



6 January 2020

Joint preliminary comprehensive proposal on the cost recovery policy

Summary

In UNDP/UNFPA/UNOPS Executive Board decision 2018/21, UNICEF Executive Board decision 2018/21 and UN-Women Executive Board decision 2018/6, the Executive Boards directed the agencies to: (a) present a preliminary comprehensive proposal on the cost-recovery policy for consideration by the Executive Board at its first regular session in 2020, with a view to present a final comprehensive proposal for decision of the Executive Board at its second regular session in 2020; (b) review in a comprehensive manner cost-recovery rates, as part of the comprehensive proposal; and (c) present an assessment of the reasons why full cost recovery is not currently being achieved, as part of the comprehensive proposal. The present joint report is in direct response to the above requests.

In UNDP/UNFPA/UNOPS Executive Board decision 2019/21, UNICEF Executive Board decision 2019/28 and UN-Women Executive Board decision 2019/12, the Executive Boards requested additional information on recommendation 3 (regarding the independent oversight and assurance functions). The present joint report responds to the request on recommendation 3 and describes the overall importance of cost recovery while providing additional analysis and an impact assessment of the following: (a) stronger argumentation of why cost recovery is relevant; (b) impact of the differentiated rates; and (c) rationale for the separate budget lines for independent oversight and assurance activities.

Elements of a decision for consideration by the Boards are contained in section X.

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I. Introduction

1. This report responds to the requests of the three Executive Boards of UNDP, UNFPA, UNICEF and UN-Women (“the agencies”) on ensuring that the cost recovery policy is transparent, easy to implement, understand and communicate, so that it may be applied elsewhere in the United Nations system. Informed by joint informal briefings with the Boards held on 1 November 2019 and 10 December 2019 – the present report addresses the comments made by Member States during those engagements. In decisions 2018/21 (UNDP, UNFPA), 2018/21 (UNICEF) and 2018/6 (UN-Women), the Executive Boards directed the agencies to: (a) present a preliminary comprehensive proposal on the cost-recovery policy for consideration by the Executive Board at its first regular session in 2020, and to present a final comprehensive proposal for decision of the Executive Board at its second regular session in 2020; (b) review, in a comprehensive manner, cost-recovery rates, as part of the comprehensive proposal; and (c) present an assessment of the reasons why full cost recovery is not currently being achieved, as part of the comprehensive proposal.

2. In addition, the present report also responds to decisions 2019/21 (UNDP/UNFPA), 2019/28 (UNICEF) and 2019/12 (UN-Women), in which the Executive Boards requested additional information on recommendation 3 with respect to harmonization of cost classifications among the agencies (DP/FPA-ICEF-UNW/2019/1).

3. Reaffirming the current harmonized cost recovery policy, the Executive Boards had requested the four agencies to jointly review existing cost definitions and classifications of activities and associated costs to further harmonize their approaches by determining common definitions of cost categories and corresponding activities and functions at a granular level, while taking into account the different business models of the individual agencies. At their second regular sessions in 2019, the Boards endorsed the agencies’ recommendations for further alignment on cost classification, beginning in 2022, and requested additional information on the recommendation to separate cost classification line items. Cost classification categories are

discussed in more detail below while the implications of the Executive Boards' decisions have been addressed throughout this report.

II. Context

4. A harmonized cost recovery policy is premised on a harmonized cost classification framework, and thus is not purely a budget exercise. Cost recovery is about ensuring that the agencies' budgets are fully financed so that they can fulfil their respective mandates as stated in their strategic plans. Stable funding is critical for the institutional backbone and normative work of the United Nations organizations, and is vital to deliver projects and results in line with country programmes and strategic plan outcomes. Basic costs need to be covered by all donors proportionally, and cost recovery is the integral framework which makes this possible, while further stimulating inter-agency collaboration, as envisioned by the Secretary-General's reform agenda, while transparently demonstrating that partnering with the United Nations offers considerable value for money.

5. The role of cost recovery is further guided by General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR), which emphasized two critical concepts that guide any cost recovery policy and form the basis for the current proposals. These concepts are: (a) regular resources form a bedrock of United Nations operational activities for development owing to their untied nature; and (b) regular resources should not subsidize other resources.

6. As a result of these factors, cost recovery policy, while rooted in technical finance and budgetary methodologies, has considerable implications for institutional transparency, politics, resource mobilization, and inter-agency cooperation. The cost recovery policy also indicates what is covered by direct costs, and what is covered by indirect costs.

7. Finally, it is important to acknowledge that under the cost recovery policy, core resources pay for programmes, development effectiveness, United Nations coordination and critical cross-cutting and agency-specific functions. This transparency and unprecedented level of oversight is a direct result of the previous 10-year endeavour to develop the current cost recovery policy and the cost classification regime that is its foundation.

III. Cost classification recommendation: independent oversight and assurance

8. Recalling Executive Board decisions 2019/21 (UNDP/UNFPA), 2019/28 (UNICEF) and 2019/12 (UN-Women) – endorsing further alignment relating to cost classification for application, effective 2022, and calling for additional information to be provided at the first regular session 2020, in an effort to further harmonize the existing cost classifications within the four agencies – the agencies propose to create a separate cost classification for 'independent oversight and assurance activities' as part of the institutional budget. The proposed definition of this cost category is the following: 'activities and associated costs supporting the independent audit and investigations and corporate evaluation functions'.

9. The rationale for including 'independent oversight and assurance activities' as a separate cost classification is that in successive sessions, the Executive Boards have asked the agencies for increased transparency on the independent oversight and assurance functions in the budget.

10. By proposing a separate cost classification, the agencies are able to highlight the costs for 'the second line of defense' and the costs for 'the third line of defense'. This rationale promotes the independent nature of these functions, and enables the Executive Boards to more easily compare investments in the independent oversight functions by each agency, and directly compare costs relative to overall programme volume, thereby ensuring enhanced efficiency and effectiveness of these resources.

11. The suggestion had been made during the informal consultations with the Boards to consider splitting further the audit function, to include a separate budget line for investigation. This idea

has merit as it relates to transparency and may be considered in the context of the next integrated budgets for 2022-2025. However, as it does not affect the calculation of cost recovery, it is not discussed in the present report.

12. Following the informal consultations in November 2019, it was decided to not include ‘United Nations coordination activities’ as a separate budget line, as the de-linking of the resident coordinator function, as mandated by General Assembly resolution 72/279, should provide the United Nations system the necessary transparency for sustainable financing of this function. In this regard, discussion of critical cross-cutting functions – while proposed to be retained as a part of the cost recovery policy – may require further elaboration, in particular for UNDP where there has been a higher impact of the de-linking process, in the final policy framework for the second regular session of 2020.

13. A detailed overview of the cost classification categories, including the new ‘independent oversight and assurance activities’ budget lines is provided in annex 2. Further details on the figures for this cost classification as presented within the institutional budget are provided in annex 3 (mock up for recommendation 3).

IV. Cost recovery: strategic issues

14. *QCPR.* General Assembly resolution 71/243 on the QCPR emphasized two critical concepts that guide any cost-recovery policy and form the basis for both the current and alternate proposals. These concepts are: (a) regular resources form a bedrock of United Nations operational activities for development owing to their untied nature; and (b) regular resources should not subsidize other resources. The role of regular resources includes support to Member States in the establishment and implementation of United Nations norms or standards to implement the strategic plans. This differs from the mandate of a project implementation agency, particularly given the gradual relative escalation of contributions to other resources. Nonetheless, the harmonized policy remains guided by the QCPR.

15. *Funding compact.* The decision on further harmonization of the cost recovery policy among the four agencies should be seen within the context of the United Nations funding compact. Within the funding compact, the agencies are working to support a set of commitments provided by Member States to increase core, pooled and thematic funds, and commitments by the United Nations development system to improve transparency of spending, visibility requirements, joint activities, including pooled funding, system-wide evaluations and reporting, cost recovery and efficiency gains. As of now, the four agencies, with guidance and support from the Executive Boards, are the most harmonized with respect to cost classification and their cost recovery policy is more harmonized than any other two agencies in the United Nations system.

16. *Lessons learned and cost efficiencies.* The effort to harmonize cost classification and cost recovery policies originated in 2009, with the Executive Boards directing UNDP, UNFPA and UNICEF (UN Women formed in 2010) to present a roadmap to achieve by 2014 harmonized budgets within the context of new strategic plans. Having now fulfilled this vision, the agencies agree that there are advantages in continuing to have a harmonized rate for comparable activities.

17. *Delinking of the resident coordinator system.* A reinvigorated resident coordinator system stands at the centre of a repositioned United Nations development system at the country level, with an enhanced coordination function promising to add critical value to the United Nations country team support to national development priorities. Among the four agencies, General Assembly resolution 72/279 affects UNDP most directly, with changes to its management and oversight structure and related critical cost-cutting functions, as the agency works to seamlessly enable this transition, while serving in an integrator role and as the principal operational support provider to the new resident coordinator system. In doing so, UNDP remains committed to an optimally repositioned United Nations development system and to the harmonized cost classification and cost recovery policy in order to deliver on the 2030 Agenda for Sustainable Development. The discussion on critical cross cutting functions – while proposed to be retained as a part of the cost recovery policy – may require further elaboration, in particular for UNDP,

where there has been a higher impact of the de-linking process. It is envisaged that this will be addressed in the final policy framework for the second regular session of 2020.

