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FOLLOW-UP TO THE UNDP GOVERNING COUNCIL DECISION ON
SUPPORT COSTS SUCCESSOR ARRANGEMENTS

(Supplement to the Review of Field Programmes 1990-91)

Introduction

1. At the time of finalization of the Review of Field Programmes, the Thirty-eighth Session of the UNDP Governing Council had just adopted Decision 91/32 "Support Costs Successor Arrangements". It was thus foreseen that a first assessment of the decision's implications for FAO would be carried out, including the basis of follow-up discussions between UNDP, FAO, and other agencies, for submission to the Governing Bodies as a Supplement to the Review (see C 91/4, para 1.71). Given the complexity of the subject, and with numerous aspects still to be clarified and elaborated, further oral and/or written updatings will be provided as new elements resulting from the ongoing process of inter-agency analysis and consultation become available.

2. This Supplement also covers certain other related issues affecting the Organization's field programmes, where updating will aid the discussions of the Conference.

FAO's Approach to the New Arrangements

3. The text of the UNDP Governing Council's Decision 91/32 is attached in Appendix A. As described in the Review, the new UNDP Support Costs regime established by Decision 91/32 represents a marked departure from past practice relating to support cost reimbursement, which has an impact far beyond financial and budgetary aspects. The effects of the decision are likely progressively to redefine the role of the main specialized agencies in UN system technical-cooperation, and to recast the framework of their relationships in this context not only with UNDP - but also with recipient governments.

4. Notwithstanding the intent of the decision and the amounts of UNDP resources which have now been earmarked to underwrite it, the full extent of the implications for FAO will only become evident as experience is gained in future FAO/UNDP programme implementation. This, in addition to the important matters still to be negotiated between the agencies and UNDP (for instance the rates system for AOS, and the modus operandi for TSS-1 and TSS-2) renders it difficult, if not impossible to determine the practical consequences for FAO with any clarity.

5. The Director-General is determined to ensure that the implementation of the new UNDP support costs regime, as from January 1992, should not detract from the effectiveness and efficiency with which the Organization carries out long-standing and well-proven arrangements for the servicing of field programmes. This does not, of course, preclude certain on-going and progressive improvements, as feasible and warranted, nor more substantive changes at some future date as experience is gained.

6. On-going improvements are described in the Review itself (for instance, greater decentralization and the increased delegation of authority to the field as called for by the FAO Review). Such adjustments, mainly aimed at streamlining and promoting cost-effectiveness and the greater overall efficiency of field operations, include - for instance - the relocation of OSRO in AGO and new arrangements for FFH/AD programmes with NGOs (the institutional links with NGOs to be handled by the new Division of External Relations and the operation of all FFH/AD projects to be carried out by AGO). More generally, as noted in the Review, wherever possible a programme-oriented approach will be pursued in undertaking future field activities - which is expected to promote efficiency and emphasize the Organization's comparative advantage.

7. In order to monitor the expected beneficial effects of these and other related adjustments, and to identify further necessary refinements, an inter-divisional Task Force with amply delegated authority will follow the matter on a continuous basis. Internal coordinating machinery for field operations, including the project task force system and the organization of the Field Programme Committee, will be reviewed and strengthened to provide heightened focus on technical and substantive aspects - including interlinkages and interaction with Regular Programme work. To aid this process, the quality and ready availability of field information will be further enhanced by the maximum pooling of existing computer systems and data banks, covering all phases of the project cycle - including project evaluation.

8. Through the above, the Director-General intends to ensure FAO's full operational capacity and ability to deal with the new UNDP Support Costs Arrangements - to preserve and continue to apply effectively to field programmes the Organization's valuable in-built capital of operational experience and expertise.

9. This action will be combined with reinforced efforts to mobilize additional donor support through Trust Funds, to enable FAO to respond to increasing numbers of valid requests for its specialized services - involving a wide variety of funding support from multi-bilateral donors, and international and regional institutions and agencies. The focal point for this, the proposed renamed Resource Mobilization Service in DDF, will also continue to pursue expanded Unilateral Trust Fund arrangements with recipient countries directly, with emphasis on priority technical cooperation in association with the loans and credits of the World Bank, Regional Development Banks, and other development financing institutions.

