetary programmes should account for at least 20 per cent of the total amount of these programmes.

For UNESCO, there is a study of 26 April 1962 (PBM Report 31) and another study of 10 April 1964, carried out in respect of 1963 (BBM Report 43), the results of which have been summarized in document 13 C/ADM/12 of 4 September 1964 (pages 32 et seq).

This study, which is already out of date, has been supplemented by a slightly more recent estimate (10 November 1965) which covers only Special Fund programmes and reaches the same conclusions as the previous study.

These conclusions were as follows:

1. The administrative costs of extra-budgetary programmes (during the period covered by the survey, i.e. 1963) accounted for 20 per cent of the amount of the programmes.^{1/} These costs are therefore covered only to a very limited extent by disbursements from the Special Fund or EPTA, and the programme must therefore make up the difference: in all only 46 per cent of the costs actually incurred appear to have been covered by the contributions of the Special Fund and EPTA and the balance, namely, 54 per cent, was charged to the regular budget.

2. Headquarters expenditure in respect of EPTA is as a whole higher than that of other programmes, mainly as a result of the multiplicity of details that have to be cleared up.

3. This proportion of 20 per cent earmarked for the supporting costs of programmes seems too low to ensure the efficient planning, management and day-to-day administration of these programmes.

The studies carried out by FAO arrive at substantially the same conclusions.

We have examined a number of these studies which appear to have been carried out annually from 1953 to 1966, and in particular the following documents:

- PC 6/8/FC/7/26-62/E/21749P
Impact of field program on the regular program. Note by the Director General, 15 June 1962
- O and M Survey report No. 112
Impact of field program on regular program 1964, November 1964
- O and M Survey Report No. 123
Impact of field program on regular program, November 1966.

These two series of studies were undertaken on the basis of questionnaires sent to the headquarters staff of the agencies in order to determine the apportionment of the time spent by each professional staff member in the implementation of the regular programme and of various extra-budgetary programmes.

^{1/} For UNESCO, exactly 19.7 per cent, for FAC, 20.4 per cent in 1964-65, 19.4 per cent in 1966-67 for the Special Fund.

The information thus obtained was extrapolated to the general service staff, and various assumptions were used for taking into account, eliminating or allocating various items of expenditure of secondary importance (documents and publications services, etc.).

These surveys were undoubtedly carried out conscientiously; it should be noted, however, that they consist of estimates by professional staff members of how their working time was allocated during two consecutive half-year periods of 1963 for UNESCO, while, for FAO, they are based on the apportionment of time during a typical working week regarded as representative of the year as a whole. In other words, substantial errors of judgement could have been made by the staff members replying to the questionnaire; no checks are possible nor is there any objective criterion.

Although the problem of supporting costs has not apparently been the subject of studies published by the other organizations, concern about their cost is reflected in the ILO's 1969 budget for example.

A special appropriation entitled "United Nations Development Programme (Special Fund) Costs" of \$150,000 thus appears under item 17/1 of this budget and is accompanied by the following comment:

"As has been reported to the Financial and Administrative Committee and the Governing Body regularly since the inception of the ILO programme under the Special Fund, the amounts allocated by the UNDP (Special Fund) to the ILO for executing agency costs are substantially lower than the costs necessarily incurred by the ILO as a result of its participation in activities financed under the Special Fund. Apart from the absorption of work relating to the UNDP (Special Fund) in the activities of the departments concerned financed in conjunction with their programmes under the regular budget, the position is met principally by the creation of an extra-budgetary account, financed mainly by the amounts received from the UNDP (Special Fund) as executing agency costs, but partly also by an additional cash contribution under the regular budget which is transferred to this account."

Unfortunately, as the budget fails to indicate general income and, a fortiori, income under this item which is shown, for accounting purposes, in a special fund, the IIO's estimate of supporting costs cannot be calculated as a percentage (such calculations are probably possible for previous years on the basis of accounting documents which we have not yet consulted).

With respect to the United Nations, annex II to the 1968 budget (United Nations participation in programmes of technical co-operation) provides an estimate of supporting costs in comparison with the amounts spent by the various extra-budgetary fund-disbursing bodies. These figures are as follows:

- For UNDP (technical assistance, 1967) estimated expenditure: \$2,688,000; funds received from UNDP: \$1,574,620; total of programmes: \$9,274,000 + \$2,500,000 = \$11,774,000; estimated percentage of actual supporting costs: 22.9 per cent (United Nations + UNIDO).
- For UNDP (SF) 1967, total of programmes: \$18.3 million; amount received from Special Fund: \$2.1 million; amount actually spent: \$2,323,000; shortfall: \$223,000; percentage of actual supporting costs: 12.5 per cent.

1.7 Is this an illusory problem?

Despite these discrepancies, the problem posed may, from a certain standpoint, appear to be illusory.

The establishment of a relatively high percentage to be drawn from extra-budgetary funds to cover overhead costs is tantamount, in principle, to deciding who is to pay costs which are, in any event, inevitable.

There is no question of arguing that such costs are unnecessary but only of deciding whether they should be charged wholly or in part to the regular budget of the organization which implements the programme or whether they should be paid in full by the agency which finances the programme or project.

If the percentage adopted is zero, the full amount will be borne by the regular budgets; if the percentage is equal to the sum actually expended, the whole of these costs will be borne by the financing agencies. Lastly, if the apportionment of costs falls somewhere between these two extremes, they are allocated between the two categories of agency. However, the budgets of these two categories are obviously not financed exactly by the same type of income because, in the case of the executing agencies, income consists of the compulsory assessments of member States and, in the case of UNDP, for example, of voluntary contributions. Moreover, the member States in question are not exactly the same in both cases, nor is the allocation of compulsory or voluntary contributions identical.

Nevertheless, in the case of the largest assessments or contributions, the main budgetary burden of the specialized agencies or extra-budgetary programmes is borne by the same member States. In these circumstances, a simple calculation shows that, in the final analysis, the establishment of the percentage at 0, 10, 20 or 25 per cent has a virtually negligible effect on the overall amount of funds made available by each member State to the United Nations specialized agencies and UNDP as a whole.

By way of example, we made a calculation in respect of the United States contribution to the budget of the UNDP Special Fund on the one hand and of UNESCO on the other in 1966.

The facts of the problem are as follows:

- Total amount of overhead costs paid to UNESCO by the SPECIAL FUND in 1966: \$1,593,737.
- Total of corresponding programmes: \$14,176,695.
- Percentage actually used: 11.24 per cent.
- United States participation in the UNESCO budget: \$14,392,800, or 30 per cent of the total regular budget.
- United States participation in the SPECIAL FUND in 1966: \$40,320,000 out of a total contribution of \$98,584,923. (But the United States has specified that its participation should not exceed 40 per cent of the total paid by all other governments. We shall therefore take the figure of 40 per cent.)

