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Joint briefing on the Annotated Outline of the Cost Recovery paper

Executive Boards of UNDP, UNFPA, UNICEF, and UN Women

22 March 2018



Topics covered in the Annotated Outline

I. Introduction

- Overarching principles

II. Presentation/Discussion of proposals

- Components of costs
- Proposal 1: Continuation of the Current Cost Recovery Policy
- Proposal 2: Modular 'LEGO building block' approach – Option A or B

III. Summary and recommendation for Executive Board decision

IV. Annexes

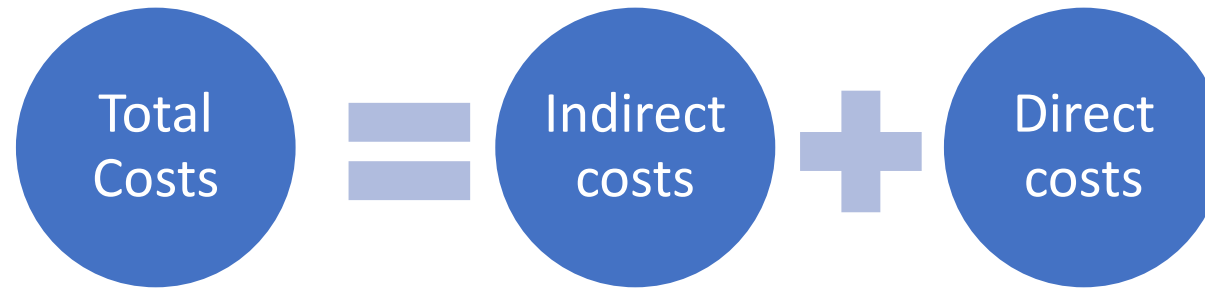
- Review of high level financial implications

I. Introduction - Overarching principles

1. Continue a harmonized methodology across the agencies
2. Maximize allocation of regular resources to programmatic activities
3. Minimize cross subsidization between regular and other resources
4. Continue to be efficient and competitive within the overall development cooperation system

II. Presentation/Discussion of proposals

Components of costs



Cost recovery refers to the requirement for an organization to ensure that regular resources are not used to subsidize the implementation of programmes funded from other resources.

Indirect costs

- Costs that are indirectly linked to the delivery of development results are recovered through the cost recovery rate

Direct costs

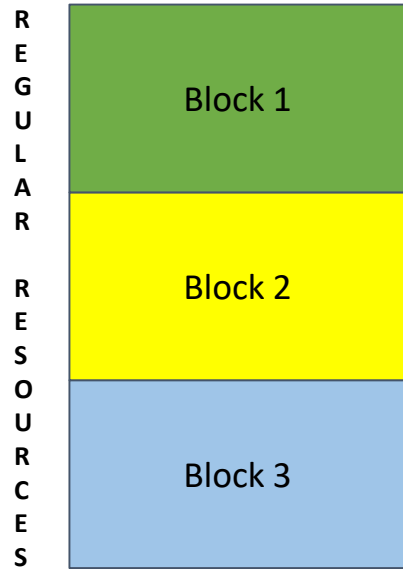
- Costs that are directly linked to the delivery of development results are directly funded from regular resources or other resources, depending on where the cost originates

As such total costs include both indirect and direct costs incurred by the organizations.

Proposal 1 – Continuation of the current cost recovery policy

1. The current cost recovery policy was approved by the Executive Boards of UNDP/UNFPA, UNICEF, and UN Women in decisions 2013/9, 2013/5, and 2013/2, respectively
2. The cost recovery model is designed to recover the designated costs of the Institutional Budget - thus the starting point is the total Institutional Budget
3. The current 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”*
4. The current cost recovery methodology identifies the following functions to be protected and hence covered from regular resources or directly funded from programmes:
 - a. Development effectiveness activities - directly contribute to the achievement of development results
 - b. UN Development Coordination - largely agency-specific, not-harmonized amongst the four agencies
 - c. Critical cross-cutting management functions - integral to the existence and the advancement of the mandate
 - d. Non-comparable special purpose activities - largely agency-specific, not-harmonized amongst the four agencies
5. The balance (i.e. the total institutional budget less items under 4.a-4.d) is covered by cost recovery