Further Consultations with UNDP

10. In the context of the above, the further consultations now scheduled on the new UNDP Support Costs Arrangements will be extremely pertinent - since policies, plans, and procedures are to be discussed which may be expected to have impact on various important facets of FAO's technical

cooperation generally. In undertaking these consultations FAO will pursue, as hitherto, a joint agency approach in the meetings with UNDP (in collaboration with the other four main agencies effected - UNIDO, Unesco, ILO, and UN/DTCDD) with a view to identifying and agreeing upon workable and efficient ways and means of implementing the decision.

11. A first session along these lines took place in Vienna at UNIDO (3-4 September) - during which a variety of subjects were deliberated with regard to the arrangements, including modus operandi for organizing and charging for TSS-1, TSS-2 and AOS services, practical administrative and financial procedures associated with this, and related staff briefing and training needs.

12. Further such consultations are planned in Paris (3-4 October at Unesco), in Rome hosted by FAO (30-31 October), and - before the end of the year - in the course of the UNDP Inter-Agency Consultative Meeting (IACM) in New York. Thus FAO, in concert with its sister agencies, will continue to play a leading and active role in follow-up to decision 91/32, as it did in the steps leading to the decision itself.

The Important Training Element

13. A key outcome of the first consultation, which bears particular mention, is the intensive series of staff briefing and training sessions and courses which will be required if the decision is to be implemented with minimum delay and disruption. All organizations concerned are currently developing a set of briefing/training measures geared to their particular structures and staffing patterns, including at country and regional levels. There is unanimous recognition that some of these measures will need to encompass national officials who deal with UNDP programmes.

14. To help contain costs, FAO and its agency partners are promoting the joint agency undertaking of some of this work. Thus basic training packages in TSS-1, TSS-2 and AOS procedures for headquarters staff would be developed jointly, with actual training taking place through specialized trainers visiting each agency in turn. Selected field personnel would also be expected to attend these Headquarters courses.

15. Some of the necessary training in the field itself might also be undertaken on such a basis, in countries where there are large programmes - or in some instances at sub-regional level. UNDP is expected to fully participate in this process, so that its own internal training arrangements closely parallel, and are complementary to the agencies' own actions. In fact FAO and the other main agencies have expressed preference for joint guidelines and joint training material with UNDP, wherever possible.

16. Notwithstanding, the above steps to pool such initiatives, the costs of necessary training/briefing will inevitably be significant for FAO. First and foremost will be the many man-months of scarce professional staff resources required. In addition, there will be considerable (unbudgeted for) costs for specialized training services (as envisaged for the Headquarters courses) and travel expenses, etc. - for training/briefing at field level. While no firm estimate can be given by any of the partners at this stage, it seems likely that for FAO 'out of pocket' resources necessary for these actions could exceed US\$ 1.5 million through mid-1992.

17. A detailed breakdown of the actions and costs considered necessary will be prepared over the course of the next several Inter-Agency meetings on this subject. Given the significant training requirements, FAO and its partner agencies believe that this extra and unforeseen expenditure could qualify for "transitional" financial support - a matter to be discussed by the Thirty-ninth UNDP Governing Council in May 1992.

A First Estimate of the Decision's Broad Implications for FAO

18. FAO's internal Working Group on the new UNDP Support Costs Arrangements, which has been monitoring the development of Decision 91/32's implications for FAO, is in the process of preparing estimates in the light of both the final decision and the on-going consultative process referred to. At this juncture, no detailed calculations can be presented with confidence, though the Working Group has identified a number of broad implications as described further below.

19. An assumption which is critical to such an analysis is the rate at which National Execution proceeds in FAO's areas. As noted in the main Review document (paras. 1.58 through 1.66), the recent UNDP Governing Council decision on this matter (Decision 91/27) provides for a careful approach, with agencies such as FAO involved in a consultative process with UNDP Resident Representatives at country level, aimed at promoting the new modality through requisite institutional and technical support. As noted in the Review, agreed guidelines on this aspect are to be presented to the Thirty-ninth UNDP Governing Council Session in May 1992.