On the basis of these data, it is easy to calculate:

- that, assuming overhead costs are fixed at 0 per cent, disbursements from the Special Fund would have been reduced by \$1,593,737, and the regular UNESCO budget should have been increased by the same amount,
- that the United States, on this assumption, could have reduced the present amount of its contribution to the Special Fund by 40 per cent of this sum and that a payment should have increased its compulsory contribution to the UNESCO budget by 30 per cent of the same sum. As a result, that country would have had to contribute 10 per cent less to the total, or \$159,313.

Assuming that overhead costs are fixed at 20 per cent, namely, at \$2,835,339, the calculation would have to be based on the difference between this amount and actual participation of \$1,593,737, or on \$1,241,602.

In that case, the United States would have had to pay 10 per cent more than this sum, or \$124,160.

Compared with the amount paid by the United States to the Special Fund on the one hand and to UNESCO on the other, i.e. approximately \$54 million in all, the difference between these two assumptions ($\$124,000 \div 159,000 = \$283,000$) is about 0.5 per cent of the total paid by it to the two organizations.

Of course, these calculations have been based on United States participation which is not only the largest but also the one for which the difference between the percentages of participation in the two budgets amounts to only 10 per cent.

If the calculations had been made by countries such as France or the Soviet Union, the differences would have been relatively greater, because the contributions of those two countries to the Special Fund and UNESCO are as follows:

<u>Country</u>	<u>Special Fund</u>	<u>UNESCO</u>	<u>Difference</u>
USSR	1/98.5 or about 1%	14%	13%
France	1.6/98.5 or about 1.7%	5.71%	4%

It is obviously to the "advantage" of those two Member States that the percentage of overhead costs (chargeable to UNDP) should be fixed as high as possible. However, the amounts in question are ridiculously small, namely, about \$200,000 at most for the USSR or \$50,000 for France. In view of these small differences, the Member States in question, and in a broader context all Member States that are in virtually the same situation, would not appear to be justified in thinking that the fixing of overhead cost percentages of extra-budgetary programmes could have any far-reaching financial implications for them (the calculations made in respect of other Member States reveal that the financial implications are even smaller than those given by way of example).

1.8 The real problems

The real problems therefore arise in other fields and these must be clearly identified. The most important is ultimately that of establishing whether sufficient resources are being allocated to the administrative costs of supporting programmes to enable these programmes to be properly implemented, or whether these costs are clearly excessive.

The fund-disbursing authorities, whether they are Member States or financing institutions, always have a natural tendency to prefer direct expenditure which is translated more tangibly into material achievements or field activities to expenditure on administrative support, which they generally tend to consider excessive.

The dispatch of an expert to the field is something visible and measurable, whereas the expenditure involved in recruiting, paying and assisting this expert, although necessary, seems less acceptable because it increases the cost of each expert and therefore appears to reduce the overall effectiveness of the funds available.

The organizations responsible for the execution of programmes point out, on the other hand, that "economies" in support costs often adversely affect the quality and effectiveness of the programmes. The most obvious example they cite is recruitment. Economies in recruitment costs are dangerous if they lead to the adoption of simplified methods. The quality of the personnel recruited cannot then be assessed with a full knowledge of the facts. Personnel can be recruited "on the cheap" by correspondence with extremely simplified screening based on personal files. However, a more reliable method of recruiting international experts is to summon candidates for interview. Obviously in the case of international experts such direct methods involve substantial travel expenses if the candidates (who will not necessarily be accepted) are to meet their interviewers.

This raises two questions:

- (a) Exactly what type of expenditure is covered by the terms "administrative costs" or "programme support costs" and what should it comprise?
- (b) Is it possible to establish a precise accounting system for such expenditure, preferably applicable to all the organizations, to facilitate its control and comparison?

1.9 Definition of the coverage of administrative costs or support costs

Neither in English nor in French do the terms used (administrative costs, support costs, etc.) give a very clear idea of the activities this expenditure is intended to cover. The terms even seem to be used in a distinctly pejorative sense. It is therefore important to find an accurate definition.

In this context, studies carried out by UNESCO and FAO have produced fairly precise lists of these activities; the lists were designed to permit meaningful enquiries among the staff about how they used their time and divided their activities between the organization's regular programme and its extra-budgetary programmes. The descriptions of the various operational stages were not quite the same for both organizations, but they were nevertheless very similar.

UNESCO makes a distinction between 22 stages falling into three main categories:

1. Planning
2. Supervising and servicing
3. Termination of projects;

whereas FAO distinguishes between 27 stages divided into four categories:

1. Overall programming
2. Preparation of plans of operations
3. Administration of operational projects
4. Reporting.

The lists of stages used by the two organizations are given in annexes 1 and 2. It will be seen from a comparison of the two lists that in both cases the following are included as important functions under "support costs":

- (a) Programme formulation and preliminary negotiations with the governments of the countries concerned and the fund-disbursing organizations (this covers 5 operations grouped under the term "planning" by UNESCO and 14 operations grouped under "overall programming and preparation of plans and operations" by FAO);
- (b) Recruitment of experts or fellows;
- (c) Purchase of equipment;
- (d) Personnel administration proper, overall financing and budgetary problems;
- (e) Supervision of and assistance with the preparation of reports, provision of documentation and technical assistance to experts;
- (f) Interim revision of operational plans;
- (g) Inspection of work and preparation of the final report.

This summary of the lists of operations described by the two organizations shows that they involve much more important matters than administrative costs proper (for example personnel administration, payment of salaries, budgetary implications, correspondence costs, office expenses, etc.).

The United Nations Budget Estimates, in Annex II^{1/} mentioned earlier, also contain a list. Backstopping for UNDP Technical Assistance, according to this text, "includes substantive assistance in defining the scope and objectives of individual projects, in providing guidance for technical aspects of expert assignments, training programmes and equipment supply, and in formulating final recommendations arising from specific projects. In addition, administrative services are provided by the Office of Personnel (Technical Assistance Recruitment Service), by the Office of the Controller in the accounting and audit fields, and by the Office of General Services in the areas of general administration, purchase and transportation, communications and records."

Paragraph 12 of the same annex gives a comparable definition of the backstopping activities for Special Fund programmes.

Most of these functions therefore involve virtual participation in the actual execution of the programme or project. The quality and effectiveness of the programme or project itself depends directly on (these factors are worth recalling):

- the quality of the recruitment system for experts sent to the field;
- the way in which the project itself is conceived and the method used and care taken in preparing the operational plans;
- adequate preparation to permit the active collaboration of the authorities of the country which has accepted or requested the project (therefore prior and sufficiently detailed negotiations);
- the kind of instructions and professional support (information, documents, training) given to the experts in the field;

^{1/} United Nations Budget Estimates for the Financial Year 1968 and Information Annexes, General Assembly, twenty-second session, Supplement No. 5 (A/6705) Annex II, paragraph 10, page 283 in the French text and page 267 in the English text.