18. *Independent assessment.* During 2016, a report entitled *Independent and external assessment on the consistency and alignment of cost recovery with General Assembly resolution 67/226* was published for review and consideration by the Boards and the agencies. The contents of this report were subsequently discussed at length and the recommendations therein have been put into effect with the Executive Board decision on cost classification. The specific recommendation relating to discounted cost recovery rates for large-volume contributions was also discussed at length and finally rejected as it contradicted separate Board decisions to boost contributions of core resources and the full recovery of costs while minimizing the cross-subsidization of resources.

V. Cost recovery: basis and principles

19. The cost recovery basis and principles, as endorsed by the Executive Boards in decisions 2013/9 (UNDP/UNFPA), 2013/5 (UNICEF) and 2013/2 (UN-Women), were recently reiterated in the joint paper on cost recovery (DP/FPA-ICEF-UNW/2018/1) presented at the second regular session 2018 (see annex 4).

20. Cost recovery refers to the requirement of the organization to ensure that regular resources are not used to subsidize the implementation of programmes funded from other resources. It is essential that the organization recover all of its costs if it is to remain sustainable. The cost-recovery methodology recognizes that certain functions integral to the existence and advancement of an organization's mandate must be carried out regardless of the volume of programme implementation. Therefore, funding for these critical functions must be assured from regular resources.

21. The overarching principles the agencies observed in defining the cost-recovery approaches discussed in this paper include: (a) continuing a harmonized approach across all four entities; (b) maximizing the allocation of regular resources to programmatic activities; (c) minimizing cross-subsidization between regular resources and other resources; and (d) continuing to be efficient and competitive within the overall development cooperation context.

22. A harmonized approach to cost recovery can include harmonization of cost-recovery methodology, cost classifications and cost-recovery rates. The current cost-recovery policy encompasses all three in an effort to reduce competition between agencies based on rates and to lower thresholds for collaboration among United Nations agencies in line with the Secretary General's funding compact.

23. Full cost recovery includes both direct and indirect costs. Costs are categorized as direct (directly linked and traceable to a programme or project and to benefits derived by programme/project beneficiaries) or as indirect (not directly linked or traceable to a programme/project). Direct costs are recovered from regular resources or other resources depending on the funding source of the programme or project. Examples of direct costs relating to programmes/projects include:

- (a) Costs of missions and travel incurred specifically to carry out or support project activities;
- (b) Cost of staff and consultants hired for the project;
- (c) Cost of policy advisory services (fully costed: staff cost, share of office rent, utilities, communications, supplies, office security);
- (d) Cost of processing transactional services (finance, administration, procurement, human resources, logistics);
- (e) Equipment, including information technology equipment, maintenance, licenses and support for the programme/project;
- (f) Programme/project audit and evaluation fees.

24. Indirect costs are associated with the organizational structure and services necessary to support implementation of development programmes and projects (the costs of running the

organization). Indirect costs are allocated to programmes/projects and are recovered through application of indirect cost-recovery rates as a percentage fee on direct costs. Indirect costs are included in the organizations' institutional budgets; thus, the indirect cost-recovery model is designed to recover the designated costs of the institutional budget. Examples of indirect costs of an organization's activities include:

- (a) Corporate executive management;
- (b) Corporate resource mobilization, partnership relations, and corporate advocacy and communications;
- (c) Corporate accounting and financial management staff;
- (d) Institutional legal support;
- (e) Corporate human resources management;
- (f) Country office, regional or corporate management;
- (g) Internal audit and investigation function at headquarters and unit level.

Current harmonized cost recovery policy

25. The current cost recovery policy was endorsed by the Executive Boards in decisions 2013/9 (UNDP/UNFPA), 2013/5 (UNICEF) and 2013/2 (UN-Women), and was recently reiterated in the joint paper on cost recovery (DP/FPA-ICEF-UNW/2018/1) presented at the second regular session 2018 and reaffirmed in Executive Board decisions 2018/21 (UNDP/UNFPA), 2018/21 (UNICEF) and 2018/6 (UN-Women).

26. The current harmonized approach to indirect cost recovery is based on the principle that the methodologies for recovering costs and their classification, by type or category, are aligned for the four agencies. The approved cost categories are:¹

- (a) Development activities (programme and development effectiveness categories);
- (b) United Nations development coordination;
- (c) Management;
- (d) Special-purpose activities.

27. The current indirect cost-recovery methodology identifies the following functions to be covered solely from regular resources. For UNDP and UNICEF, some of these functions may also be directly funded from programmes/projects:²

- (a) Development effectiveness activities that contribute directly to the achievement of development results;
- (b) United Nations development coordination (largely agency-specific, not harmonized among the four agencies);
- (c) Critical cross-cutting management functions that are integral to the existence and advancement of the mandate;³
- (d) Non-comparable special-purpose activities (largely agency-specific, not harmonized among the four agencies).

28. The balance of the institutional budget is covered by the indirect cost-recovery rate, proportionally between regular resources and other resources.

29. In the context of the current cost-recovery framework, there is no duplication in recovery of direct programme/project costs and indirect costs. It should be noted that the agencies have faced challenges in implementing direct cost recovery. Some funding partners and national government implementing partners are unwilling to include all eligible direct costs in programme budgets.

¹ Please refer to the glossary (annex 6) for definitions of cost categories.

² Per Executive Board document DP-FPA/2013/1-E/ICEF/2013/8, paragraph 8, costs classified as 'development effectiveness' are an integral part of development activities and therefore directly contribute to the achievement of development results. They are directly funded from RR and OR.

³ Please refer to the glossary (annex 6) for an explanation of the concept.

30. In decisions 2013/9 (UNDP/UNFPA), 2013/5 (UNICEF) and 2013/2 (UN-Women), the Executive Boards approved a harmonized methodology for calculating indirect cost-recovery rates. A harmonized standard cost-recovery rate of 8 per cent for other resources (non-core) contributions was endorsed, consistent with the principle of full cost recovery as mandated by the QCPR.

31. In those decisions, the Executive Boards also endorsed: (a) differentiated rates lower than 8 per cent for thematic contributions (7 per cent); and (b) pre-existing preferential rates for government cost sharing, South-South contributions and private-sector contributions. It should be noted that the combined effect of the differentiated rates affects the overall effective indirect cost-recovery rate; the effective indirect cost-recovery rate will always be lower than the standard rate of 8 per cent, as it is a net result of application of all the various rates, all of which are lower than the standard 8 per cent.

VI. Cost recovery: proposed approach

32. The proposed approach going forward on cost recovery is to retain the current cost recovery policy, updated for the cost classification enhancements endorsed by the Executive Boards at the second regular session 2019 in decisions 2019/21 (UNDP/UNFPA), 2019/28 (UNICEF) and 2019/12 (UN-Women). The application of these harmonized categories under the proposed changes will show the ‘independent oversight and assurance activities’ separately, lead to revised management and critical cross-cutting management functions, the latter due to the effects of the de-linking of the resident coordinator function to the UNDP management structure. The areas of change are marked in bold and underlined in the copy of the current cost recovery policy below.

33. “The current harmonized approach to indirect cost recovery is based on the principle that the methodologies for recovering costs and their classification by type, or category, are aligned for the four agencies. The approved cost categories are:

- (a) Development activities (composed of programme and development effectiveness categories);
- (b) United Nations development coordination;
- (c) **Removed: Independent oversight and assurance activities** from management;
- (d) **Added: Independent oversight and assurance activities**;
- (e) Special-purpose activities.

34. The current indirect cost-recovery methodology identifies the following functions to be covered solely from regular resources. For UNDP and UNICEF, some of these functions may also be directly funded from programmes/projects:

- (a) Development effectiveness activities, which contribute directly to the achievement of development results;
- (b) United Nations development coordination: largely agency-specific, not harmonized among the four agencies;
- (c) **Removed: Independent oversight and assurance activities** from critical cross-cutting management functions: integral to the existence and advancement of the mandate;
- (d) **Added: Critical cross-cutting independent oversight and assurance activities**;
- (e) Non-comparable special-purpose activities: largely agency-specific, not harmonized among the four agencies.

35. The balance of the institutional budget is covered by the indirect cost-recovery rate, proportionally between regular and other resources.

36. In the context of the current cost-recovery framework, there is no duplication in recovery of direct programme/project costs and indirect costs. It should be noted that the agencies have faced challenges in implementing direct cost recovery. Some funding and national government implementing partners are unwilling to include all eligible direct costs in programme budgets.

37. In decisions 2013/9 (UNDP/UNFPA), 2013/5 (UNICEF) and 2013/2 (UN-Women), the Executive Boards approved a harmonized methodology for calculating indirect cost-recovery rates. A harmonized standard cost-recovery rate of 8 per cent for other resources (non-core) contributions was endorsed, consistent with the principle of full cost recovery as mandated by the QCPR.

38. In those decisions, the Executive Boards also endorsed: (a) differentiated rates lower than 8 per cent for thematic contributions (7 per cent); and (b) pre-existing preferential rates for government cost sharing, South-South contributions and private-sector contributions. It should be noted that the combined effect of the differentiated rates affects the overall effective indirect cost-recovery rate; the effective indirect cost-recovery rate will always be lower than the standard rate of 8 per cent, as it is a net result of application of all the various rates, all of which are lower than the standard 8 per cent.”

VII. Cost recovery: rates

39. During 2014-2018, the agencies were compliant with their respective Executive Board decisions on cost recovery.⁴ The table below summarizes the actual financial performance for the five-year period and the number of waivers approved by each agency. The effective rate represents the actual cost-recovery rate realized after taking into account the effect of differentiated rates, pre-existing preferential rates and waivers granted each year. Note that the number of waivers granted has considerably declined over the past five years, and is limited to exceptional cases at the discretion of each agency’s senior management and reported to the Executive Board annually. The agencies propose to maintain this current system for managing waivers.