20. While the National Execution of UNDP programmes in FAO's areas is currently estimated at around 12 percent, there is increasing evidence from the field that very vigorous and often unilateral efforts are being pursued by some UNDP Resident Representatives to raise this percentage dramatically over the next several years. Concurrently, in some countries the UNDP back-up establishment for this in field offices has been greatly expanded, while many new OPS-executed projects are now underway (and planned) to supplement governments' capacities in this regard (partly explaining the fact that, in 1991, OPS will probably overtake FAO as the largest executing agency of UNDP IPF funds).

21. FAO, along with other agencies, has clearly been concerned at this development - particularly in the light of the more measured approach embodied in Decision 91/27. The Conference will be informed of forthcoming discussions with UNDP management aimed at developing a better understanding between UNDP and the agencies on this matter, including the possible issuance of joint interim guidelines in the near future, pending the final guidelines which, as noted, must be submitted to the May 1992 Governing Council Session.

22. Bearing in mind the above and subject to further developments, the FAO Working Group on Support Costs has tentatively assumed that the incidence of National Execution in FAO's areas in UNDP programmes may reach 40 percent by the end of the Fifth Cycle - i.e. 1996. From this basic assumption, a number of preliminary conclusions may be drawn.

23. Over the next five years, there will probably be a steady decline in the amounts of administrative and operational services (AOS) provided by FAO to UNDP-funded projects. Present levels of such "indirect overhead" services are running at some US\$ 40 million, against an FAO/UNDP delivery of about US\$ 180 million (estimated for 1991) - of which FAO is reimbursed 13 percent,

or about US\$ 23 million under the present definition of "support costs". As a tentative estimate, the Working Group has anticipated a possible decline in this kind of income from UNDP to as little as US\$ 11 million (current prices) by 1996 - also taking account of the projected drop in the rate of reimbursement for such project delivery services from 13 to 10 percent on average (as stipulated in the decision).

24. In part, this decline could be offset by a rise in reimbursement received from UNDP under the new arrangements for direct technical support to programmes and projects, TSS-1 and TSS-2 - as explained in the main Review document. Indeed, the Working Group has estimated that reimbursement to FAO by UNDP for these services combined, could approach US\$ 12 million by 1996. Thus there will be a steady shift away from indirect administrative and operational servicing of UNDP projects towards the provision of direct and specifically identified technical support at both project (TSS-2) and programme (TSS-1) levels.

25. In terms of overall staff deployment, the implications of such a shift need to be viewed in perspective. UNDP-funded programmes presently account for around 43 percent of FAO's Field Programme delivery. The Working Group estimates that, in terms of broad magnitudes, by 1996 as much as a half of the posts currently devoted to administrative and operational support services for UNDP field operations may be required to be eliminated.

26. Clearly the above assumptions and forecasts will become more precise as the current UNDP/agency consultations proceed, and as actual experience is acquired in applying the new arrangements. In the meantime, a review is being initiated of a detailed post by post assessment of staff implications (for all affected units), and the preparation of estimates concerning the potential impact on FAO's Regular Programme Budget - particularly from 1994 onwards (by which time the full impact of the new system will be experienced). Such analyses will be regularly brought to the attention of the Organization's Governing Bodies over the next several years.

27. The Director-General hopes that the consequences described above will be gradual and will not have their major impact in the forthcoming biennium 1992-93. However, given the imponderables and the uncertainties regarding the possible level of UNDP reimbursement, he nevertheless requests the Conference to give him flexibility, within the resources that may be approved for the Programme of Work and Budget 1992-93 and within the limits of extra-budgetary income, to manage the establishment for field operations with due regard to the interests of the Organization.

Note on the New Support Costs Arrangements
for the UN Fund for Population Activities (UNFPA)

28. The Thirty-eighth Session of the UNDP Governing Council also took a decision (Decision 91/37) on UNFPA Support Costs Successor Arrangements. Because of the special nature of UNFPA field programmes, their small size and the nature of the involvement of agencies such as FAO, these arrangements are very different from those intended to apply to UNDP-funded programmes.

29. In the case of UNFPA, the Fund will cover the costs of FAO technical services to projects and programmes (TSS services) in the form of the financing of actual posts at FAO Headquarters, as well as within "country programme technical support teams" based at regional level. The regionally

based staff will develop and backstop UNFPA country programmes, while Headquarters staff will seek to integrate population concerns in all FAO programmes, while providing specialist advice and assistance to the field teams.