- the supply of equipment, which is an integral part of the execution of the actual project;
- lastly, the care taken with the preparation of reports, especially the final report.

It is therefore not merely a question of "support costs" or "administrative costs" of projects the essential element of which is field work, but a division of responsibilities between the officials working at the headquarters of the executing agency and the experts sent to the field.

It is therefore important to ensure that these responsibilities are apportioned correctly and, especially, that sufficient funds are allocated for such basic operations as expert recruitment, project formulation and operational planning. Ultimately, the quality, and therefore the effectiveness, of the projects themselves depend very largely on the kind of solution found to this problem of support cost calculating procedure, which on the face of it seems to be purely a matter of budgetary and accounting technique.

1.10 Impossibility of finding the correct solution with the information at present available.

Unfortunately it does not seem possible to arrive at a satisfactory definition of this division of responsibilities with the budgetary and accounting procedures at present in use.

It is indeed difficult to apply to all the specialized agencies the conclusions reached in studies which, although reliable, are either very old (UNESCO 1963) or based on subjective evaluations of the division of staff activities during one year (FAO) and which were in any case prepared by only two organizations.

Another, still more important, reason is that the percentage represented by "support costs" is likely to vary considerably if the total cost of programmes entrusted to each organization increases substantially, and even doubles as is at present anticipated. It is by no means certain that support costs vary in proportion to the total cost of programmes: it is, on the contrary, highly probable that some constituent elements of backstopping will in such circumstances involve relatively less expenditure, while others will cost much more, and that it will be impossible to estimate the total in advance.

For example some elements may vary with the number of programmes or projects (the fact that programme totals may be doubled does not necessarily mean that the number of projects will be doubled). Others vary with the number of experts to be sent to the field; however, the increase in recruitment costs, for example, could be much more than proportionate to the number of experts, if only because recruitment itself can become much more difficult and costly if the supply of experts suddenly greatly exceeds the demand.

In such circumstances, if a proper solution is to be found to the problem of apportioning headquarters costs and field expenditure, a much more precise method must be applied.

2. CONDITIONS NECESSARY FOR A SATISFACTORY SOLUTION OF THE PROBLEM

2.1 Relationship between accounting information and budget decisions

As briefly stated in the introduction to this note, certain precise accounting figures providing a basis for correct budgetary decisions would be needed for a rational solution of the problem.

Such comparable accounting figures are needed if these charges for support costs are to be correctly evaluated and provided for, mainly because what is involved is not a simple budgetary technique.

The budget estimates of operational expenses in the field, when the project has been carefully prepared, are arrived at by a relatively simple calculation of the number of expert/months required plus some travel expenses and some equipment. In the case of support costs, on the other hand, the various kinds of expenditure corresponding to the various operations cannot be easily isolated because the entire administrative apparatus is made available for the projects: the programming departments administer several projects of different origins, including those of the organizations' regular programme, and the administrative and general services departments also contribute to the support of a given project: an analysis of the time spent by the experts belonging to all these departments is therefore needed to provide a basis for the estimates. This method was used in the above-mentioned UNESCO and FAO surveys. In such a complex operation, however, a purely accounting study affords no guarantee that the most economical or the most effective method has been used. The accounting results are indispensable, but they must be presented in such a way as to provide a basis for the comparison of methods between the different organizations.

Inasmuch as it is impossible to lay down standards unless such accounting figures are available, we shall consider in turn the problems involved in:

- the establishment of an itemized operational accounting system
- the comparative and standardized processing of the results obtained.

2.2 Establishment of an itemized operational accounting system

The objections generally expressed, particularly by organizations that are mainly administrative in nature, to the introduction of cost accounting are usually based on the high cost compared with the slight advantages the system is expected to provide.

In the present instance it does not seem to be very difficult, from a technical stand-point, or very costly to establish such a system, which would not only provide the basis for a correct solution to the problem under review but would also help to solve a great many other problems.

The basic elements of such an accounting system can be seen very clearly from the UNESCO and FAO studies mentioned above; what is involved is:

- to ascertain how the staff's working time (and also their travel expenses) are used, by means of a questionnaire asking each official to provide a breakdown of his time as between the regular programme and the various extra-budgetary programmes and also to indicate by means of a checklist the kind of work he has been doing;
- to assign the results so obtained as a percentage of time to the total staff costs at headquarters.

The advantage of such an accounting system in this instance is that it would show the exact cost of the various operations required for the implementation of all programmes of the same origin and, even more precisely the cost of each particular programme. If the questions are drawn up with sufficient care and the checklist of duties is both clear and detailed, the questionnaire could provide a very clear picture of the work of the departments and a precise indication of the cost of the activities performed, broken down by type of operation or by programme.

Hence, the wealth of information thus obtained may be of use for many more purposes than the mere problem of calculating the total amount of support costs.

If these questionnaires are drawn up with care and suitable mechanical data processing methods are used to ensure speedy results, this would be an irreplaceable source of information on all aspects of the work of the departments with regard to both cost and performance.

The precise details of such questionnaires lie outside the scope of this note, but some observations can be made regarding their frequency and the principles that should govern their content.

2.2.1 The questionnaires must obviously be filled in at monthly intervals. They must be used systematically and become part of the accepted scheme of things. Once the method has been explained and the usefulness of the operation clearly demonstrated to the persons concerned, it should not take more than a quarter of an hour to complete a questionnaire of this kind. The monthly interval would not, therefore, constitute an undue burden, and it is the only interval which would permit accurate replies to questions on the breakdown of the use of time. Questionnaires at shorter intervals would serve no purpose; on the other hand, if they were completed at quarterly or half-yearly intervals the replies might be inaccurate, as the staff member would be unable to recall his various activities with sufficient precision.

However, the monthly interval does entail a processing problem; processing would have to be done mechanically, but the widespread use of computers in the different organizations should help to solve this problem.

2.2.2 The questionnaires should be formulated in such a way as to elicit the desired information (any information which it seems reasonable to ask for), according to the nature of the duties performed.

The above-mentioned FAO and UNESCO questionnaires were of course designed to obtain specific information - the amount of supporting costs and their apportionment among the financing institutions. However, the authors of the questionnaires deemed it necessary to define support costs precisely by drawing up a list of the relevant functions, and by so doing they made it possible to ask specific questions the replies to which provided more information than that initially sought.

This shows that it would be possible, without undue complication, to obtain a greater amount of information if the questionnaires are prepared accordingly. The above-mentioned questionnaires were designed to analyse the work of permanent staff responsible for the execution of programmes (Project Officers, Department Heads). They were of course less suitable for staff performing general administrative duties (budget, supervision, general services, conferences, documentation etc.). This explains why certain particular methods had to be adopted, for example, for the documents services. (In the UNESCO report, for example, it was decided to increase the time spent by staff of the documents and publications service on the regular programme by 25 per cent and to reduce accordingly the time spent on the other programmes, in order to correct the replies to the questionnaires by officials who constituted only a part of the total staff.)