Proposal 2 - Modular 'LEGO building block' approach

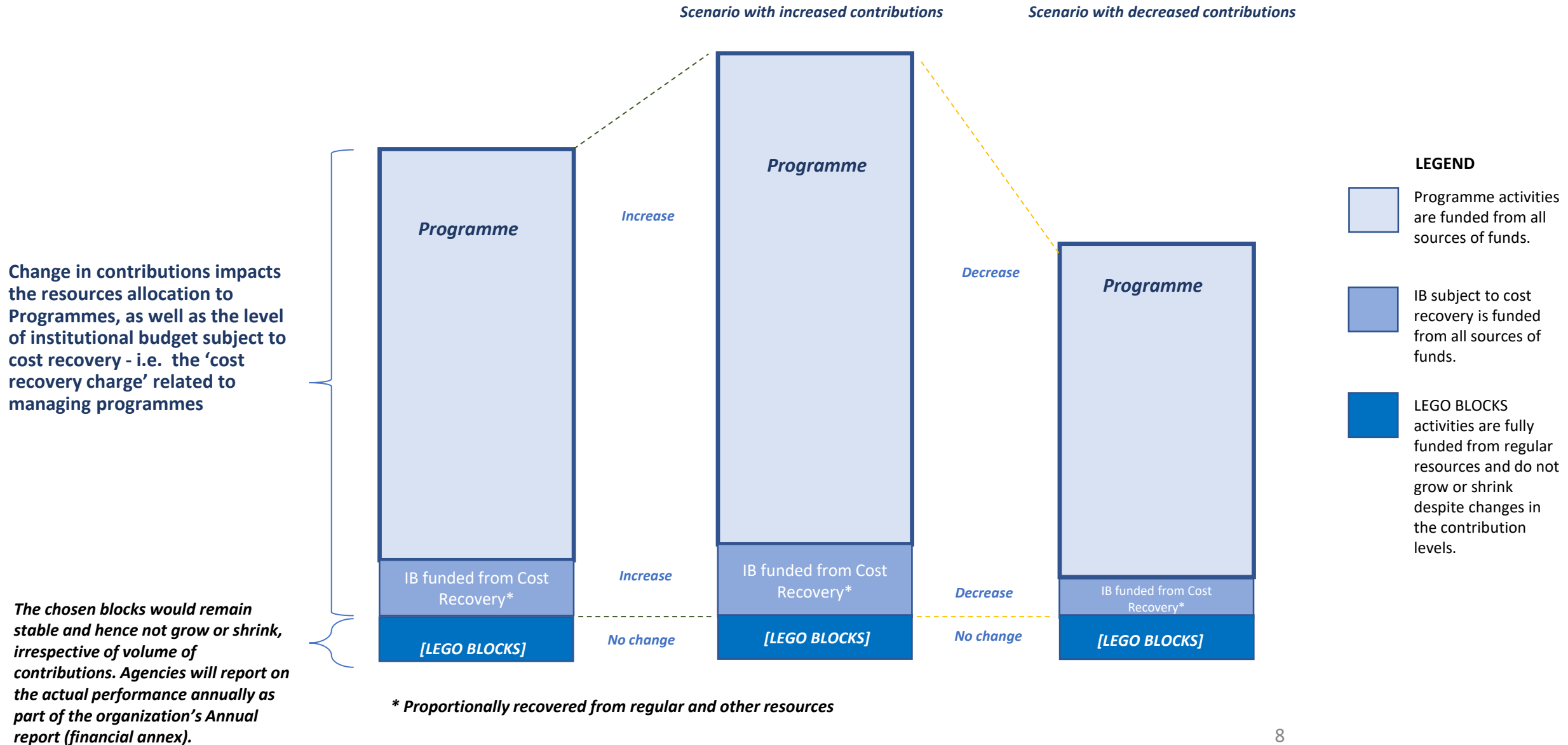


1. As with the current methodology, the cost recovery model is designed to recover the designated costs of the Institutional Budget - thus the starting point is the total Institutional Budget
2. From this starting point, “blocks” are presented to provide a spectrum of what can be considered as a minimum level of specific, essential functions to be funded from regular resources, which would replace the items protected by regular resources as identified in the current methodology.
3. These “blocks” would then be solely funded from regular resources and thus excluded from cost recovery
4. The modular “Lego building block” approach for cost recovery allows for consideration of various permutations of block elements, in line with request of the EBs

Modular 'LEGO building block' approach

1. Represents opportunity for the EB members to identify the critical items to be protected by regular resources
2. 'LEGO building block' approach - blocks are independent of each other so the final model can be adjusted based on the EB members' priorities, noting the logical connections among them
3. Thus the indicative rates presented later on, reflect cumulative combinations of the building blocks
4. They are for illustration / guidance and are subject to change depending on the final level of 'protection' of these functions through use of regular resources. Two options for level of 'protection' are presented.

Financial implication of the cost recovery model [regular + other resources]



Modular 'LEGO building block' approach – Option A vs. Option B

- Option A
 - This option was presented to the joint Executive Boards in April 2017 and January 2018.
 - It includes a level of protection from regular resources of the functions described previously
 - The level of protection from regular resources is irrespective of the relative volume of regular and other resources funding of the agency; the level of protection is also irrespective of differences in size and business models of each agency
- Option B
 - This option reflects the application of the modular 'LEGO building block' approach, taking into account the differences in size and business models of each agency
- The high level financial implications of the application of each proposal for each agency are enclosed in the annex of the annotated outline.