30. Some 10 regionally based posts will thus be covered under the new UNFPA arrangements (compared to the present 6 Regional Population Advisers of FAO), while Headquarters-based positions funded by UNFPA will increase slightly, from 5 to 6. UNFPA will also partly cover secretarial expenses incurred at Headquarters, and provide for all such assistance for the field teams. Moreover the costs of indirect administrative and operation support (AOS) provided to country projects by FAO will be reimbursed at the flat rate of 7.5 percent.

31. Besides the above elements specified in Decision 91/37, further consultations between FAO and the other agencies and UNFPA have elaborated a number of other measures which will accompany these arrangements. These cover compensation for such matters as travel expenses, and the operational serving of the regionally based teams. As a result, for example, it is expected that UNFPA's direct financing of FAO posts for UNFPA activities would amount to some US\$ 2.2 million in 1992, together with forecast overheads (AOS) of around US\$ 400 000.

32. In general, it is felt that the above arrangements provide an acceptable system of cost compensation from UNFPA for FAO's population-related activities. It is appreciated that the regional team approach can foster enhanced collaborative efforts with other agencies in this particular area. At the same time, FAO's overall technical control and monitoring role in its specialized areas will be maintained, in order to ensure the relevance and sustainability of population activities in the particular context of agriculture and rural development.

UNDP GOVERNING - COUNCIL DECISION 91/32

Support costs successor arrangements

The Governing Council,

Recalling its decisions 90/26 and 90/21 of 22 June 1990 and 90/34 of 23 June 1990,

Taking note of the reports of the Administrator contained in documents DP/1991/7 and DP/1991/25,

1. Reaffirms the relevance and importance of the provisions of paragraph 1 of Governing Council decision 90/26 that the successor arrangements are to serve the purpose of the United Nations Development Programme, which is to support technical cooperation in developing countries, and as such should:

(a) Continue to reflect the principles of tripartite partnership as a distinctive characteristic of United Nations Development Programme assistance, irrespective of execution modality;

(b) Promote coherence and coordination in the operational activities of the United Nations system;

(c) Facilitate the further assumption by Governments of the management of United Nations-financed programmes and remove impediments to and provide incentive for national execution and sharper technical focus by agencies;

(d) Reinforce the accountability of the Administrator and of technical and specialized agencies providing support services;

(e) Be structured to strengthen capacities for technical support, while keeping to the necessary minimum the resources deployed for administrative and operational support;

(f) Seek to ensure cost-efficiency, enhanced quality, cost-transparency and effectiveness in the implementation of United Nations Development Programme-assisted programmes and projects, through, inter alia, greater openness and competitiveness in accessing and providing services in accordance with the approach set out in paragraph 41 of the annex to the Consensus contained in General Assembly resolution 2688 (XXV) of 20 December 1970;

(g) Continue the principle of cost-sharing between the United Nations Development Programme and agencies;

2. Decides that the new regime of support costs successor arrangements, described in, inter alia, paragraphs 7, 8, 10, 11 and 14 of decision 90/26, shall apply from 1 January 1992 to the Food and Agriculture Organization of the United Nations, the International Labour Organisation, the United Nations Educational, Scientific and Cultural Organization, the United Nations Industrial Development Organization and the Department of Technical Cooperation for Development of the United Nations Secretariat;

3. Invites agencies not part of the new regime to consider the possibility of participating in the new regime in the light of the experience gained;

4. Decides on an apportionment of funds to the various provisions of the successor arrangements, as shown in the table in annex I to the present decision;

5. Acknowledges that the apportionment of funds for technical support services at the programme and project levels, referred to in the present decision as TSS-1 and TSS-2 respectively, for the fifth programming cycle has been largely arbitrary and experimental, and considers that future total allocations should be related to the level of United Nations Development Programme programmable resources attributable to the sphere of competence of the agencies participating in the new regime;

6. Decides that for the purpose of determining allocations for technical support services for the sixth programming cycle, an external evaluation shall be carried out which will include an analysis of the need for and experience with TSS-1 and TSS-2 services, in the context of the review called for in paragraph 22 of decision 90/26;