Consequently, the kinds of information that can be asked for in relation to the duties performed should be defined more precisely; this would undoubtedly make it possible to obtain a clearer idea of the output of certain services. Hence, one of the questions could be concerned with a quantitative evaluation of the work of each staff member, though admittedly this type of information involves serious difficulties of interpretation (number of pages translated in the case of translators, number of letters written, contracts or agreements concluded, inspections made, etc. - in short, the number of significant units of activity of the staff member concerned).

The questionnaire might possibly have one part which would be the same for all staff members, whatever their functions, and another part varying according to the nature of the duties performed (for programming department staff, administrative or general services staff, experts in the field, etc.).

2.2.3 It is necessary to make an exhaustive list for the itemization of the duties performed. We would merely point out that in the annexed lists and the recapitulation in paragraph 1.9 above no mention is made of research work or the training of experts, that administrative duties are not described in detail, etc. This question will be gone into more thoroughly in paragraph 2.3.3 below.

2.2.4 Lastly, it should be borne in mind - and this is of fundamental importance - that such an itemized accounting system is not an end in itself; it is useful only if it provides a means of obtaining the information needed for constant improvement of the methods used both for reducing costs and for increasing performance.

Such information can be obtained only if the methods used are the same for all the organizations of the United Nations family.

2.3 Common methods of preparation and processing

This subject calls for some comments.

2.3.1 In the first place it is necessary to arrive at a common method of preparing questionnaires. If consideration is limited to the problem of "support costs", the examples given above and the accompanying comments go to show that it should be an easy matter to develop such a common method.

It is also necessary to lay down the procedure for arriving at this result: decision in principle to establish an itemized operational accounting system and to develop a common method; appointment of specialists to take charge of the work involved in each organization; meetings between those specialists to exchange views and proposals, etc.

2.3.2 One specific difficulty should be mentioned in this connexion: while an itemized operational accounting system is essential to the solution of the "support costs" problem, it is also of use for other purposes (as indicated in paragraph 2.2.2 above). This being so, the task of devising a method for the preparation of questionnaires depends on the objectives aimed at in cost accounting: analysis of the activities peculiar to each organization, quantitative measurements of work done, timing of certain cycles of administrative operations, calculation of costs and output of certain types of operations, definition of ratios, etc.

It is therefore essential that each organization should clearly state its views on this subject and that accurate dossiers should be compiled on this point even before any discussion between specialists takes place.

2.3.3 At all events, at least so far as "support costs" are concerned, the breakdown should be made, as already indicated in paragraph 2.2.3 above, in such a way as to cover all the operations entailed.

There will be a great deal of work to be done in order to arrive at a uniform list for all the organizations. For example, the UNESCO and FAO lists annexed to this note do not include the following categories:

Preliminary research necessary to develop working principles
for use in relation to programmes;
Training of experts.

Nevertheless, these two types of activity are in fact carried on, either in research institutes closely associated with the organizations, or within the organizations themselves. The use of itemized accounting to determine the amount of expenditure on these two types of activity, and to ascertain how far it is adequate and how far it permits an improvement in programme effectiveness, is a heavy task, but the clarity of this accounting system would make it easier to perform.

It would also be worth while to analyse how programmes are drawn up and negotiated both with UNDP, or any other disbursing body, and with the Governments of the countries concerned. The description of the operations given in the UNESCO and FAO lists (for UNESCO, for example, cf. annex I, first five items) seems to indicate that the triangular relationship "participating organization - UNDP - country concerned" does not always have the benefit of a prior overall analysis which would probably make it easier to draw up the programme and would provide some indication of its degree of urgency in relation to the needs of the country concerned. Here an additional function comes into the picture: that of prior overall analysis, for which it would probably be of great value to make a special appropriation.

In other words, a satisfactory breakdown of support costs, if agreed to and adopted by all the organizations, would enable them to take full advantage of the itemized accounting system. It would probably be wise to proceed by successive approximations in order to arrive at a really appropriate breakdown.

2.3.4 It is also necessary to develop a method of processing the accounting figures: in particular, to determine which authorities or services should be responsible for gathering the figures and making the necessary comparisons; and then to arrange meetings between specialists in order to draw conclusions from those comparisons. If, for example, the cost of recruiting experts was found to vary widely from organization to organization, it would be desirable to investigate the reasons for the differences, invite the various organizations' specialists to discuss them and then, after due consideration, find what seemed to be the best method for general adoption, and estimate its cost: in other words, determine the rational level of expenditure appropriate to that type of activity.

The same procedure would be applied to the other items of expenditure.

The existing services of the various organizations could no doubt be entrusted with some of the overall comparative studies, but a centralizing and initiating service is needed as well. It would be worthwhile to consider whether ACC has any secretariat unit that should undertake investigations of this kind.

2.4 Standard definition of desirable expenditure

Ultimately this type of information could be used as the basis for a standard definition of desirable expenditure: that is to say, a rational budgetary definition of support costs.

It is clear that the ultimate aim is to arrive at a reasoned decision on the amount that should rationally be spent in order to ensure that programmes yield the best results at the lowest cost. In the last analysis the sole purpose of all this preliminary accounting work is to provide as much information as possible for those responsible for taking budgetary decisions, whether these are specialized secretariat departments or the assemblies which vote on the budget estimates.

It is necessary to obtain a clear idea not only of the actual costs incurred but also of what costs would be appropriate and desirable. It is

reasonable to think that this would improve the efficiency of the organizations themselves and would make it easier to reduce, once and for all, the existing differences of opinion between the financing institutions and the participating organizations on the subject of support costs. It is probable, however, that such a system would shed light in a fairly large number of other areas, provided that the itemized accounting system was designed to help in the measurement of cost and efficiency in general.

Nevertheless, the following points must be stressed:

- No real purpose will be served by organizing such a system unless it affords a means of making valid comparisons;
- Comparisons will be possible only if the working principles of the system are the same for all the organizations (presentation and frequency of questionnaires, list of operations analysed, etc.);
- To the extent that the system depends for its operation on the availability of exact accounting figures and makes for the rationalization of budgeting methods, it seems clear that the organization of an itemized accounting system cannot well be dissociated from the standardization of budgetary and accounting presentations, which is the subject of note B.

3. PROVISIONAL CONCLUSION

We shall confine ourselves here to a rapid summary of the main ideas put forward in this note, so as to make it easier to understand the attached questionnaire.

3.1 The problem of calculating the support costs of extra-budgetary programmes would be of relatively minor importance if the purpose was to determine whether those costs should be borne in full or in part by the organizations administering the funds or by the executing organizations.

