



XX PAN AMERICAN SANITARY CONFERENCE

XXX REGIONAL COMMITTEE MEETING

ST. GEORGE'S, GRENADA

SEPTEMBER - OCTOBER 1978

Provisional Agenda Item 37CSP20/19 (Eng.)
7 August 1978
ORIGINAL: ENGLISH

COSTS OF ADMINISTERING GRANT FUNDS

1. Introduction

The question of how to reimburse agencies for their costs of technical and administrative support applicable to the management, administration and implementation of projects funded by extrabudgetary resources has been a problem of long standing within the United Nations agencies and within PAHO.

There have been various terms used to describe such costs, e.g., agency overhead costs, indirect costs, and program support costs. For the purposes of this paper, the term "program support costs" will be utilized.

Program support costs may be defined as the total expenses incurred by an organization as a result of its participation in an extra-budgetary funded project or program. Such costs may include the following technical and administrative support costs: participation in project planning; technical support and supervision of staff and consultants; advice on training programs; advice on equipment specifications; technical reporting; participation in project evaluation, revision and follow-up; recruitment of experts and consultants; personnel administration; equipment purchase and inventories; training and fellowship administration; administration of subcontracting; and budgeting and accounting.

As far back as the early 1960's, the Administration of PASB had considered this problem and, on various occasions, studies were started but the matter was never brought to a final conclusion.

2. Cost Measurement Studies of the United Nations

In the early 1970's, the United Nations and its agencies became increasingly interested in overhead costs. During 1973, five UN agencies participated in a cost measurement exercise for the purpose of providing information to the UNDP on agency overhead costs. WHO participated in

this exercise. The study was continued in 1974-1976 but not every agency participated. The following indicates the overhead cost rates determined by the agencies indicated, based upon cost measurement studies of their activities:

	<u>1973</u> <u>%</u>	<u>1974</u> <u>%</u>	<u>1975</u> <u>%</u>	<u>1976</u> <u>%</u>
United Nations	22.5			
ILO	29.7	31.1		
FAO	19.3	15.9	13.8	13.7
WHO	27.4			
UNIDO	31.2	31.5	28.3	24.0
WMO	23.3	27.8		
Average	23.3			

These cost measurement studies have not been continued and, based on a premise that the agencies would have to absorb part of the costs for administering extrabudgetary funds within their regular budget, the UNDP adopted a rate of 14 per cent. The question of which source of funds should be charged for program support costs relating to extrabudgetary activities has been inconclusively debated throughout the United Nations system and a definite solution has not been formulated.

The UN Consultative Committee on Administrative Questions (CCAQ) has been studying the policies of various UN agencies regarding support costs rates for activities financed directly from sources outside the UN system. A UN Intergovernmental Working Group on Overhead Costs (support costs) has been established, and is currently studying this matter in conjunction with the UN Joint Inspection Unit. Representatives of the specialized agencies, including WHO, are also participating in this study, seeking to find a simplified formula for the reimbursement of overhead costs. In June 1978 the Intergovernmental Working Group on Overhead Costs indicated that the existing formula for the reimbursement of overhead costs to agencies, based on 14 per cent of project costs, represents a pragmatic compromise and, although in existence for some time, it has no scientific basis. While having the merit of simplicity, it is inadequate. The Working Group is continuing its efforts to seek a solution to this complex matter.

3. WHO Policy

The latest reference to the question of program support costs by the Governing Bodies of WHO is indicated in Resolution WHA27.33 of the Twenty-seventh World Health Assembly, which expressed the belief that "the full cost of the technical and administrative services and support

necessary for the efficient and effective implementation by WHO of programs financed from extrabudgetary funds should, in principle, be financed from such funds."

In 1973 the UN cost measurement exercise revealed that the actual cost of technical and non-technical support by WHO to UNDP-financed projects amounted to 27.4 per cent of project costs. There is no indication in WHO documents that the cost of technical and non-technical support by WHO to projects financed from other extrabudgetary sources is significantly lower than that relating to UNDP-financed projects.

In January 1978, the WHO Director-General reviewed the internal WHO policy with respect to the reimbursement by extrabudgetary funds of support costs relating to programs financed from such funds. The Director-General reaffirmed that in order to help meet at least some of the costs of the support required by activities financed by extrabudgetary funds (other than UNDP and UNFPA), including trust funds, various special funds of the United Nations system, and voluntary contributions, it remains the Organization's policy to levy a charge of 14 per cent on the project expenditures incurred, unless negotiations with a donor or funding agency have resulted in an agreement for a higher percentage or in a specific sum for program support costs equalling not less than 14 per cent of the contribution. It should be noted that the WHO policy does not limit the charge to 14 per cent, and the charge may be higher based on negotiations with the donor or funding agency.