7. Decides that the financial expenditure ceiling for the planning of the successor arrangements for the fifth programming cycle shall be 14 per cent of the programmable resources and also decides, as an exceptional measure, that unutilized resources from the support cost line relating to the fourth programming cycle, not exceeding \$17 million, shall be carried forward and applied towards the costs of the successor arrangements for the fifth programming cycle;

8. Authorizes the establishment of TSS-1 and TSS-2 at levels specified in annex I of the present decision; and decides that the uses and management of these facilities shall be governed by the guidelines provided in annex IV; and that the guidelines shall be administered in a flexible and practical manner, bearing in mind the overall aims and objectives of the new arrangements;

9. Decides that in view of the innovative nature of the TSS-1 facility, the allocation for TSS-1 shall be examined in 1994 in the light of experience and in the context of the mid-term review of resources called for in paragraph 16 of decision 90/34;

10. Takes note of the intention of the Administrator to administer the resources of TSS-2 within the framework set out in annex IV of the present decision and, to the extent they are compatible with that framework, within the provisions of paragraph 34 of document DP/1991/25;

11. Authorizes a further provision of \$20 million for the purpose of providing technical support for national execution, this amount to be managed in accordance with the guidelines established for TSS-2 and taking into account the importance of capacity-building for national execution in developing countries; a first tranche of \$10 million from this amount to be made available when the total approved budgets for nationally executed projects in the sectors covered by the agencies participating in the new regime reach \$500 million; a second tranche of \$10 million to be made available when \$800 million is reached;

12. Decides that, in the event of any or all agencies currently using the old regime electing to participate in the new regime, any additional resources which may be needed for enhancement of TSS-1 and TSS-2 shall be derived from within the financial envelope established in line with paragraph 4 above, in particular by drawing on possible savings which may be realized in lines 3 and 5 of the table in annex I of the present decision as well as on savings from lines 1, 2 and 4, if necessary and appropriate, unless the Governing Council should decide to allocate additional resources in the future for this purpose;

13. Decides that projects approved prior to 31 December 1991 against fifth programming cycle resources shall be subject to the current regime and financed from resources maintained centrally by the Administrator and approves the proposal of the Administrator to continue to apply the current regime beyond 31 December 1991 until such time as the project budget portfolio for 1992 and future years for the agencies participating in the new regime, taken together, reaches a target of \$500 million or until 30 June 1992, whichever comes first, and until such time as that for the agencies not participating in the new regime (excluding the Office for Project Services, the World Bank Group and the regional banks), taken together, reaches a target of \$180 million or until 1 January 1993, whichever comes first;

14. Decides, consequent to paragraph 13 of the present decision, that applicable support cost payments to agencies subject to the current regime (excluding the Office for Project Services and the World Bank Group) shall be made centrally by the United Nations Development Programme; thereafter, charges for these support costs shall be as follows:

(a) Ten per cent to the respective indicative planning figure sub-line;

(b) An additional 3 per cent and flexibility payments, if any, to be charged to an account to be managed centrally by the Administrator;

15. Affirms that the support cost rate applicable as described above shall not be subject to negotiations on a project-by-project basis, and accordingly authorizes the Administrator, upon approval of a project to be implemented by an agency subject to the 13 per cent support cost rate, to apply automatically the arrangements described in paragraph 14 of the present decision;

16. Confirms that in respect of the first \$140 million of nationally implemented projects approved from fifth programming cycle resources, 10 per cent of the value of these projects shall be added to the relevant indicative planning figure sub-lines;

17. Decides to discuss further the issue of transitional arrangements at its thirty-ninth session (1992) based on the recommendations contained in document DP/1991/25;

18. Takes note of the recommendation of the consultant to establish eight clusters of services, listed in annex II, for payment of administrative and operational services, and authorizes the Administrator, in consultation with the agencies concerned, to refine them further and to give further consideration to a possible reduction in the number of clusters prior to their final establishment by him and requests the Administrator to report thereon to the Governing Council at its thirty-ninth session (1992);

19. Approves the proposal to apply a common schedule of differential reimbursement rates for all agencies participating in the new regime;