40. Table 3 below indicates the financial impact of differentiated rates compared to the 8 per cent rate, broken down by financial impact in four categories, where applicable, as: (a) waivers; (b) thematic funding; (c) framework agreements; and (d) preferential rates. Table 4 has an overview of the differentiated rates concerned.

Table 1
Evidence of effective average indirect cost-recovery rate for each agency, 2014-2018

Effective average indirect cost-recovery rates	2014	2015	2016	2017	2018	2014-2018 (weighted average)
UNDP	6.1%	6.3%	6.4%	6.1%	6.2%	6.2%
UNFPA	7.07%	7.1%	7.27%	7.33%	7.26%	7.21%
UNICEF	6.3%	6.5%	6.6%	6.5%	6.3%	6.4%
UN-Women	7.12%	7%	7.14%	7.25%	7%	7.1%

Table 2
Waivers granted, by agency, 2014-2018

Number of waivers	2014	2015	2016	2017	2018	Total
UNDP	24	9	12	6	5	56
UNFPA	4	4	4	7	10	29
UNICEF	1	9	0	2	5	17
UN-Women	1	1	6	5	10	23

⁴ For UNDP, this includes Executive Board-approved transitional measures of \$199 million during 2014-2017 per EB decision 2013/28.

Table 3
Financial impact of the differentiated cost-recovery rate, by agency, 2014-2018

Financial impact by agency and category	2014	2015	2016	2017	2018	2014-2018 (average)
UNDP ⁵						
Waivers	\$21.7m	\$18.9m	\$20.6m	\$29.2m	\$19.4m	\$22.0m
Agreements with multilateral partners	\$9.1m	\$7.9m	\$6.8m	\$9.3m	\$6.5m	\$7.9m
Thematic contributions	\$1.1m	\$1.0m	\$0.5m	\$0.3m	\$0.4m	\$0.7m
Preferential rates (programme country)	\$32.9m	\$33.9m	\$30.4m	\$37.6m	\$40.2m	\$35.0m
Total impact	\$64.8m	\$61.5m	\$58.3m	\$76.4m	\$66.6m	\$65.5m
UNFPA ⁶						
Waivers	\$0.12m	\$0.18m	\$0.07m	\$0.18m	\$0.36m	\$0.18m
Legacy agreements	\$0.90m	\$0.65m	\$0.28m	\$0.11m	\$0.00m	\$0.39m
Programme country	\$0.45m	\$0.68m	\$0.53m	\$0.83m	\$1.71m	\$0.84m
Thematic trust funds	\$1.90m	\$1.51m	\$1.31m	\$1.24m	\$1.40m	\$1.47m
Various umbrella agreements – European Community, UN pooled / harmonized	\$1.00m	\$1.20m	\$1.30m	\$1.14m	\$1.33m	\$1.19m
Total impact	\$4.37m	\$4.22m	\$3.49m	\$3.50m	\$4.80m	\$4.08m
UNICEF						
Waivers	\$0.01m	\$1.6m	\$0.0	\$18.4m ⁷	\$0.9m ⁸	\$4.2m
Cumulative impact of differentiated cost recovery rates	\$57.3m	\$57.9m	\$59m	\$70m	\$82m	\$65.3m
UN-Women						
Legacy agreements	\$0.27m	\$0.23m	\$0.022m	\$0.015m	\$0.014	\$0.56m
Waivers	--	\$0.026m	\$0.018m	\$0.009m	\$0.030	\$0.95m
Various umbrella agreements	\$0.25m	\$0.28m	\$0.24m	\$0.43m	\$0.38m	\$1.6m
Total impact	\$0.52m	\$0.54m	\$0.28m	\$0.47m	\$0.42m	\$2.2m

41. Table 3 above reflects the financial impact of the differentiated cost recovery rates for the agencies. It provides empirical evidence over the five-year period during which the present policy has been in effect. It indicates broadly that the financial impact of cost recovery waivers and

⁵ Financial impact in line with details provided on differentiated rates and waivers provided to in DP/2019/10/Annex 5.

⁶ 2014-2017 as reported in DP/FPA-ICEF-UNW/2018/1. 2018 as reported in DP/FPA/2019/4 (Part1/Add1).

⁷ \$18.4m represents two waivers in 2017 on two agreements signed for the total value of \$327.8m.

⁸ 2018 waivers and their impact were reported in the 2018 annual report of the UNICEF Executive Director (E/ICEF/2019/10).

legacy agreements has been declining in terms of net dollar value. While not conclusive, the data indicates that preferential rates have been useful in acknowledging different sources of funds.

42. It is important to emphasize that there is no direct correlation between cost recovery rates and resource mobilization incentives. In the agencies' experience, contributions are premised on an organization's given mandate, business model and operational efficiency, and the quality of results/outcomes delivered. Only after these criteria have been rigorously reviewed and evaluated does the question of a given agency's cost recovery generally arise.

43. However, there is indicative evidence that in certain instances, differentiated rates have been a useful tool to acknowledge and diversify among funding sources. To this end, the current model with differentiated rates is broadly serving its purpose in terms of contributing to incentives for more support from programme countries, hence broadening the funding base. In another area, the 7 per cent charge for thematic and pooled funds has helped the agencies make the case for thematic funding in certain instances. However, thematic funding for the agencies as a whole has not dramatically increased.

44. These discussions have been part of the ongoing structured funding dialogues between agencies and Member States. An indirect cost recovery rate is not meant to be an instrument to incentivize fundraising; rather it provides a budgetary mechanism for an organization to recover the indirect costs that it has incurred, which is important for organizational sustainability. These differentiated rates have enabled the agencies to broaden their respective funding bases, thereby more effectively fundraising for their strategic plans, and helping to meet their strategic objectives. Therefore, the agencies propose to retain the schema of differentiated rates at current levels.

Table 4
Overview of the differentiated cost-recovery rates, by agency

Contribution type	UNDP	UNFPA	UN-Women	UNICEF
				<i>Public/private sector</i>
Non-thematic contributions	8%	8%	8%	8%
Thematic contributions	7%	7%	8%	7% / 5%
Various umbrella agreements (formal existing inter-institutional agreements) ⁹	Based on the respective umbrella agreement			
Private-sector contributions in programme countries	8%	8%	8%	N/A / 5%
Government cost-sharing contributions	Minimum of 3%	5%	3%-5%	5% / N/A
South-South contributions	3%-5%	5%	3%-5%	5% / N/A
Multi-partner trust funds ¹¹	7% + 1% administrative agent fee			

45. The evidence-based financial implications of the application of the current cost-recovery policy model to the Executive Board-approved integrated budgets for 2018-2019 or 2018-2021 for each agency are shown in table 5 below. Annex 5 provides detailed calculations (based on the respective UNDP, UNICEF, UNFPA and UN-Women integrated resource plans and integrated budgets for 2018-2021) of the notional indirect cost recovery rates for each agency, taking into account the implementation of the recommendations on cost classification endorsed by the Executive Boards at the second regular session 2019. Hence, this provides a forward perspective on the cost recovery rates. For both UNDP and UNICEF, the notional indirect cost-recovery rates are 6.2 per cent and 6.6 per cent, respectively, which is below the standard rate of 8 per cent. For UNFPA and UN-Women, the opposite is true, its notional cost-recovery rate is above the standard rate, at 10.3 per cent and 9.2 per cent respectively.¹⁰

⁹ See DP-FPA/2013/1-E/ICEF/2013/8, table 5 for a detailed listing.

¹⁰ The notional rate of 9.2% does not yet reflect the full implementation of recommendation 2 due to the pending change management exercise.

Table 5
Overview of notional indirect cost recovery rates under the current model

Notional indirect cost recovery rate under the current model	UNDP	UNICEF	UNFPA	UN-Women
before implementation of recommendations	6.6%	6.6%	10.4%	9.4%
after implementation of recommendations	6.2%	6.6%	10.3%	9.2%

VIII. Cost recovery: advantages and challenges

46. The agencies recognize that due to their different mandates, structures and economies of scale, the calculation of a single notional cost recovery rate for the four agencies is mathematically impossible. In principle, net the effect of differentiated rates and waivers, where the harmonized standard rate is lower than the notional cost recovery rate, the shortfall would be funded from regular (core) resources. Similarly, where the harmonized standard rate is higher than the notional cost recovery rate, the difference is funded from other (non-core) resources.

47. In the humanitarian realm, there is pressure from donors to provide rates lower than the harmonized rates, for example, for direct cash transfers to beneficiaries. In addition, other United Nations development system agencies have different rates, mostly lower. This creates challenges in negotiating joint programming.

48. Nevertheless, the agencies agree that it is more beneficial to continue to have a harmonized rate for comparable activities. The current policy provides a clear harmonized framework with standard and differentiated indirect cost-recovery rates approved by the Executive Boards. A harmonized rate is an integral dimension to United Nations coherence, particularly at the country level. It also reduces competition among the four agencies (though not necessarily United Nations system-wide), simplifies negotiation, reduces transaction costs, and promotes communication, mainstreaming and uniformity across joint programmes.

49. An agency-specific rate may be more appropriate to achieve full cost recovery, but at the expense of the advantages stated above. Hence, harmonization has not yielded a full benefit and continues to be a challenge because other United Nations entities, such as the United Nations Secretariat, each have a different cost recovery methodology and cost recovery rate.