In reality, however, these support costs represent payments for functions essential to the proper execution of the programmes; it is therefore important to know what budgetary appropriations should be made for them.

In the studies made on the subject by two organizations, these costs are estimated to total 20 per cent of the cost of the programmes - a proportion appreciably higher than the current UNDP assumption.

Moreover the organizations in question consider such a proportion insufficient to ensure that the requisite functions are properly performed.

These studies bear all the hallmarks of reliability; unfortunately they refer to only two organizations. They are based on evaluations which would benefit from greater precision, and cannot be used to calculate the variations which might result from a massive (and foreseen) increase in the financial scale of extra-budgetary programmes.

For that reason it does not appear possible, with the data at present available, to propose a solution to this problem.

3.2 The only satisfactory answer would be a cost-accounting system kept by uniform methods in all the organizations.

The establishment of such a system does not appear to present insuperable difficulties, particularly from the standpoint of cost, and it would be of great service far beyond the scope of the support costs problem.

However, in order to organize such a system it would first of all be necessary to adopt common methods of drawing up and processing questionnaires.

The essential result would be that comparisons could be used to arrive at an accurate determination of desirable expenditure: in other words, to make a decided improvement in methods of budgeting.

It seems clear, therefore, that the question is bound up with the standardization of budgetary and accounting presentations, which is the subject of note B.

Maurice Bertrand

ANNEX I

UNESCO - Extra Budgetary Programmes

Steps in planning, supervising and servicing of extra-budgetary programmes

Below are listed the main steps in the planning, supervising and servicing of extra-budgetary programmes which are paid for by Headquarters costs.

A. Planning

1. Assist governments in drawing up requests for technical assistance.
2. Review and evaluate requests received from governments.
3. Prepare general plans for meeting requests for assistance and negotiate with governments and extra-budgetary agencies.
4. Draw up detailed plans of operation and negotiate with government and extra-budgetary agency.
5. Obtain final approval of government and extra-budgetary agency for implementation of project.

B. Supervision and servicing

6. Recruit and brief experts, including replacements for departing experts (clear candidatures with governments - usually three qualified experts suggested for each expert post).
7. Draw up equipment specifications and purchase equipment.
8. Select fellows and arrange for study abroad.
9. Personnel administration of experts (allowances, leave, housing, family problems, medical benefits, special pension arrangements, travel, visas, etc.).
10. Financial administration (obligate and pay in some 60 currencies experts' salaries and allowances, fellowship costs, equipment costs and miscellaneous expenses - maintain project accounts).
11. Budgetary administration. Continuous review of obligations and expenditure to ensure that funds are adequate to carry out plans. Revise estimates as necessary in consultation with governments and extra-budgetary agencies. Transfer funds as necessary between items of expenditure and/or projects.

12. Follow-up on equipment purchases to ensure delivery and make insurance claims. Keep inventory of equipment. Dispose of equipment no longer required.
13. Service fellow in country of study; stipend, special problems, curriculum changes, etc.
14. Revise project plans as necessary in light of experience.
15. Receive and use government counterpart contribution.
16. Receive reports from projects; analyze; add information and submit to Extra-budgetary agency and include information in reports to Unesco governing bodies.
17. Provide technical guidance and documentation for experts.
18. On-the-spot inspection of projects.
19. Negotiate with governments on problems of project implementation.

Termination of Projects

20. In consultation with governments and Extra-budgetary agencies ensure that benefits of project will continue after its termination.
21. Dispose of equipment.
22. Prepare final report.

ANNEX II

FAO - Extra-Budgetary Programmes

DISTRIBUTION OF TIME BY TYPE OF FUNCTIONS AND BY FIELD PROGRAMMES

A. OVERALL PROGRAMMING

1. Formulation, evaluation, coordination of overall programmes
2. Programme-wide administr. (policies, procedures, coordination)
3. Negotiations with TAB, UNSF, UNICEF, or Trust Funds' sponsors
4. Assistance to Governments in the preparation of requests
5. Exploratory approaches and negotiations
6. Preparatory exploration of project proposals
7. Reviewing, evaluating, costing project proposals
8. Participation in meetings, committees, etc. on the above
9. Consultations with other agencies, with education and research orgs.
0. Reporting to FAO Governing bodies
- X. OTHER (specify):

B. PREPARATION OF PLANS OF OPERATION

1. Development of Plans of Operation
2. Plans of studies (fellows)
3. Preparation of internal project budgets
4. Negotiating Plan-Ops with governments and with UNSF, TAB, etc.
5. Participation in meetings, committees, etc. on the above
- X. OTHER (specify):

C. ADMINISTRATION OF OPERATIONAL PROJECTS

1. Overall administrative and technical supervision of projects, Training Centres, Fellowship, etc.
2. Finding, recruiting, briefing Project personnel, Fellows, etc.
3. Servicing of project personnel, Fellows, etc. incl. corresp., review of reports, backstopping, tech. guidance, admin. servicing
4. Procurement of equipment, supplies, facilities

5. Assessment of progress, review and adjustment of Plan-Ops
6. Negotiation of contracts, special service agreements, etc.
7. Assistance for and review of Expert's final reports
8. Other administrative tasks related to projects in operation
(Personnel, Accounting, Statistics, etc.)
9. Participation in meetings, committees, etc. on the above
- X. OTHER (specify)

D. REPORTING

1. Periodic evaluation report on progress of operations, status
of projects, to the sponsoring Fund
2. Financial and budgetary accounting
3. Correspondence, discussions on this subject
4. Participation in meetings, committees, etc. on the above
- X. OTHER (specify)

A N N E X 2

Summary analysis of answers given by organization secretariats
(by question and by organization)

A.1. What rate should, in your opinion, be adopted for calculating the support costs paid by UNDP, in order to cover completely the expenses at present incurred by your organization ?

UNESCO 20 per cent.

FAO See A.2.

WHO See A.2.

ILO (answers A.1. and A.2.)

The answer depends largely on the definition of "support costs".

Recent survey shows that these costs exceed the repayment.

Preliminary survey : 30 per cent for UNDP SF and TA (not including telephone, housing, etc.).

More detailed survey in progress.

According to the preliminary survey, support costs are made up as follows :

- Project planning and prospecting	19 per cent
- Technical and supporting services	30.3 per cent
- Administrative support	50.7 per cent
	<hr/>
	100.0 per cent

ITU No minimum rate has been calculated.

The Secretary-General has been invited (resolution No.30 of the Plenipotentiary Conference) to study the problem.

Study document 3723 CA 23 attached hereto.

Further study requested : document 3792 CA 23 attached hereto.

Question re-examined in May 1969.

WMO No studies on UNESCO or FAO lines undertaken.
20 per cent may be considered reasonable.

IMCO

No suggestions - barely a year's experience of technical assistance projects.