20. Approves the methodology recommended for the conversion of actual cost rates to reimbursement rates for clusters of services with the intention that the compensation paid for administrative and operational services support to agencies participating in the new regime, taken together, should not, on the average, exceed 10 per cent of their project value, as specified in paragraph 15 of decision 90/26, and requests the Administrator to assess biennially the situation in relation to this provision, and to report to the Governing Council on variances in excess of 1 per cent and to submit proposals to the Council on appropriate means of adjusting rates so as to realize the objectives set out above;

21. Takes note of the plans of the United Nations Development Programme and the agencies for carrying out during the third quarter of 1991 certain refinements to the data collected and authorizes the Administrator, on the basis of the final data, to establish the schedule of the United Nations Development Programme reimbursement rates to become applicable as of 1 January 1992;

22. Requests the Administrator to keep under review the possibility of applying lump-sum payments for clusters of services rather than percentage rates, and requests the Administrator to report thereon to the Governing Council at its thirty-ninth session (1992);

23. Decides that the common schedule of reimbursement rates applicable to the agencies participating in the new regime shall apply as well to the United Nations Development Programme-financed projects implemented by the Office for Project Services from 1 January 1992 and that payments be drawn from the respective sub-lines for indicative planning figure-funded projects and from resources set aside for this purpose for Special Programme Resources-funded projects, as applicable;
24. Decides to consider at its thirty-ninth session (1992) the question of the method of charging support costs to United Nations Development Programme trust funds or other funds under the authority of the Administrator and meanwhile agrees that, in the case of implementation arrangements other than those for the Office for Project Services, the present basis of compensation shall continue;
25. Decides in agreement with the World Bank Group to reduce the rate of support costs payable for projects financed from United Nations Development Programme core resources implemented by the Group from 11 per cent under the current arrangements to a 10 per cent flat rate from the respective sub-lines as of 1 January 1992;
26. Decides that the principles of and the arrangements for the new support costs regime for country projects shall also be applied to intercountry projects and SPR-financed projects as outlined in paragraphs 59 and 60 of document DP/1991/25;
27. Approves support cost flexibility arrangements for eligible executing agencies retaining the current regime whose levels of annual delivery from United Nations Development Programme core resources do not exceed \$24 million, according to the scale set out in annex III of the present decision;
28. Notes the distinction made in the schedule between marginal rates of reimbursement and effective rates of reimbursements, a marginal rate being the percentage reimbursement to be applied to amounts of delivery in excess of each threshold, and an effective rate being that which becomes applicable to reimbursement to the whole amount of delivery;
29. Reaffirms paragraph 3 of its decision 81/40 of 30 June 1981, in which the Governing Council decided that only autonomous organizations within the United Nations system should be eligible for support cost flexibility arrangements;
30. Takes note of the proposals of the Administrator contained in paragraphs 67 to 74 of document DP/1991/25 regarding currency fluctuations and requests that possible new proposals contain the principle of symmetry in compensatory payments between the United Nations Development Programme and the agencies.
31. Requests the Administrator to report to the Governing Council at its thirty-ninth session (1992) on measures to ensure that execution and implementation arrangements are satisfactory under the support costs successor regime;

32. Requests the Administrator, in accordance with paragraph 23 of Governing Council decision 90/26, to present to the Council, at its thirty-ninth session (1992), following consultations with the agencies, proposals for the monitoring and evaluation of the new arrangements;

33. Decides to monitor closely the implementation of the new arrangements and to this end requests the Administrator, in consultation with the agencies, to prepare a progress report each year; the report should include information on the status of the financial provisions of the successor arrangements and an analysis of the impact, if any, of the new support costs arrangements on the sectoral distribution of projects, to be reviewed by the Governing Council;

34. Decides to hold the review called for in paragraph 22 of decision 90/26 at the forty-first session (1994) of the Governing Council.

Annex I

ALLOCATION OF RESOURCES FOR THE VARIOUS PROVISIONS OF THE
 SUCCESSOR ARRANGEMENTS TO AGENCY SUPPORT COSTS FOR THE
 FIFTH PROGRAMMING CYCLE

	<u>Millions of dollars</u>
<u>Resources held centrally</u>	
1. Support costs for transitional projects	109
2. Provision for nationally implemented projects approved in accordance with paragraph 16 of the present decision and SPR-financed nationally implemented projects	17 <u>a/</u>
3. Payments for agencies subject to current regime from central resources	18
4. Support costs for SPR-funded projects (excluding nationally implemented projects)	23
5. Agency flexibility provisions	10
<u>Technical support services</u>	
6. TSS-1	64
7. TSS-2	60
8. Technical support for national execution	20
<u>AOS resources</u>	
9. Country and intercountry IPF sub-lines	<u>323</u>
TOTAL	627*

* Excludes line 2.

a/ To be financed from unutilized resources carried over from the support cost line of the fourth programming cycle and therefore not included in the total.