50. Having collectively harmonized their cost classification methodology and cost recovery policy, UNDP, UNFPA, UNICEF and UN-Women recommend maintaining the current system. However, if the Executive Board decides to revert to an earlier, non-harmonized approach, this too may be pursued. Therefore, a clear directive from the Executive Board would be required.

51. The current harmonized approach to cost classification and cost recovery has led to significant changes in each agency's financial management and reporting. The agencies believe it is more beneficial to focus on working with other agencies to further harmonize cost recovery within the United Nations system as part of the Secretary-General's funding compact.

52. The current approach, although imperfect, is acceptable to the four agencies, and forms a good basis for discussing harmonization across the United Nations system. The model, and its application is practical – and works. Further, from 2022 onwards, it will be premised on a more harmonized application of the cost classification categories.

IX. The case for continued harmonization

53. The calculation of a single indirect cost-recovery rate across multiple United Nations organizations is not possible because of the differences in economies of scale, mandates and structures. As indicated above, net the effect of differentiated rates and waivers, where the harmonized standard rate is lower than the notional cost recovery rate, the shortfall would be

funded from regular (core) resources; similarly, where the harmonized standard rate is higher than the notional cost recovery rate, the difference is funded from other (non-core) resources.

54. Table 6 below shows a comparative analysis of harmonized versus organization-specific cost recovery rates, including opportunities, challenges and risks.

Table 6
Organization-specific rates versus harmonized rates

	<i>Organization-specific rates</i>	<i>Harmonized rates</i>
Opportunities	Allows agencies flexibility to properly charge all organizational costs to projects according to agency-specific cost basis.	Simplifies negotiation. Reduces transaction costs. Eliminates undue competition for funds. Promotes United Nations coherence.
Challenges	Results in undue competition among agencies, and could result in higher transaction costs, particularly for multi-partner trust funds.	Determining a harmonized cost recovery rate for four agencies is a demanding exercise due to different economies of scale, size, scope, mandates.
Risks	Potentially results in inadequate allocation of resources across agencies, as donors could choose agencies based on rate rather than based on capacity/mandate. Potentially undermines joint programming initiatives.	Results in varying levels of core contributions to organizational costs per agency – due to different economies of scale, size, scope, mandates. At the margin, may result in under-recovery or over-recovery.

55. While acknowledging the opportunities, challenges and risks noted above for both organization-specific rates and harmonized rates, the agencies are strongly recommending the continuation of the harmonized rate option for other resources cost recovery, which has been in effect for the past two quadrennial budgets. Harmonized rates are an integral dimension of United Nations coherence, particularly at the country level, and to providing the right incentives for ‘delivering as one’ and joint programming.

56. General Assembly resolution 72/279 calls for a further harmonization of cost recovery by individual United Nations development system entities. In this regard, it commended UNDP, UNFPA, UNICEF and UN-Women for their harmonized cost-recovery framework, and further encouraged them to work with other entities of the United Nations development system, after due consideration by their respective governing bodies, to adopt a harmonized cost-recovery framework. The four agencies have shared information with the United Nations Sustainable Development Group entities at the High-Level Committee on Management finance and budget network meetings, and work has begun at the finance and budget network level on this topic.

57. In this connection, the report of the Secretary General, *Implementation of General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, 2019: funding compact* (A/74/73/Add.1–E/2019/14/Add.1), stipulates that the entities of the United Nations Sustainable Development Group commit to accelerating entity-specific and collective efforts to improve transparency, reporting and system-wide evaluations. The report also indicates that addressing outstanding gaps, inconsistencies and weaknesses in those areas is a condition for increasing the trust of Member States and the general public in the value of the United Nations development system work, and that in addition to full compliance with established cost-recovery policies, entities of the United Nations Sustainable Development Group commit to improving the comparability of cost classifications and definitions. This will enhance transparency and enable a better-informed dialogue between the entities and their partners on the true cost of delivering mandates, programmes and projects. It will also encourage greater collaboration among entities even as they apply different recovery rates according to their different business models.

X. Elements of a decision

58. The Executive Board may wish to:

(a) Take note of the joint preliminary comprehensive proposal on the cost recovery policy [DP/FPA/ICEF-UNW/2020/1];

On cost classification:

(b) Endorse the agencies' recommendation on the definition of independent oversight and assurance activities as "these costs comprise activities and associated costs supporting the independent audit and investigations and corporate evaluation functions";

(c) Approve the creation of a separate cost classification for such activities as part of the institutional budget effective 2022-2025 (2022-2023 for UN-Women);

On cost recovery:

(d) Recall the harmonized cost recovery policy endorsed by the Executive Boards in decision 2013/9 (for UNDP and UNFPA), decision 2013/5 (for UNICEF) and decision 2013/2 (for UN-Women), which was reaffirmed in decisions 2018/21 (UNDP/UNFPA), 2018/21 (UNICEF) and 2018/6 (UN-Women);

(e) Request UNDP, UNFPA, UNICEF and UN-Women to fully update the current harmonized cost recovery policy to account for the appropriate cost classification changes – in line with the aforementioned Executive Board decisions and on the basis of the present report – and to present the final comprehensive proposal for decision by the Executive Boards at the second regular sessions 2020.

Annexes

A. Historical context of cost recovery

1. In 2009, UNDP, UNFPA and UNICEF were requested to present a roadmap to achieve harmonized integrated budgets by 2014 in the context of new strategic plans. This required the three organizations to address and better harmonize their actions to the extent feasible in three major areas:

- (a) Alignment of planned results presented in budgetary documents to the respective strategic plans and clear linkage between planned results and budgetary allocations;
- (b) Classification of activities and their associated costs;
- (c) Assessment of the impact of the approved cost definitions and classifications of the harmonized cost-recovery rates

2. With respect to the first area, alignment of planned results:

- (a) Harmonization was achieved in 2011 (“joint informal note of UNDP, UNFPA and UNICEF on the road map to an integrated budget: cost classification and results-based budgeting, prepared in response to decision 2010/32 of the Executive Board of UNDP and of UNFPA, and decision 2010/20 of the Executive Board of UNICEF, containing: (a) information on differences in the categorization of costs into cost classifications; and (b) an informal mock-up illustrating the format of key budget tables and accompanying explanations”) as part of the Executive Boards of UNDP/UNFPA in decision 2011/10 and UNICEF decision 2011/32.

3. With respect to the second area, classification of activities and their associated costs:

- (a) Harmonization was achieved in 2010 (Executive Board documents DP-FPA/2010/1 and E/ICEF/2010/AB/L.10) as part of the Executive Boards of UNDP/UNFPA in decision 2010/32 and UNICEF decision 2010/20.

- (b) The cost classifications endorsed in 2010 was a result of a joint review undertaken by the agencies in response to decision 2010/2 of UNDP/UNFPA Executive Board and decision 2010/5 of the UNICEF Executive Board, which requested the agencies to jointly review the then existing cost definitions and classifications of activities and associated costs of 1997 (DP/1997/10, DP/1997/10/Add.1, E/ICEF/1997/AB/L.3 and E/ICEF/1997/AB/L.3/Add.1).

- (c) Further, Executive Boards in decisions 2018/21 (UNDP/UNFPA/UNICEF) and 2018/6 (UN-Women) requested the agencies to “jointly review existing cost definitions and classifications of activities and associated costs, with a view to further harmonize their approaches by determining common definitions of cost categories and corresponding activities and functions at a granular level, while taking into account the different business models of the individual agencies”. Executive Board document DP/FOA-ICEF-UNW/2019/1 provided recommendations for further harmonization of cost classifications. Executive Board decision 2019/21 (UNDP/UNFPA) and decision 2019/28 (UNICEF) and decision 2019/12 (UN-Women) endorsed two of the three recommendations proposed by the agencies, resulting in further harmonization.

4. With respect to the third area, cost recovery:

- (a) Harmonization was achieved in 2013 as described in Executive Board documents DP-FPA/2012/1E/ICEF/2012/AB/L.6 and DP-FPA/2013/1-E/ICEF/2013/8 and approved through Executive Board decisions 2013/9 (UNDP/UNFPA), 2013/5 (UNICEF) and 2013/2 (UN-women). This harmonization was a result of thorough joint review undertaken by the agencies derived from:

- i. Benchmarking with international organizations for comparative purposes and best practices;
- ii. Analysis of the agencies’ business models in the context of the integrated budget and new strategic plans from 2014 onwards; and
- iii. Development of a harmonized conceptual framework for defining and attributing organizational costs and cost-recovery calculation methodology.

(b) In 2017, the Executive Boards (UNDP/UNFPA decisions 2017/11 and 2017/14, UNICEF decisions 2017/7 and 2017/14 and UN-Women decision 2017/2) asked the agencies to continue consultations with Member States regarding the cost-recovery policy and to present said proposals for consideration. Executive Board document DP/FPA-ICEF-UNW/2018/1 was presented in response to that request.

(c) In 2018, the Executive Boards (UNDP/UNFPA/UNICEF decisions 2018/21 and UN-Women 2018/6) asked the agencies to:

- i. Present a preliminary comprehensive proposal on the cost-recovery policy for consideration by the Executive Board at its first regular session in 2020, with a view to present a final comprehensive proposal for decision of the Executive Board at its second regular session in 2020;
- ii. Review, in a comprehensive manner, cost-recovery rates, as part of the comprehensive proposal; and
- iii. Present an assessment of the reasons why full cost recovery is not currently being achieved, as part of the comprehensive proposal.