Merely think that, for small organizations, a higher rate would be warranted for the initial years of technical assistance activity.

UPU

A valid comparison of support costs and programme costs can be made only for 1967 and 1968.

Rate : 26.1 per cent = \$241,430/\$925,000.

For the reasons given below, it is difficult to fix UNDP's contributions to administrative costs on the basis of a percentage of total project costs :

- the work to be done by the organizers is not proportional to the total volume of projects;
- the administrative costs of a project are not proportional to the amount of the project;
- the payment made for the preparation of a Special Fund project seems inadequate and arrives too late.

UN

In order to determine a valid rate which would completely cover the expenses incurred by the departments supporting the UNDP programmes, the following would be needed :

- a clear definition of those expenses which can be classified as support costs for repayment purposes;
- the institution of an accounting system to supply the data for calculation;
- the minimum prerequisite for a valid accounting system is that all staff of the supporting departments (including managerial and supervisory staff) should keep a continuous record showing how their working time is spent. In addition, all travel and general services utilized must be recorded in great detail. Such a system would not merely be difficult to maintain; its results would be scarcely commensurate with the energy, effort and time expended on them. Furthermore such a system would be incompatible with the notions of "integration with the organization's normal activities", "fullest use of existing facilities" and "clearly identifiable additional costs" embodied in the legislative texts governing the UNDP programmes. The information annexes to the 1969 budget give details of the identifiable additional costs : the rate thus calculated is 12.4 per cent.

A.2. Indication of the bases adopted for this estimate (documents other than those referred to in this note)

UNESCO The studies mentioned in note A + experience of negotiations with fellow-contracting parties to UNDP projects show that the equivalent support costs are far in excess of 20 per cent.

FAO No documents other than the studies cited - results tabulated in the Programme and Budget.

WHO No study. We have always thought that the amounts paid were insufficient to cover all the costs. See general observations 2.5.1., 2.5.2., 2.5.4. (proposal for including support costs in regular budgets).

ILO See A.1.

ITU See A.1

WMO WMO uses the available funds to maintain a Technical Co-operation Department which deals with virtually all aspects of activities financed by UNDP and whose entire staff work full-time on UNDP activities.

Strength and recruitment are barely sufficient, and the whole system works only because :

- the drawings on overheads exceed what would be a reasonable (proportional) allocation from those funds (if Special Fund projects stopped, WMO would be in difficulties);
- the flexibility clause for small agencies is resorted to almost every year;
- some of the support costs are covered by the regular budget;
- The Technical Co-operation Department is supplied with many administrative services (heating, cleaning, etc.) by the Organization.

IMCO

See A.1.

UPU

Estimate for 1967-1968 appears in table CE/C12/Document 13, annex 2 (attached hereto).

Similar calculation for 1969 has been made on new basis set forth in document CE 1968 Doc. 4bII, 2nd table on page 20 (see letter of 4 October).

UN

See A.1.

A.3. If the total amount of the extra-budgetary programmes was substantially increased (for example doubled), do you think that the percentage of the real support costs would :

- remain unchanged ?
- diminish ?
- increase ?

UNESCO

The percentage might perhaps diminish slightly.

22.5 per cent would be the right percentage to improve the quality of projects today.

If the number of projects was doubled, the percentage might come to 19 or 20 per cent.

FAO

(A.3. and A.4.)

The aggregate percentage would diminish (as a result of the improvement of systems, etc.) (although some items, such as the cost of recruitment, tend to increase).

WHO

(A.3. and A.4.)

In our experience, the percentage of administrative service costs (as we define them) tends to diminish slightly as the regular budget and other sources of available funds increase.

Here are the figures for 1959, 1963 and 1969 :

	<u>1959</u>	<u>1963</u>	<u>1969</u>
Regular budget	9.77	7.53	6.18
All sources of funds	6.07	5.30	3.74

The introduction of new organization techniques might tend to reduce the percentage of aggregate costs if budgetary programmes increased. However, any such reduction might be obstructed or even reversed if no improvement was made in the complicated and detailed procedures applied by UNDP to participating and executing organizations.

The ever-growing requirements imposed by the organizations with a view to co-ordination constitute another factor making for an increase.

In addition to administrative costs, there are other expenses (operational servicing costs) which are covered - and described in the general observations.

ILO

(A.3. and A.4.)

The scale of the programme is not the only factor to be considered.

Other factors :

- proportion of total programme represented by the various technical components (manpower planning and training, etc.);
- geographical distribution of programmes;
- size and duration of each project.

If the value was doubled without any change in existing composition, the answer would probably be a diminution. But the only way to give an answer would be to make accurate calculations covering :

- delimitation of fields of activity in which doubling the programme would advance matters to a stage at which project management could be broadly decentralized;
- determination of the type of projects for which it would become difficult to recruit experts if their number was doubled;
- determination of the length of time required to bring the programme up to its new level.

But if changes were made in the nature of activities or in the geographical area they covered, there would be too many variables for any valid forecasting; this means, not that forecasting is impossible, but that it would be necessary to know in sufficient detail how the programme was to expand.

ITU

Consider that the real amount would remain constant in percentage terms.

WMO

Doubling the programmes would probably involve a 60 per cent increase.

IMCO

It is difficult to answer.

UPU

In view of the modest existing level of UPU support costs it seems probable that the percentage of real support costs would diminish. Although it is difficult to make an estimate, it may be thought that doubling the programmes would produce a support-costs figure of 20 per cent.

UN

This is difficult to predict.

A.4. Indication of the calculations or documents on which that estimate is based.

UNESCO Sum of the Organization's experience, not specific calculations.

FAO See A.3.

WHO See A.3.

ILO See A.3.

ITU No comment.

WMO Answers based on rough estimates.

IMCO See A.3.

UPU See A.3.

UN See A.3.

- A.5. In your opinion, do the "counterparts" charged to the Governments of the countries in which projects are executed add to the support costs of programmes ? If so, for what reasons and in what proportions ?

UNESCO

Not only the counterparts, but the Government's whole contributions, involve work which is chargeable against support costs (planning, co-ordination, servicing, drafting, revision of projects, etc.).

Cannot be expressed as a percentage of the Government's contribution because that contribution varies in character from project to project. But there is no doubt that they add to support costs because they increase the size of projects. Thus a project for which there is no Government contribution is far simpler to manage than characteristic Special Fund projects, in which the Government's contribution is double that of UNDP.

The Government-financed components of projects involve the longest delays and most frequently require action by UNESCO.

FAO

The organization and direction of counterpart activities certainly affect the work of FAO personnel, but this factor has not been considered separately in the studies made.

WHO

We think the effect is negligible, but no study has been made.