Annex II

RECOMMENDED LIST OF CLUSTERS OF SERVICES FOR PAYMENT FOR
ADMINISTRATIVE AND OPERATIONAL SERVICES

Equipment procurement

- Cluster 1: Local and field purchase orders
- Cluster 2: Headquarters purchase orders without formal bids
- Cluster 3: Headquarters purchase orders with formal bids

Subcontracting

- Cluster 4: Subcontracting

Training

- Cluster 5: Fellowships
- Cluster 6: Other training services (in-service training, study tours, seminars)

Project personnel

- Cluster 7: International consultants and experts
- Cluster 8: National experts and other local personnel

Annex III

SCHEDULE FOR SUPPORT COST FLEXIBILITY
ENTITLEMENTS

Annual delivery (millions of dollars)	Percentage rate of reimbursement	
	Marginal rate (percentage)	Effective rate (percentage)
0 - 8	22	22.00
8 - 9	19	21.67
9 - 10	16	21.10
10 - 11	14	20.45
11 - 12	13	19.83
12 - 13	12	19.23
13 - 14	11	18.57
14 - 15	10	18.00
15 - 16	9	17.44
16 - 17	8	16.88
17 - 18	7	16.33
18 - 19	6	15.79
19 - 20	5	15.25
20 - 21	4	14.71
21 - 22	3	14.18
22 - 23	2	13.65
23 - 24	1	13.13
≥ 24	0	13.00

Annex IV

ARRANGEMENTS FOR SUPPORT COST SERVICES

TSS-1

1. The establishment of TSS-1, mandated by decision 90/26, is intended to support the objectives of the successor arrangements elaborated in decision 90/26, paragraph 1 (a through g). This facility should contribute, inter alia, to achieving a sharper technical focus by agencies and to improving agency capacities for technical support to developing countries in the upstream stages of programme and project cycles, including the provision of sectoral policy advice to Governments and the formulation of subsectoral and cross sectoral strategies and programmes.
2. The technical services at the programme level, to be financed by TSS-1, should include those necessary for carrying out (a) significant sectoral and subsectoral studies at the country and intercountry level; (b) the formulation of sectoral programmes; (c) participation in national technical cooperation assessments and programmes, country programming and other technical cooperation assessment and formulation exercises; and (d) thematic evaluations. For these purposes, these services should be considered additional and complementary to other activities currently carried out under the regular programmes of participating agencies and other sources, including UNDP programme resources (see table 4 in document DP/1991/25).
3. Conversely, resources available from the regular budgets of the participating agencies and other sources for these purposes could be viewed as constituting matching funds to be provided to ensure the supplementary character of TSS-1 in the formulation of a joint programme of sectoral activities at the country level. TSS-1 should, therefore, be considered a catalyst for making more effective use, achieving a sharper country focus and providing leverage for other resources available for similar purposes within the United Nations system.
4. The process of needs identification and priority setting will begin in the field. The proposed activities potentially to be funded by TSS-1, reflecting government needs and priorities, will be submitted by the Resident Representative/Resident Coordinator to United Nations Development Programme headquarters. These activities will be elaborated after consultation with the representatives of United Nations organizations under the leadership of the Resident Coordinator. They will be accompanied by observations of the Resident Coordinator and representatives of the participating agencies and information on such other funding which is or may be available, as well as other activities undertaken within the United Nations system.
5. The activities to be covered should fall within the areas of competence of the agencies participating in the new regime.
6. The needs emanating from the field will be aggregated by the United Nations Development Programme. After consulting with the participating agencies, UNDP will propose activities to receive support from TSS-1, or from resources which may be available from sources mentioned in paragraph 2 of the

present annex. On this basis, a work programme for the activities to be covered by the resources mentioned will be elaborated jointly by UNDP and the participating agencies concerned. The work programme will be country specific but will also include intercountry activities, as applicable and will cover a period of two years within a forward-looking, three-year plan.