B. Details of the cost classification categories at the granular level

	UNDP	UNFPA	UNICEF	UN-Women
Development activities				
Programme activities	<p>At country level: Programme/project policy and advocacy, technical expertise and support; Programme/project monitoring and evaluation; Programme/ project procurement and logistics; Direct programme/project planning; Programme/ project communications; Direct programme/project administrative and operations support; Formulation/management of programme pipeline/new business development; Programme policy advisory services; In-country development effectiveness support for programming; Operational/ administrative support services dedicated to projects: financial services, Procurement services, HR, Logistics support, Field security, Equipment and Asset management, including ICT equipment.</p> <p>At regional level: Programme/project policy, advocacy, technical expertise, coordination and support for regional projects and regional intergovernmental processes; Audit, evaluation and quality assurance services for regional projects; Direct regional programme/project administrative and operations support; Direct programmatic support and oversight of country offices and programmes; Cross-country capacity-building and knowledge-sharing.</p> <p>At global/interregional levels: Human Development Report, including support to preparation of national</p>	<p>At country level: Programme/project policy and advocacy, technical expertise and support; Direct humanitarian response; Programme/project monitoring and evaluation; Programme/project procurement and logistics; Direct programme/project planning; Programme/project communications and partnerships; Direct programme/project administrative and operations support</p> <p>At regional level: Advocacy and policy dialogue with regional and subregional entities and in multi-country settings; Regional inter-agency collaboration and coordination; Provision of technical advisory support to country programmes and intergovernmental regional processes; Direct programmatic support and oversight of country offices and programmes; Cross-country capacity-building and knowledge-sharing; Regional programme coordination and implementation, including knowledge management; Direct programme/ project administrative and operations support; Direct programme/ project communication and media functions.</p> <p>At headquarters level: Generation, promotion, utilization of state-of-the-art technical knowledge; Promotion of international</p>	<p>At country level: Programme/project policy and advocacy, technical expertise and support; Direct humanitarian response; Programme/project monitoring and evaluation; Programme/project procurement and logistics; Direct programme/project planning; Programme/project communications; Direct programme/project administrative and operations support</p> <p>Creation and dissemination of global and regional public goods, including monitoring and analysing the situation of children for global accountability; Contribution to and strengthening relevant global and regional policy and coordination systems; Contribution to the relevant global evidence base and normative guidelines.</p> <p>Global and regional programme resources are implemented by each of the seven UNICEF regional offices as well as</p>	<p>At country level: Programme/project policy and advocacy, technical expertise and support; Direct humanitarian response; Programme/ project monitoring and evaluation; Direct programme/project administrative and operations support.</p> <p>At regional level: Empowering and supporting country-level capacities and processes; Overseeing country and region-based delivery across normative, policy, advocacy and United Nations coordination roles; Leveraging regional United Nations coordination mechanisms and liaising closely with other regional bodies; Cross-country capacity-building and knowledge-sharing; Regional programme coordination and implementation, including knowledge management; Direct programme/ project administrative and operations support; Direct programme/ project communication and media functions.</p> <p>At headquarters level: Programme and project guidance; Strategic programme</p>

	UNDP	UNFPA	UNICEF	UN-Women
Development effectiveness activities	<p>human development reports; Programme/project policy and advocacy, technical expertise and support to global projects; Programme/project monitoring and evaluation of global projects; Audit and quality assurance services for global projects; Direct global programme/project administrative and operations support.</p> <p>At country level: Country office presence focusing on strategic country programming (CPD formulation and participation in UNDAF process); Programme quality assurance.</p> <p>At regional level: Deputy Regional Directors performing an overall programme development and guidance; Overall programme development, oversight and guidance role; Technical advisers; Regional development effectiveness support for South-South cooperation programme.</p> <p>At global/interregional levels: bureaux and offices responsible for programme and technical policy formulation and guidance; Bureau for Policy and</p>	<p>norms and standards; Building global technical partnerships; Humanitarian response and coordination; Global monitoring of implementation of the Sendai Framework for Disaster Risk Reduction; Coordination and management of prevention/response to sexual and gender-based violence; Strengthening/expansion of surge capacity; Global intergovernmental policy dialogue for International Conference on Population and Development and Sustainable Development Goal follow-up and review; Global outreach with parliamentarians and civil society; Complementary field support in areas not available at regional level undertaken by: Technical Division; Humanitarian Office; Policy and Strategy Division; Division for Communications and Strategic Partnerships; Procurement Services Branch; Liaison Office in Addis Ababa.</p> <p>At country level: Deputy Representatives (or national equivalents, assistant representatives) performing an overall programme development, oversight and guidance role.</p> <p>At regional level: Deputy Regional Directors performing an overall programme development, oversight and guidance role; Overall programme support to country offices, including monitoring and evaluation.</p> <p>At headquarters level: Policy and Strategy Division, except personnel whose work contributes directly to strategic plan development outcomes; Humanitarian Office</p>	<p>relevant headquarters divisions and offices, including: Programme; Data, Research and Policy; Supply; Evaluation; Emergency Programmes; and Communication.</p> <p>At country level: Deputy Representatives performing an overall programme development, oversight and guidance role; Communication officers; select monitoring and evaluation officers.</p> <p>At regional level: Deputy Regional Directors performing an overall programme development, oversight and guidance role; Technical advisers.</p> <p>At headquarters level: Programme Division; Division of Data, Research and Policy; Field Results Group; Office of Emergency Programmes; Supply</p>	<p>direction and oversight; Programme/project and operational support; Support to inter-agency coordination and normative processes; Crisis and humanitarian response; Development of global reports; Management of global projects for (a) global norms and standard; (b) political participation, governance and data; (c) women's economic empowerment; (d) ending violence against women and girls; (e) peace and security, humanitarian response.</p> <p>At country level: Deputy Representatives (or national equivalents, assistant representative) performing an overall programme development, oversight and guidance role; Programme/project posts performing an overall programme oversight and guidance role.</p> <p>At regional level: Deputy Regional Directors performing an overall programme development, oversight and guidance role; Technical advisers; Overall programme support to country offices.</p> <p>At headquarters level: Programme Division; Policy Division; Humanitarian Office; Civil Society.</p>

	UNDP	UNFPA	UNICEF	UN-Women
	Programme Support; Crisis Bureau; United Nations Office for South-South Cooperation, and the Procurement Support Office; Corporate HACT- related activities.	(leadership and operations support); Technical Division (leadership and operations support of the Directorate and each branch); Procurement Services Branch (leadership and operations support); Quality Management Unit in the Division for Management Services, which is primarily dealing with HACT to implementing partners and partner implementation.	Division; Office of Innovation; Office of Research.	
United Nations development coordination				
	Contribution to the resident coordinator system.	Contribution to the resident coordinator system.	Contribution to the resident coordinator system; Office of Emergency Programmes: coordination of partners for the humanitarian clusters for water, sanitation and hygiene, nutrition and education, along with the area of responsibility at the global level in child protection.	Contribution to the resident coordinator system United Nations System Coordination Division (headquarters); Regional office directors and drivers (50 per cent cost); Country office representatives/heads of office and drivers (50 per cent cost); Regional office United Nations coordination specialists.
Management activities				
Recurring costs				
Leadership and corporate direction	Executive Office; Ethics Office; Office of the Secretary of the Executive Board, excluding fully reimbursable Executive Board secretariat services provided to other United Nations agencies.	Office of the Executive Director; Ethics Office; Legal Office.	Office of the Executive Director, including Ethics Office and Legal Office.	HQ leadership posts in management and administration and resource mobilization and strategic partnerships.
Corporate financial, ICT and administrative management	Bureau of Management Services (BMS), including Office of Financial Resources Management, Global Shared Services Unit, Procurement Oversight Office; Office of Operations; Centrally managed costs relating to finance, ICT, and administration; Office of Information Management Technology; Legal Support Office; Excludes costs relating to provision of fully reimbursable services provided to other United Nations agencies, which fall under the special-purpose activities classification.	Division for Management Services (excluding Quality Management Unit), IT Solutions Office.	Division of Financial and Administrative Management; Division of Information and Communications Technology.	Division of Management and Administration, includes ICT, legal, finance, budget, facilities, procurement; Centrally managed costs related to IT and administration.
Corporate human resources management	Cost of Office of Human Resources in relation to the UNDP corporate human resources management function, excluding the fully	Division for Human Resources.	Division of Human Resources.	Division of Human Resources.