ILO

It is not entirely clear what is meant by "counterparts";

- if this term refers to the staff supplied, the bulk of the work falls to the project manager unless the local Government has great difficulty in supplying such personnel (in which case only the central departments are affected);
- if it refers to the Government's budgetary contribution as a whole, it is ILO policy not to take responsibility for the administration of such projects. The amount of work involved in refining these budgets and sending reports to UNDP is not very great.

<u>ITU</u>	No comments.
<u>WMO</u>	WMO experience does not indicate that counterparts add to support costs.
<u>IMCO</u>	Not enough experience to answer this question.
<u>UPU</u>	Local expenses paid in cash by the recipient country neither simplify nor complicate the work of UPU (it is merely a matter of supplying a few statistics to UNDP).
<u>UN</u>	A slight increase in the work-load, but the increase in costs is insignificant.

A.6. Does itemized accounting machinery such as that proposed in this note seem to you possible and desirable ?

UNESCO

UNESCO welcomes this proposal and considers that the advantages to be gained from such a system would far outweigh the problem of calculating support costs. It would be a useful way for the Director-General to ascertain the productivity of the Secretariat.

FAO

FAO considers that such a system might be expensive and time-wasting. Would the results be worth the effort ? In any case, the results would depend on the individual judgement of those responsible for operating the system.

WHO

We think it is possible.

Whether it is desirable depends on how the cost of such a system compares with its performance.

We think it would take a very long time to set up a common system and that maintaining the machinery would involve a great deal of time and expense.

The results to be expected would not be commensurate with the cost.

The alternative solution which we propose should bring down aggregate costs and make for an increase in the resources available for programme activities.

ITU

Introduction seems feasible. However, would the expected advantages be sufficient to offset the additional expense and complications ?

ILO

A system such as that proposed in note A is certainly possible. Whether it is desirable depends on its costs as compared with its performance (see A.8.).

It might have, in particular, the following advantages :

- that of indicating the exact spots where methods and procedures needed more thorough study;

- that of producing results which could be used for several specialized agencies and, thereafter, providing a clearer basis on which to examine agencies' proposals concerning the financing of support costs.

On the other hand, the results are of necessity partly arbitrary and subject to considerable margins of error. It is not certain that :

- results of comparable value cannot be obtained by making periodic surveys;
- a standardized system uniformly applied would be better than individual systems which take into account the structures and other characteristics peculiar to each agency.

WMO

Certainly possible; and, since WMO uses a non-integrated system, applying the itemized accounting system should be a relatively simple matter.

From the practical standpoint it is doubtful that such a system is desirable for such a small organization as WMO.

IMCO

Such a system would be too difficult for IMCO to apply. We are not equipped to do this properly.

UPU

Such machinery does not seem very suitable for UPU.

UN

It is very doubtful that a cost-accounting system can be applied with sufficient accuracy to determine the real cost.

This is a matter, not of procedure, but of accuracy in the method of describing the time spent by personnel on the extra-budgetary programmes (review of monthly time sheets by supervisors, punching and verification, computer and computer programming).

A.7. Has your organization such a system already, or have experiments been made ?

UNESCO Yes

FAO No. The only existing system is that described in note A.

WHO No. No experiments - see A.12.

ILO No.

ITU No.

WMO No. Our previous answers are based solely on estimation.

IMCO See A.6.

UPU No for support costs; yes for translation services (based on the value of pages translated) and certain publications (based inter alia on time spent by reproduction services).

UN The United Nations has no automated system of costing, but has an automated system of payroll and general accounting.

A.8. What is your estimate of the cost of setting up such a system (staff, equipment and costs) ?

UNESCO

An additional outlay on staff - one professional and three General Service posts - but this investment would yield savings far in excess of the cost of the new posts; the system could be put into operation six months after the appointment of the staff in question and, of course, after the installation of a computer.

FAO

There are too many unknowns for us to give a satisfactory answer. The answer would depend on how complicated the system was, how often inter-agency meetings took place, and how accurately the results were applied to organization and budgeting.

WHO

In order to answer such a question it would be necessary to make a detailed study of the work involved :

- preparations for introducing such a system ;
- collection of data when the system was established;
- processing of results.

It is impossible to undertake such a study now.

ILO

It would seem premature to attempt to estimate the cost of a system which still lacks sufficient definition. The cost would depend largely on how the existing account structure of the organization had to be changed to suit the system. The most drastic changes would affect the EDP system. It would certainly not be desirable to superimpose on the existing accounting system a separate new system of costing.

ITU

Difficult to make an estimate at this stage of the study.

WMO

No estimate can be made.

IMCO

See answer A.6.

UPU

UPU is unable to estimate the cost of such a system,
inter alia because this organization has no computer.

UN

In the absence of specific criteria, no estimate can be made.

A.9. If such machinery should seem cumbersome, are there, in your opinion, any means of simplifying it (for example by a sampling method) ?

UNESCO The system could not be applied to all the Organization's activities, but only to those activities which are measurable.

FAO Yes to the sampling method, which is what FAO uses now and which can be refined to produce more detailed results.

WHO If the aim is to produce an accurate calculation of support costs, we do not think there is any means of simplifying the proposed system.

The sampling method (such as the FAO system which is criticized in the note) would not be sufficiently accurate.

The system would be cumbersome, and the time required for staff to fill in the questionnaire (1/4 hour) seems to have been underestimated. In order to obtain sufficient accuracy, every staff member would have to record his activities in detail every day (especially at WHO).

Although we do not recommend this method, it would be possible to take a "sample" covering a full year and to revise it, say, every five years.

ILO See A.6. et seq.

ITU The itemized operational accounting system might be replaced by statistics or by a cost distribution table conveying practically the same information.

WMO As already indicated, the system might be applied to a single agency for a trial period; this would throw a good deal of light on the subject.

IMCO See A.6.

UPU

Question does not arise at present owing to the UPU system of organization.

UN

Reservations were made in the preceding paragraph with regard to the method of working out time spent; a sampling method, for the very reason that it is simpler, is subject to greater limitations (the degree of attention paid to supporting activities varies from one staff member and one organization to another).

A.10 Have you a computer with which the results of such accounting can be quickly processed ? (State make and type).

UNESCO No, not yet. The Organization hopes to have a computer (ICL 1902 A) by the second half of 1970.

FAO Punched cards at present. A computer is planned for 1970, but the question of the cost of the system will have to be examined. The computer is to be a Minneapolis Honeywell No.1250.

WHO WHO has a computer which could do the work for the other organizations. (Cf. annex 8, Description of the computer and its applications).

ILO Yes : IBM 1440 (to be replaced by an IBM 360-30 in March 1969).

ITU A UNIVAC 1050 is used for technical work. Present utilization time : 270 hours a month. Additional work could be undertaken by staggering the working hours of the staff.

WMO No.

IMCO See A.6.

UPU No.

UN Yes : an IBM 7044 and an IBM 360-30; about 20 per cent of their working time is spent on accounting. Use of the computer presents no problems, but we foresee serious difficulty in obtaining prompt, full and accurate information on the use made of their time by the staff concerned.

