Assessment of the Consistency and Alignment of the Cost Recovery Methodology used by the Funds and Programmes Agencies with General Assembly Resolution 67-226 Approved by the Executive Boards

Informal consultation with members of the Executive Boards of UNDP/UNFPA, UNICEF and UN Women

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Structure of Report

- Background
- Assessment of alignment and consistency
- Review of Rates
- Challenges facing agencies
- Recommendations for improving cost recovery

Background

- Declining core a major issue
- Need to avoid cross-subsidization to preserve critical role of core in both programme and administration
- Core as % of total income, 2013 and 2015

	UNDP	UNFPA	UNICEF	UN Women
2013	17%	52%	22%	52%
2015	14%	47%	20%	44%

Background, continued

- All costs must be recovered to ensure sustainability
- Business models differ but harmonized approach to cost recovery has advantages:
  - Transparency
  - Reduced transaction costs
  - Eliminates rate competition among agencies
  - Promotes UN system coherence

Assessment of Methodology

- General Assembly Resolution 67-226, section II:
  - Reaffirmed that full cost recovery is “the guiding principle governing the financing of non-programme costs;”
  - Stressed that core resources remain “the bedrock of operational activities for development of the United Nations System;” and
  - Called for a “simple, transparent and harmonized methodology for cost recovery.”

Assessment, continued

- A simple, harmonized system requires that activities unique to individual agencies be excluded:
  – Agency specific functions and activities
- The role of core as bedrock strongly implies that some basic agency functions continue to be excluded from cost recovery:

  - Critical, cross-cutting functions

  - Development Effectiveness

Review of Cost Recovery Rates

- EB approved rate is 8%; has been applied with exceptions for:
  - Thematic funds
  - Programme country cost sharing
  - Existing agreements until renewed
  - Waivers to be approved by agency heads

- Therefore, under the current rate structure it is not possible to achieve an overall cost recovery rate of 8%

Rates, continued

- Effective cost recovery rates, 2013-2015 based on agency expenditures

	UNDP	UNFPA	UNICEF	UN Women
2013	5.9%	6.7%	5.5%	6.5%
2014	6.1%	7.0%	6.3%	7.1%
2015	6.3%	7.0%	6.5%	7.0%

Practices of other Multilateral Agencies

- World Bank: Volume discounts for larger contributions to Recipient Executed Trust Funds
- World Food Programme: 10% cost recovery rate for private sector contributions
- UNOPS: Start-up and risk built in as direct costs in all programmes

Challenges Faced by Agencies

- Steadily declining core funding affects both programme and administrative operations
- Some donors unwilling to include all direct costs in programmes; others unwilling or unable to pay the standard cost recovery rates
- Longer-term institutional agreements locked into lower cost recovery rates

Recommendations

- Agencies and funding partners should work together to:
  - reverse the decline in core funding;
  - ensure that all direct costs are included in programmes; each agency should enhance instruments to provide transparency and help assure donors of fair treatment
  - minimize waivers and review longer-term agreements with the goal of applying the standard rate wherever possible

Recommendations, continued

- Agencies should develop policies for providing volume discounts for large contributions and perhaps premium rates for those small contributions with high management costs
- Security risk should be factored into programme funding, either as direct costs or as a standard rate add-on.

Recommendations, continued

- Agencies should review arrangements for pooled funding within the UN system to determine if their costs are being fully recovered
- When appropriate, agencies should propose review of approved reduced rates

Summation

-- The methodology is aligned and consistent with General Assembly Resolution 67-226

-- Agencies should review the above recommendations in the context of (1) preparing new strategies and budgets to take effect in 2018, and (2) actual and anticipated flows of development resources to their programmes