	UNDP	UNFPA	UNICEF	UN-Women
Corporate external relations and partnerships, communications and resources mobilization	reimbursable human resources support provided to other United Nations agencies (covered under special-purpose activities); Centrally managed human resources costs related to staff, learning costs; contribution from UNDP to International Civil Service Commission. Bureau for External Relations and Advocacy.	Division for Communications and Strategic Partnerships; Executive Board Branch; UNFPA Liaison Offices (except programmatic activities).	Division of Communication; Public Partnerships Division; Private Fundraising and Partnerships Division: (resources supporting specific National Committee and country office fundraising activities are included under special purpose); Office of the Secretary of the Executive Board	Strategic Partnership, Advocacy and Communications and Resource Mobilization; Office of the Secretary of the Executive Board.
Staff and premises security	Security Office	Office of Security Coordinator	Office of Emergency Programmes in close collaboration with the United Nations Department of Safety and Security and other United Nations security management entities.	Security Office, MOSS compliance
Field/country office oversight, management and operations support	At country level: Country office leadership, representation, and management functions to UNDP. This includes the full-time Resident Representative function, following the delinking of the resident coordinator role; The costs of country offices' support functions to UNDP referred above exclude costs relating to provision of fully reimbursable services provided to the United Nations agencies, which fall under the special purpose activities classification.	At country level: full cost of: representatives, driver and personal assistant to the Representative Office operations support functions not directly linked to programme support (e.g., operations manager/ international operations manager, finance/administrative, some IT and human resources support posts).	At country level: full cost of: Representatives and Assistant to the Representative Office operations support functions that are not directly linked to programme support (e.g. operations manager/ international operations manager, finance/ administrative, IT and human resources support posts).	At country level: Representatives/ Heads of Office and driver posts (50 per cent); Full cost of: operations management functions not directly linked to project/programme support (e.g., operations manager/international operations manager, finance/administrative, IT and human resources support posts); Includes a portion of direct programme/project administrative and operations support.
	At the regional and headquarters levels: Regional bureaux and regional hub leadership, including representation, and management functions including regional operations support functions not directly linked to programme support.	At regional level: full cost of: Regional Directors, driver and personal assistant to the Director, plus special assistant; Resource mobilization, communications, security and human resources functions; Office operations support functions not directly linked to programme support (e.g., international operations manager, finance/administrative support posts, ICT, etc.).	At regional level: full cost of: Senior leaders in each Regional Office (e.g., Regional Director, Regional Chief of Operations) and operations teams At headquarters level: full cost of: Global Shared Services Centre.	At regional level: Regional Directors and driver posts (50 per cent) Full cost of: Operations management functions not directly linked to project/ programme support (e.g., operations manager, finance, administration, procurement posts).

	UNDP	UNFPA	UNICEF	UN-Women
Non-recurring costs				
Non-recurring costs	At country and headquarters levels: strategic investments to support accelerated programme delivery by improving: (1) business model performance: (a) project delivery and cost recovery; (b) cost effectiveness and efficiency; and (c) operational service arrangements for the United Nations system; (2) business model innovation, e.g., fee-for service consultancies in country offices, clustering of services.	Security investments to ensure compliance with MOSS and MORSS.	N/A	N/A
Independent oversight and assurance activities				
Corporate oversight and assurance	Office of Audit and Investigations; Independent Evaluation Office; Ombudsman; Board of Auditors, Joint Inspection Unit.	Office of Audit and Investigations Services; Evaluation Office; Board of Auditors, Joint Inspection Unit.	Office of Internal Audit and Investigation; Evaluation Office.	Independent Evaluation and Audit Services Office; Board of Auditors.
Special-purpose activities				
Capital investments	MOSS compliance.	ICT transformation.	Technology-supported organizational solutions; Allocations to offices to support compliance with MOSS; Eco-efficiency initiatives and capital expenditure linked to premises management. Includes activities and estimated resource requirements of Private Fundraising and Partnerships Division to support specific private sector fundraising initiatives of the National Committees and UNICEF country offices. The activities related to implementation of the UNICEF Private Fundraising and Partnerships Plan, 2018-2021 and the appropriation for the related resource requirements will be presented to the Executive Board for approval on an annual basis.	ICT transformation.
Private-sector fundraising			Supply Division administers procurement services on behalf of Governments and other partners to complement UNICEF programmes. These services provide partners with economical access to selected products, which allows them to leverage programmatic results.	
Other, including procurement services				

	UNDP	UNFPA	UNICEF	UN-Women
Non-agency specific operations	<p>Support to other United Nations agencies: institutional budget support to UNV, UNCDF; Direct services for United Nations partner agencies under universal price list, local price list, service level agreement arrangements: Ad hoc, payroll, security, payments, Junior Professional Officer-related, procurement, training, benefits management, travel;</p> <p>At country level: Fully reimbursable country office support to other United Nations agencies; excludes country offices' leadership, representation, and management functions to UNDP, which covers the full time Resident Representative function, following the delinking of the resident coordinator role.</p> <p>At headquarter level: Fully reimbursable headquarters-level support to other United Nations agencies; excludes cost of the Bureau of Management Services (BMS) to UNDP relating to the BMS Directorate, Office of Financial Resources Management, Global Shared Services Unit, Office of Information Management Technology, Legal Support Office, Procurement Oversight Office; Office of Operations; Centrally managed costs relating to finance, ICT and administration. Excludes corporate HACT-related activities.</p>			

C. Mock-Up of Recommendation 3

UNDP

Mock-Up of Application of Recommendations 1-2 : UNDP

2019-2021 estimate					2019-2021 Adjusted for Recommendations 1 & 2					Difference, %	
Regular resources	Other resources	Cost recovery	Total resources	% of Total	Regular resources	Other resources	Cost recovery	Total resources	% of Total		
I. Development activities						I. Development activities					
I.A - Programme	1,631.4	(9,409.6)	--	21,843.9		1,718.0	(9,473.1)	--	21,191.3	\$148m, 0.6%	
I.B - Development effectiveness	336.3	96.7	322.2	755.2		327.6	96.7	279.4	703.7	\$77m, 0.3%	
Total I. Development activities	1,967.5	(9,506.3)	322.2	21,838.6	98.5%	2,045.6	(9,509.8)	279.4	21,894.8	91.1%	
II. United Nations development coordination activities						II. United Nations development coordination activities					
Total II. United Nations development coordination activities	126.0	--	--	126.0	0.5%	126.0	--	--	126.0	0.5%	
III. Management activities						III. Management activities					
III.A - Accounting (including Independent Evaluation Office, Office of Audit and Investigations and Ethics Office)	401.9	--	1,622.4	1,624.3		545.8	--	991.7	1,537.5	\$87m, 0.4%	
III.B - Independent Evaluation Office	32.6	--	9.5	42.1		32.6	--	9.5	42.1		
III.C - Office of Audit and Investigations	50.7	--	18.8	69.5		50.7	--	18.8	69.5		
III.D - Ethics Office	3.6	--	--	3.6		3.6	--	--	3.6		
Subtotal accounting	488.8	--	1,650.7	1,739.5		632.7	--	1,020.0	1,652.7		
III.E - non-accounting	28.0	--	--	28.0		28.0	--	--	28.0		
Total III. Management activities	716.8	--	1,650.7	1,767.3	7.4%	660.7	--	1,020.0	1,680.7	7.6%	
IV. Special purpose activities						IV. Special purpose activities					
IV.A - Capital investment	--	--	29.9	29.9		--	--	29.9	29.9	\$10m, 0.04%	
IV.B1 - Non-UNDP operations - United Nations Volunteers	42.4	--	41.2	83.6		42.4	--	41.2	83.6		
IV.B2 - Non-UNDP operations - United Nations Capital Development	12.2	--	--	12.2		12.2	--	--	12.2		
IV.B3 - Non-UNDP operations - services for United Nations partner organizations	--	--	190.4	190.4		--	--	190.4	190.4		
IV.B - Subtotal non-UNDP operations administered by UNDP	54.6	--	231.6	286.2		54.6	--	231.6	286.2		
Total IV. Special purpose activities	54.6	--	261.5	316.1	1.4%	54.6	--	271.5	326.1	1.4%	
Total institutional components	1,899.3	--	1,634.4	1,738.1		1,899.3	--	1,570.9	2,580.1		
Total programme components	1,877.6	19,596.3	--	21,293.9		1,877.6	19,509.8	--	21,447.4		
Total Estimated expenditures (I + II + III + IV)	2,886.9	19,596.3	1,634.4	24,817.6	100.0%	2,886.9	19,509.8	1,570.9	24,827.6	100.0%	

Programme: +\$148m (plus \$75m for operational support at CO-level with a direct link to projects & programmes, plus \$73m for overall programmatic support at the CO-level);
 Development Effectiveness, a \$2m increase for HACT from Management less \$73m in operational support to projects at the CO-level which is moving to Programme;
 Management, \$67m decrease due to minus \$75m due operational support at the CO-level projects + minus \$2m HACT
 Capital investment; and a \$10m capital expenditure for MOSS

Mock-Up of Application of Revised Recommendations 3: UNDP

2019-2021 Adjusted for Recommendations 1 & 2					2019-2021 Adjusted for Recommendations 1,2 & revised recommendation 3					Difference, %	
Regular resources	Other resources	Cost recovery	Total resources	% of Total	Regular resources	Other resources	Cost recovery	Total resources	% of Total		
I. Development activities						I. Development activities					
I.A - Programme	1,718.0	(9,473.1)	--	21,191.3		1,718.0	(9,473.1)	--	21,191.3		
I.B - Development effectiveness	327.6	96.7	279.4	703.7		327.6	96.7	279.4	703.7		
Total I. Development activities	2,045.6	(9,509.8)	279.4	21,894.8	91.1%	2,045.6	(9,509.8)	279.4	21,894.8	91.1%	
II. United Nations development coordination activities						II. United Nations development coordination activities					
Total II. United Nations development coordination activities	126.0	--	--	126.0	0.5%	126.0	--	--	126.0	0.5%	
III. Management activities						III. Management activities					
III.A - Accounting (including Independent Evaluation Office, Office of Audit and Investigations and Ethics Office)	545.8	--	991.7	1,537.5		545.8	--	991.7	1,537.5		
III.B - Independent Evaluation Office	32.6	--	9.5	42.1		32.6	--	9.5	42.1		
III.C - Office of Audit and Investigations	50.7	--	18.8	69.5		50.7	--	18.8	69.5		
III.D - Ethics Office	3.6	--	--	3.6		3.6	--	--	3.6		
Subtotal accounting	632.7	--	1,020.0	1,652.7		632.7	--	1,020.0	1,652.7		
III.E - non-accounting	28.0	--	--	28.0		28.0	--	--	28.0		
Total III. Management activities	660.7	--	1,020.0	1,680.7	7.0%	660.7	--	1,020.0	1,680.7	7.0%	
IV. Special purpose activities						IV. Special purpose activities					
IV.A - Capital investment	--	--	29.9	29.9		--	--	29.9	29.9		
IV.B1 - Non-UNDP operations - United Nations Volunteers	42.4	--	41.2	83.6		42.4	--	41.2	83.6		
IV.B2 - Non-UNDP operations - services for United Nations partner organizations	--	--	190.4	190.4		--	--	190.4	190.4		
IV.B - Subtotal non-UNDP operations administered by UNDP	54.6	--	231.6	286.2		54.6	--	231.6	286.2		
Total IV. Special purpose activities	54.6	--	271.5	326.1	1.4%	54.6	--	271.5	326.1	1.4%	
V. Independent Oversight and Assurance activities						V. Independent Oversight and Assurance activities					
V.A - Independent Evaluation Office	32.6	--	9.5	42.1		32.6	--	9.5	42.1		
V.B - Office of Audit and Investigations	50.7	--	18.8	69.5		50.7	--	18.8	69.5		
Total V. Independent Oversight and Assurance activities	83.3	--	28.3	111.6	0.5%	83.3	--	28.3	111.6	0.5%	
Total institutional components	1,899.3	--	1,570.9	2,580.1		1,899.3	--	1,570.9	2,580.1		
Total programme components	1,877.6	19,509.8	--	21,447.4		1,877.6	19,509.8	--	21,447.4		
Total Estimated expenditures (I + II + III + IV + V)	2,886.9	19,509.8	1,634.4	24,827.6	100.0%	2,886.9	19,509.8	1,634.4	24,827.6	100.0%	