A.11. Are there, in your opinion, other means of arriving at a correct calculation of support costs ?

UNESCO

Yes : work measurement system.

FAO

Even the system proposed would not produce correct results. All that can be aimed at is to obtain the best possible approximations (perhaps through more frequent reporting)

WHO

There is no other method of arriving at a correct calculation. See alternative solution proposed in general observations.

ILO

The ILO is in process of preparing index numbers of volume of work for reasonably homogeneous working teams, in order to detect changes in the work-load and to ascertain the needs of the various departments. Wherever possible, these index numbers of volume of work are to be defined in the light of a study in depth of a particular administrative sector. In addition, the equipment for use in this is being assembled. These data may prove very useful in determining the support costs of technical co-operation projects and extra-budgetary programmes. Any information desired concerning sectors not covered by this arrangement could probably be gathered through questionnaires similar to that used in the recent ILO survey.

One of the most important considerations would be to determine the value to be attached to different degrees of precision.

UN

No.

- A.12. If an itemized operational accounting system is developed, what purposes ought it to serve in addition to the calculation of support costs (paras.2.2.2. and 2.3.2.) ?

UNESCO

Wider purposes specified in A.6. above.

FAO

Such a system should be limited to the calculation of support costs. It could not be applied to the administrative problem peculiar to FAO or those common to the various organizations (comment on this last point : there are too many differences between organizations).

WHO

We find the suggestions made with regard to the by-products of such a system very interesting : a sufficiently detailed questionnaire to provide the organizations with a quantitative appraisal of the work of the staff; with information on the performance of particular departments; and, if the questionnaire was common to the various organizations, with an opportunity to compare performances. The various administrative units of WHO keep current statistics on the volume of work, from which it may be possible to calculate the efficiency of certain departments. Reports are prepared and transmitted through the chain of command. The Organization is now considering the possibility of modifying the form of these reports and introducing a different method called "management by objective" (on the same lines as the PPBS concept).

This illustrates the possibility of obtaining information of the type indicated in the note as an important by-product.

ILO

Any work done on the calculation of costs must supply the information needed for the preparation and supervision of the ILO programme.

ITU

It does not seem economic to introduce such a system solely for the calculation of support costs. If such an accounting system was introduced in ITU, it would have to supply a good deal more information.

WMO

In the existing circumstances, the system would not serve any other purpose.

If the system was applied to the WMO Secretariat (and not merely to those departments which deal with UNDP), it would provide useful information, for it would show the exact distribution of effort between the various activities to be studied.

IMCO

See A.6.

UPU

These purposes seem to be more concerned with the breakdown of the budget by activities (programmes) than with the methods of execution adopted.

UN

The cost-accounting system might form part of an overall accounting system which would supply information analyses with a minimum of duplication of effort. Such a system might afford a basis on which to evaluate support costs. It might also afford :

- A comparison between anticipated and actual expenditure for each accounting period ;
- information on the total time spent by the staff in carrying out the work, according to the classification of projects shown in the monthly time sheet.

It might also be used to modernize job classifications and to revise the utilization of staff.

However, it would seem that only a small proportion of this body of information could be used for these purposes, and that any purpose of this nature could be more easily served by specialized studies.

A.13. Do you consider it feasible to draw up a common questionnaire and to develop common methods of processing (paras.2.2.2., 2.3.4. and 2.3.5.) ?

UNESCO Yes, but with due regard for differences between organizations and between functions.

FAO It is feasible but would be expensive and time-wasting. Should be an annual exercise only.

WHO It is feasible but, as already stated, would be far too time-consuming and expensive.

ILO See A.6.

The feasibility of common methods cannot be established until they have been tried. Standardization would be difficult to achieve. One important point to be cleared up is whether a standardized system would not be too rigid and difficult to adapt to changes in structure.

ITU A comparison between organizations might be instructive and might supply useful information. However, it would mean nothing unless the basis of comparison was the same in the various organizations. It would therefore be desirable to draw up a common questionnaire and to develop common methods of processing.

WMO Yes; such a system, applied generally, would be of little value unless common methods were used.

IMCO See A.6.

UPU In the present circumstances, no.

UN It is feasible to have common questionnaires and to develop common methods of processing, but we do not believe that a cost-accounting system would be worth while or that a monthly questionnaire could be drawn up in sufficient detail. The method of processing is a purely technical matter.

A.14. Are you now in a position to propose the type of breakdowns you would consider desirable for support costs (para.2.3.4.) ?

UNESCO The UNESCO list is annexed to note A. The items mentioned in paragraph 2.3.3. of the note might be added. The presentation might be modified to produce results acceptable to all the agencies.

FAO This cannot be done now. It would be possible to improve the FAO list in the future, but this would entail consultation between agencies.

WHO Since no study has been made of this subject, we are unable to propose a breakdown.

ILO For the time being we would recommend the breakdown applied in the ILO questionnaire attached hereto. However, it is highly probable that studies in depth of certain sectors mentioned in the answers to questions A.1. and A.2. will lead to a new definition and probably a more detailed breakdown of the various departments and supporting activities.

ITU No comment.

WMO No.

IMCO See A.6.

UPU The breakdown shown in the document referred to in paragraph 2.1. seems adequate.

UN It is one thing to determine the total support costs for all the extra-budgetary programmes. But if monthly time sheets were used by the staff it would be necessary to have a breakdown for the different types of extra-budgetary programmes and for the different types of job classification (preparation for and attendance at meetings, meetings service, replies to the observations of review, audit or inspection bodies, etc.).

A.15. Does the comparative and standardized interpretation of the results obtained, as proposed in paragraphs 2.3. and 2.4. of the note, seem to you an appropriate means of improving the working methods of administration ?

UNESCO Yes.

FAO See A.12.

WHO We are doubtful about this for the reasons stated above.

ILO Additional opportunities for making comparisons would doubtless have facilitated analysis and hence have improved working methods. However, even if inter-agency comparisons were to reveal significant difference in the cost of a specific operation, it would not necessarily follow that one agency was working more efficiently than another.

There may be any number of reasons for differences in cost per operation (relative scarcity of experts in a particular sector; existence of specialized training centres whose cost affects the operation; structure of the organizations, etc.).

ITU Yes ; it might be a means of improving the working of the administration.

WMO Yes ; see question A.13.

IMCO See A.6.

UPU If the comparison showed differences between organizations in the results obtained, those differences might just as easily be due to structural differences between organizations as to differences in the soundness of the methods used.

UN Ideally such a comparison would be a very useful means of improving working methods. However, this exercise is subject to grave limitations owing to the number and nature of variables and factors which are largely outside the administration's control. It is therefore doubtful that the considerable increase in staff and other resources which would be needed to analyse the data would bear any direct relation to the results to be expected.