4. PAHO Program Support Costs Rate

During the period 1968 to 1975, the PAHO/WHO Regular Budgets increased from \$16,794,933 to \$34,194,855, an increase of 103.6 per cent. During the same period, the extrabudgetary funds increased from \$7,524,712 to \$21,405,524, an increase of 184.4 per cent. In 1977 extrabudgetary funds constituted 36.4 per cent of the total PAHO expenditures.

During this period, the Organization did not charge funding agencies for administering these extrabudgetary projects. However, conditions have been changing dramatically in the 1970's. The effects of inflation, together with other pressures such as the general increases in the levels of both regular and extrabudgetary programs, have meant that the resources available have been generally insufficient to meet those costs of program support to extrabudgetary activities that were borne in earlier years. At the same time, the Governing Bodies have been recommending that more emphasis be placed on securing extrabudgetary funds, and also indicating that administrative costs should not increase.

Recognizing that the programs financed by the regular budget of the Organization would suffer as more and more of its resources were diverted to managing and administering extrabudgetary activities, the Director decided to once again study the question of indirect costs. After extensive negotiations in 1976 with the US Government agency specifically designated to handle such negotiations and staffed with experts in this field, an Indirect Cost Rate for PAHO was approved by that agency and adopted as the PAHO Program Support Costs Rate. The rate is based upon actual expenditure experience by PAHO, utilizing recognized cost principles and procedures for establishing indirect cost rates. Consequently, PAHO has had a definite advantage in that it established its program support costs rate in conjunction with highly qualified experts and in accordance with well defined policies and principles in the field of indirect cost rates. Since PAHO expenditure data formed the base upon which the rate was established, the rate is considered to be a true reflection of PAHO's support costs applicable to any extrabudgetary activities undertaken by PAHO. The approved rates were 31.8 per cent for 1974, 30 per cent for 1975, 31 per cent for 1976, a provisional rate of 31 per cent for 1977 and a proposed rate of 31.5 per cent for 1978.

5. PAHO Current Policy

The Director has established a general policy that the full cost of the technical and administrative services and support for the efficient and effective implementation by PAHO of programs/projects financed from extrabudgetary funds should, as far as possible, be financed from such funds.

In addition, the following specific policies have been established to secure recovery of PAHO support costs applicable to the management, administration and implementation of projects funded by extrabudgetary resources:

- a) All direct costs which can be identified with a particular grant/contract/agreement will be included in the direct costs of the grant/contract/agreement.
- b) A provision for program support costs based upon total project costs will be included in all grants/contracts/agreements for extrabudgetary funded activities.
- c) At times, it may be necessary to negotiate with the donor agency on the level of PAHO program support costs for individual proposals due to agency budgetary policies and/or limitations. Subject to approval by the Director, special program support costs rates may be negotiated

with extrabudgetary fund donor agencies. In any preliminary discussions with a donor agency, the agency will be informed of the current PAHO program support costs rate.

- d) Although it may be considered feasible occasionally to waive the application of the PAHO program support costs rate, such waivers should be held to a minimum in order to ensure recovery of PAHO costs in support of extrabudgetary funded activities.
- e) Any waiver of the application of the established PAHO program support costs rate must be justified to and approved by the Director. The request for a waiver will be initiated by the Technical Division responsible for the grant/contract/agreement and submitted to the Project Review Group for review and recommendations. The Project Review Group will be responsible for reviewing all proposed agreements related to extrabudgetary funded activities, and for making recommendations to the Director on the establishment of special program support costs rates and/or any waiver of the application of the program costs rate.
- f) When a waiver is granted, the program support costs to be assumed by PAHO will be included in the proposal's budget as a contribution by PAHO on a cost-sharing basis.
- g) Under the authority vested in the Director under Financial Regulation 6.7, the Director has established a Special Fund for Program Support Costs. Funds made available to the Organization for servicing projects financed from extrabudgetary sources are credited to this Fund.
- h) Distribution of earned program support costs funds from the Special Fund for Program Support Costs is made by the Director. Based upon appropriately justified requests for specified support services, the Director may approve funds for PAHO Headquarters and field activities which provide support to extrabudgetary funded activities.

The status of the Special Fund for Program Support Costs is reported in the annual Financial Report of the Director and Report of the External Auditor. As of 31 of December 1977, there was a balance of \$221,578 in this Fund.

Conclusion

In order to ensure that funds are available within the regular budget to support the programs and goals of the Organization, and believing that the full cost of the technical and administrative services and support necessary for the efficient and effective implementation by the Organization of projects financed from extrabudgetary sources should, whenever possible, be financed from such funds, the Director has implemented the policy of recovering the Organization's program support costs related to extrabudgetary funded activities. This policy is designed to ensure that funds of the Regular Budget which the Governing Bodies have approved for the Organization's approved program are not diverted to the detriment of those approved programs.