UNICEF

UNICEF	Regular resources		2018-2021 Other resources Cost recovery		Total resources		Trust funds
	\$m	%	\$m	\$m	\$m	%	
1. Resources available							
Opening balance	562.3		1,235.9	-	1,798.2		7,270.0
Income							
Contributions	5,801.9		16,512.5	-	22,314.4		-
Other income	500.0		-	-	500.0		-
Total income	6,301.9		16,512.5	-	22,814.4		-
Tax reimbursement adjustment	(80.0)		-	-	(80.0)		-
Trust fund receipts	-		-	-	-		7,148.0
Total available	6,784.1		17,748.4		24,532.5		7,876.0
2. Use of resources							
A. Development							
A.1 Programmes	4,360.0	67.0%	15,917.3	-	20,277.3	84.6%	7,116.0
Country programmes	4,140.0	64.5%	15,107.1	-	19,247.1	80.3%	-
Global programme	220.0	3.4%	810.2	-	1,030.2	4.3%	-
A.2 Development effectiveness	589.0	9.2%	133.0	-	721.9	3.0%	-
Subtotal: Development	4,949.0	77.1%	16,950.3	-	20,999.3	87.6%	7,116.0
B. United Nations development coordination	23.3	0.4%	25.9	-	49.3	0.2%	-
C. Management	459.9	7.2%	6.4	11.88.0	1,604.3	6.7%	-
D. Independent Oversight and Assurance Activities							
D.1 Audit and investigations	11.0	0.2%	-	-	11.0	0.2%	-
D.2 Corporate Evaluation	1.8	0.0%	-	-	1.8	0.0%	-
Subtotal: Independent Oversight and Assurance Activities	12.8	0.2%	-	-	12.8	0.2%	-
E. Special purpose							
E.1 Capital investments	23.0	0.4%	-	57.0	80.0	0.3%	-
E.2 Private fundraising and partnerships, direct/investment costs	725.1	11.3%	273.0	-	998.3	4.2%	-
E.3 Other	240.0	3.7%	-	-	240.0	1.0%	-
Subtotal: Special purpose	988.1	15.4%	273.0	57.0	1,318.1	5.5%	-
Institutional budget (A.2+B+C+D+E)	1,695.2	17.1%	365.3	1,196.0	2,495.5	10.2%	-
Integrated budget (A+B+C+D)	6,420.3	100.0%	16,956.6	1,196.0	23,972.9	100.0%	7,116.0
3. Closing balance of resources	383.8		197.8		581.6		799.0

UNFPA

UNFPA	Integrated budget, 2018-2021 - DP/FPA/2018/8/Corr.1					Integrated budget, 2018-2021 (restated)				
	Regular resources	Other resources Programme	Cost recovery	Total resources	Percentage of total	Regular resources	Other resources Programme	Cost recovery	Total resources	Percentage of total
1. Resources available										
Opening balance ^{a/}	48.5	458.8	-	507.3		48.5	458.8	-	507.3	
Income										
Contribution-gross	1,400.0	2,100.0	-	3,500.0		1,400.0	2,100.0	-	3,500.0	
Other ^{b/}	19.9	-	-	19.9		19.9	-	-	19.9	
Total income	1,419.9	2,100.0	-	3,519.9		1,419.9	2,100.0	-	3,519.9	
Less tax reimbursement ^{c/}	(23.8)	-	-	(23.8)		(23.8)	-	-	(23.8)	
Total available	1,444.6	2,558.8		4,003.4		1,444.6	2,558.8		4,003.4	
2. Use of resources										
A. Development activities										
A.1 Programme ^{d/}	716.5	2,325.1	(155.6)	2,886.0	76.6%	716.5	2,325.1	(155.6)	2,886.0	76.6%
A.2 Global and regional interventions	152.5	-	-	152.5	4.0%	152.5	-	-	152.5	4.0%
A.3 Emergency fund	22.5	-	-	22.5	0.6%	22.5	-	-	22.5	0.6%
A.4 Development effectiveness	139.4	-	-	139.4	3.7%	140.3	-	-	140.3	3.7%
Total development	1,030.8	2,325.1	(155.6)	3,200.3	84.9%	1,031.7	2,325.1	(155.6)	3,201.2	84.9%
B. United Nations development coordination	16.6	-	-	16.6	0.4%	16.6	-	-	16.6	0.4%
C. Management activities										
C.1 Recurring costs	372.6	0.0	152.5	525.1	13.9%	338.9	-	141.7	480.6	12.8%
C.2 Non-recurring costs	4.1	-	3.1	7.2	0.2%	-	0.0	-	0.0	0.0%
Total management	376.7	-	155.6	532.3	14.1%	338.9	-	141.7	480.6	12.8%
D. Independent oversight and assurance activities										
D.1. Corporate evaluation	9.0	-	3.8	12.7	0.3%	9.0	-	3.8	12.7	0.3%
D.2. Audit and investigation	24.3	-	10.2	34.5	0.9%	24.3	-	10.2	34.5	0.9%
Total independent oversight and assurance	33.3	-	13.9	47.2	1.3%	33.3	-	13.9	47.2	1.3%
E. Special purpose										
E.1 Premises capital plan and MOSS	-	-	-	-	0.0%	3.6	-	-	3.6	0.1%
E.2 ICT transformation	20.0	-	-	20.0	0.5%	20.0	-	-	20.0	0.5%
Total special purpose	20.0	-	-	20.0	0.5%	23.6	-	-	23.6	0.6%
Total use of resources (A+B+C+D+E)	1,444.1	2,325.1		3,769.2	100.0%	1,444.1	2,325.1		3,769.2	100.0%
3. Net amounts from/(to) reserves ^{e/}	0.5			0.5		0.5			0.5	
4. Balance of resources (1-2+3)	1.1	233.7		234.7		1.1	233.7		234.7	
Total institutional budget (A.4+B+C+D+E)	552.6		155.6	708.2	18.8%	552.6		155.6	708.2	18.8%

UN-Women

Mock up of Recommendations 1, 3 and partial 2

(The integrated budget has been doubled for comparability purposes)

	2018-2019 Estimates						2018-2019 Estimates						
	Regular resources		Other Resources		Total		Regular resources		Other Resources		Total		
		%	Programme	Cost Recovery		%		%	Programme	Cost Recovery		%	
1. Resources available							1. Resources available						
Opening Balance	115.0	12.5%	379.6	56.8	551.4	23.8%	Opening Balance	115.0	12.5%	379.6	56.8	551.4	23.8%
Income							Income						
Contributions	800.0	86.9%	897.2	62.8	1780.0	75.9%	Contributions	800.0	86.9%	897.2	62.8	1780.0	75.9%
Other income and reimbursements	6.0	0.7%			6.0	0.3%	Other income and reimbursements	6.0	0.7%			6.0	0.3%
Total available	921.0	100.0%	1276.8	119.6	2,317.4	100.0%	Total available	921.0	100.0%	1276.8	119.6	2,317.4	100.0%
2. Use of resources							2. Use of resources						
A Development activities							A Development activities						
A.1 Programme	465.2		1,027.0		1,492.2		A.1 Programme	465.2		1,027.0		1,492.2	
A.2 Development effectiveness	87.5			12.6	100.1		A.2 Development effectiveness	91.3			12.6	103.9	
Subtotal Development Activities	552.7	60.4%	1,027.0	12.6	1,592.3	68.9%	Subtotal Development Activities	556.5	60.4%	1,027.0	12.6	1,596.1	68.1%
B United Nations development coordination	54.4	5.9%			54.4	2.9%	B United Nations development coordination	54.4	5.9%			54.4	2.9%
C Management activities							C Management activities						
C.1 Recurring	187.4			50.2	237.6						50.2	212.2	11.2%
C.2 Non-recurring													
C.3 Evaluation	13.4				13.4								
C.4 Audit and Investigation	12.0				12.0								
Subtotal Management Activities	192.8	21.0%		50.2	243.0	12.8%							
							D. Independent Oversight and Assurance Activities						
							D.1 Evaluation	13.4				13.4	
							D.2 Audit and Investigations	12.0				12.0	
							Subtotal Independent Oversight and Assurance	25.4				25.4	1.3%
D Special-purpose activities							E Special-purpose activities						
D.1 Resource Mobilization	2.0				2.0		E.1 Resource Mobilization	2.0				2.0	
D.2 ICT Transportation	4.0				4.0		E.2 ICT Transportation	4.0				4.0	
Subtotal Special Purpose Activities	6.0	0.7%			6.0	0.3%	E.3 Capital Investments MOSS	1.6				1.6	
							Subtotal Special Purpose Activities	7.6	0.9%			7.6	0.4%
E Posts to be transferred to UN regular budget	2.0	0.2%			2.0	0.1%	E Posts to be transferred to UN regular budget	2.0	0.2%			2.0	0.1%
Total Institutional Budget	342.7	42.4%		62.8	405.5	21.4%	Total Institutional Budget	342.7	42.4%		62.8	405.5	21.4%
Total use of resources	807.9	100.0%	1,027.0	62.8	1,897.7	100.0%	Total use of resources	807.9	100.0%	1,027.0	62.8	1,897.7	100.0%
Balance of resources	113.1		249.8	56.8	419.7		Balance of resources	113.1	0.0	249.8	56.8	419.7	