7. It is envisaged that in the initial stages such work programme may cover only part of the activities described in paragraph 2 of the present annex and that the successive plans will cover a wider range of these activities.

8. The selection of activities to be included in the work programme will be based on the priorities indicated by the recipient countries and will also take into account, inter alia, the following:

(a) The need to synchronize studies carried out by the participating agencies concerned at the country level so that more effective use can be made of them;

(b) The need to stagger and smooth out the timing of the studies so that the resulting workload can be accommodated by the participating agencies within their capacities;

(c) The priority of national capacity-building;

(d) Government commitment and willingness to participate in the activity;

(e) The possible usefulness of the studies outside the country;

(f) The need to achieve significant impact in such activities.

9. It is recognized that the process described above will result in a combined programme, drawn up collaboratively between UNDP and the agencies concerned, covering the resources of TSS-1 and those which may be available from the sources mentioned in paragraph 2 of the present annex. Within this programme, the Administrator will have the authority for the appraisal and selection of activities to be financed by TSS-1 and will be accountable to the Governing Council for them. In doing so, he will be guided by the criteria specified in paragraph 8 of the present annex.

10. The process described above will be respected by all parties. While a measure of flexibility in the implementation of the plan should be provided for, the initiation of studies and/or activities of the sort covered by TSS-1 work plans should be avoided outside this framework.

11. The resources of TSS-1 will be managed centrally by UNDP.

12. Since the utilization of TSS-1 resources will be based on country-level needs, there will be no pre-allocation of resources by sector or agency. It is intended, however, that a measure of equity between countries should exist over the five-year period of a programming cycle; it need not exist for two-year work programmes.

13. For the initial two-year period 1992-1993, a work programme would be submitted to the Governing Council at its thirty-ninth session (1992).

Activities under this programme could, however, begin in 1992 before its consideration by the Governing Council. The work programme would identify the studies to be carried out by country and agency as well as by sector and programme, as applicable. Thereafter, the work programme would be submitted to the Council every two years, beginning in 1993.

TSS-2

14. The resources of TSS-2 would be potentially available for financing agency technical services at all stages of the UNDP project cycle and for all such projects in the sectors of competence of the relevant agencies.
15. The purpose of TSS-2 is to increase and enhance the quality of projects and to assist the Administrator in discharging his accountability effectively. All country and intercountry projects may therefore require these services.
16. TSS-2 services may be required irrespective of the arrangements for the delivery of administrative and operational support services.
17. It is recognized that project formulation and design services have in the past been financed primarily through programme resources, including the IPF (through the preparatory assistance modality), SPR (through the Project Development Facility) and agency sources (see table 5 of document DP/1991/25). This practice, to the extent necessary and taking into account resources available under TSS-2, may continue in the future. The Project Development Facility is expected to be available to the agencies concerned.
18. Technical support during implementation is the principal target of TSS-2 resources. It is recognized that such support can be divided into two categories:
 - (a) Services which can be foreseen to be required, before the approval of a project and for which, therefore, the provision of resources can be planned for; and
 - (b) Unforeseen requirements arising from the need to take corrective action during the course of implementation.
19. The level and extent of TSS-2 services should be determined in accordance with relevant procedures and by the needs of individual projects, taking into account such factors as the technical complexity of a project and the availability of technical support for the project in the country. There should thus be no automatic entitlements in the use of these services; it is understood, however, that agency technical services of monitoring and evaluation would normally apply to large-scale projects, and projects of special complexity. It is also intended that the distribution of these resources by countries will be roughly in line with IPFs, after making due provision for unforeseen requirements mentioned in paragraph 18 (b) of the present annex. TSS-2 resources will not be apportioned by agency or sector.
20. TSS-2 is a facility entrusted to the Administrator. The determination of the need and extent of services required will be made by the Administrator in close consultation with the Government and agency concerned.

21. The Administrator shall be accountable to the Governing Council for the effective use of the TSS-2 facility. He shall provide periodic reports to the Governing Council on the use of these funds, including information on its utilization by country and agency.