Note: Recommendation 2 is linked to the outcome of the change management exercise that is reviewing HQ, RO and CoS Functions thus the implications of these are not presented in this sample mock up.

D. Cost recovery: basis and principles

(paras. 3-9 from DP/FPA-ICEF-UNW/2018/1)

Cost recovery refers to the requirement of the organization to ensure that regular resources are not used to subsidize the implementation of programmes funded from other resources. It is essential that the organization recover all its costs if it is to remain sustainable. The cost-recovery methodology recognizes that certain functions which are integral to the existence and advancement of an organization's mandate must be carried out regardless of the volume of programme implementation. Therefore, funding for these functions must be assured from regular resources.

The overarching principles which the agencies have observed in defining the cost-recovery approaches discussed in this paper include: (a) continuing a harmonized approach across all four entities; (b) maximizing the allocation of regular resources to programmatic activities; (c) minimizing cross-subsidization between regular and other resources; and (d) continuing to be efficient and competitive within the overall development cooperation context.

A harmonized approach to cost recovery can include harmonization of the cost-recovery methodology, the cost classifications and the cost-recovery rate. The current cost-recovery policy encompasses all three. In the alternative proposal, a harmonized approach is used with respect to methodology and cost classifications, but without a derived harmonized rate.

Full cost recovery includes both direct and indirect costs. Costs are categorized as direct, i.e., directly linked and traceable to a programme or project and to benefits derived by programme/project beneficiaries, or as indirect, i.e., not directly linked or traceable to a programme/project. Direct costs are recovered from regular or other resources depending on the funding source of the programme/project. Examples of direct costs relating to programmes/projects include:

- (a) Costs of missions and travel incurred specifically to carry out or support project activities;
- (b) Cost of staff and consultants hired for the project;
- (c) Cost of policy advisory services (fully costed: staff cost, share of office rent, utilities, communications, supplies and office security);
- (d) Cost of processing transactional services (finance, administration, procurement, human resources, logistics);
- (e) Equipment, including information technology equipment, maintenance, licenses and support for the programme/project;
- (f) Programme/project audit and evaluation fees.

Indirect costs are associated with the organizational structure and services necessary to support implementation of development programmes and projects, i.e., the costs of running the organization. Indirect costs are allocated to programmes/projects and are recovered through application of indirect cost-recovery rates as a percentage fee on direct costs. Indirect costs are included in the organizations' institutional budgets; thus, the indirect cost-recovery model is designed to recover the designated costs of the institutional budget. Examples of indirect costs which support an organization's activities include:

- (a) Corporate executive management;
- (b) Corporate resource mobilization;
- (c) Country office, regional or corporate management;
- (d) Corporate accounting and financial management staff;
- (e) Internal audit function at headquarters and unit level;
- (f) Institutional legal support;
- (g) Corporate human resources management.

General Assembly resolution 71/243 of 21 December 2016 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system emphasized two critical concepts that guide any cost-recovery policy and form the basis for both the current and alternate proposals. These concepts are: (a) regular resources form a bedrock of United Nations operational activities for development owing to their untied nature; and (b) regular resources should not subsidize other resources.

The role of regular resources includes support to Member States in the establishment and implementation of United Nations norms and/or standards to implement strategic plans. This contrasts with the mandate of a project implementation agency.

E. Detailed calculations of the notional cost-recovery rates

		UNDP 2018-2021 IB	UNICEF 2018-2021 IB	UNFPA 2018-2021 IB	UN Women 2018-2019 IB
	Use of resources				
A1	Regular resources (RR)	2,749.8	6,420.3	1,444.1	800.0
A2	Other resources (OR)	21,140.7	17,550.6	2,325.1	960.0
	Total	23,890.5	23,970.9	3,769.2	1,760.0
1. Calculate the proportionate percentage share of RR and OR in the planned use of resources					
B1	Proportionate share of RR	12%	27%	38%	45%
B2	Proportionate share of OR	88%	73%	62%	55%
2. Calculate the sum of management and comparable special purpose costs (and remove costs related to critical, cross-cutting functions)					
C	Institutional Budget	2,443.1	2,455.5	708.2	408.8
	<i>Less</i>				
C1	Development effectiveness activities	(507.0)	(721.9)	(140.3)	(107.8)
C2	Non-comparable special purpose activities	(275.7)		(23.6)	(7.6)
C3	UN development coordination activities	(86.0)	(49.3)	(16.6)	(54.4)
C4	Critical cross-cutting management functions	(171.8)	(198.6)	(167.9)	(65.8)
C5	Critical cross-cutting oversight and assurance functions	(7.2)	(4.0)	(8.1)	(25.5)
	Total – institutional budget (IB) subject to cost recovery	1,395.4	1,481.7	351.7	147.8
3. Take the amount calculated in step2 and split it proportionally, according to the levels of total planned core and non-core use of resources					
D=C-(C1:C4)	IB subject to cost recovery, based on approved methodology	1,395.4	1,481.7	351.7	147.8
E1=B1*D	RR proportional share of IB	160.6	396.9	134.8	67.2
E2=B2*D	OR proportional share of IB	1,234.8	1,084.8	217.0	80.6
F=E2/(A2-E2)	Notional rate	6.2%	6.6%	10.3%	9.2%

F. Glossary

Cost classification categories

The cost-classification categories and definitions approved in UNDP/UNFPA/UNOPS Executive Board decision 2010/32 and UNICEF Executive Board decision 2010/20 (reviewed in UNDP/UNFPA/UNOPS Executive Board decision 2019/21 and UNICEF Executive Board decision 2019/28); and UN-Women Executive Board decision 2019/12, are:

- (a) ***Development activities***. These comprise costs associated with programmes and development effectiveness activities which contribute to and are essential for the realization of effective development results, as follows:
 - (b) ***Programmes***. Activities and associated costs traced to specific programme components or projects, which contribute to delivery of development results contained in country/regional/global programme documents or other programming arrangements.
 - (c) ***Development effectiveness activities***. The costs of activities of a policy-advisory, technical and implementation nature that are needed to achieve the objectives of programmes and projects in the focus areas of the organizations. These inputs are essential to the delivery of development results and are not included in specific programme components or projects in country, regional, or global programme documents.
 - (d) ***United Nations development coordination activities***. This comprises activities and associated costs supporting the coordination of development activities of the United Nations system.
 - (e) ***Management activities***. This comprises activities and associated costs whose primary function is the promotion of the identity, direction and well-being of an organization. These include executive direction, representation, external relations and partnerships, corporate communications, legal, information technology, finance, administration, security and human resources. Management costs are classified as recurrent or non-recurrent.
 - (f) ***Independent oversight and assurance activities***. This comprises activities and associated costs supporting the independent audit and investigations and corporate evaluation functions.
 - (g) ***Special-purpose activities***. This covers activities and associated costs of: (a) capital investments; and (b) services for other United Nations organizations.

Critical cross-cutting management functions

(as defined in DP/FPA/2013/1 – E/ICEF/2013/8, paragraphs 15 and 16)

“The concept of critical cross-cutting functions is akin to the concepts of ‘fixed indirect costs’ and ‘base structure’ used in previous models of cost recovery. Specifically, a level of core resources would be available to ensure a provision of resources to support the mandate, integrity and resource mobilization platform. In other words, the cost recovery methodology takes into account that certain functions that are integral to the existence and the advancement of the mandate of the organizations must be carried out, irrespective of the volume of programme implementation and therefore, their funding must be assured from the regular resources.

The main difference between cross-cutting critical functions in the present model, as opposed to fixed indirect costs or base structure in previous ones, is in their scope, as the notion of critical cross cutting functions is much more limited than similar notions in previous models. In addition, while the previous model included in its fixed indirect cost a portion of costs now classified as development effectiveness, the newly proposed model excludes development effectiveness from the calculation of the cost recovery rate.”

Effective indirect cost recovery rate. The actual cost-recovery rate realized after taking into account the effect of differentiated rates, pre-existing preferential rates and waivers granted each year.

Notional indirect cost-recovery rate. The rate as calculated by application of a specific methodology.

Standard indirect cost-recovery rate. The rate approved by the Executive Board as the percentage fee to be applied to direct costs, based on the funding source.