Next steps

1. Based on today's discussion, continue engagement with the Executive Boards, particularly on:
 - a. Criticality of ensuring a level of regular resources to fund the minimum level of specific essential functions
 - b. Proposals discussed in the annotated outline, i.e.:
 - proposal 1 (current cost recovery policy); and
 - proposal 2 (modular 'LEGO building block' approach (Option A or B))
2. Prepare a board paper for June 2018
3. EB decision at the annual session 2018



Discussion



ANNEX

Table 1 - High level financial implications of the application of each proposal for each agency^[1]

In US\$ millions

	UNDP (2018-2019)			UNICEF (2018-2021)			UNFPA (2018-2021)			UN Women (2018-2019)		
	Current model	LEGO option A (per Jan/18 presentation to EB)	LEGO option B Application of LEGO blocks to UNDP business model	Current model	LEGO option A (per Jan/18 presentation to EB)	LEGO option B Application of LEGO blocks for UNICEF business model	Current model	LEGO option A (per Jan/18 presentation to EB)	LEGO option B Application of LEGO blocks for UNFPA business model	Current model	LEGO option A (per Jan/18 presentation to EB)	LEGO option B Application of LEGO blocks for UN Women business model
A: Regular resources	\$1,353m - 12%	\$1,353m - 12%	\$1,353m - 12%	\$6,420.3m - 27%	\$6,420.3m - 27%	\$6,420.3m - 27%	\$1,392.3m - 39%	\$1,392.3m - 39%	\$1,392.3m - 39%	\$400m - 45%	\$400m - 45%	\$400m - 45%
B: Other resources	\$10,320m - 88%	\$10,320m - 88%	\$10,320m - 88%	\$17,550.6m - 73%	\$17,550.6m - 73%	\$17,550.6m - 73%	\$2,194.1m - 61%	\$2,194.1m - 61%	\$2,194.1m - 61%	\$480m - 55%	\$480m - 55%	\$480m - 55%
C: Cost of functions protected by regular resources	\$367m	\$533m	\$413m	\$814.5m	\$975.1m	\$857.6m	\$345.2m	\$414.7m	\$359.8m	\$126.2m	\$131.8m	\$132.3m
D: Notional cost recovery rate	5.9%	5.8%	7.0%	6.6%	6.6%	7.1%	11.3%	8.9%	9.5%	9.7%	8.9%	8.8%
E: Cost recovery from regular resources using notional rate	\$76m	\$74m	\$88m	\$397.0m	\$396.5m	\$428.0m	\$141.0m	\$114.0m	\$120.6m	\$35.3m	\$32.7m	\$32.5m
F: Regular resources available for programmatic component	\$910m [67.3% of total]	\$746m [55.1% of total]	\$852m [63.0% of total]	\$4,243.8m [66.0% of total]	\$4,083.6m [63.6% of total]	\$4,169.7m [65.0% of total]	\$906.1m [65.1% of total]	\$863.6m [62.0% of total]	\$874.0m [62.8% of total]	\$238.5m [60% of total]	\$235.5m [58.9% of total]	\$235.2m [58.8% of total]

^[1] For UNDP, cost of functions protected by regular resources under CO leadership include the 'Resident Representative' portion of full leadership and, as such, it is treated as a partially funded post.

Table 2. Annualized ‘subsidy’ between regular and other resources for each proposal vs. current cost recovery rate

In US\$ millions

A. Calculations for each agency separately

		UNDP			UNICEF			UNFPA			UN Women		
		Current model	LEGO option A (per Jan/18 presentation to EB)	LEGO option B Application of LEGO blocks to UNDP business model	Current model	LEGO option A (per Jan/18 presentation to EB)	LEGO option B Application of LEGO blocks for UNICEF business model	Current model	LEGO option A (per Jan/18 presentation to EB)	LEGO option B Application of LEGO blocks for UNFPA business model	Current model	LEGO option A (per Jan/18 presentation to EB)	LEGO option B Application of LEGO blocks for UN Women business model
A: Notional cost recovery rate		5.9%	5.8%	7.0%	6.6%	6.6%	7.1%	11.3%	8.9%	9.5%	9.7%	8.9%	8.8%
B: Cost recovery from other resources with the notional cost recovery rate		\$289	\$283	\$336	\$271	\$271	\$292	\$56	\$45	\$48	\$21	\$20	\$20
C: Cost recovery from other resources with an 8% cost recovery rate		\$382	\$382	\$382	\$325	\$325	\$325	\$41	\$41	\$41	\$18	\$18	\$18
D: (C - B) Difference in cost recovery between the notional cost recovery rate and an 8% cost recovery rate	Subsidy from other resources to regular resources	\$93	\$99	\$46	\$54	\$54	\$33						
	Subsidy from regular resources to other resources							(\$15)	(\$4)	(\$7)	(\$3)	(\$2)	(\$2)
E: for reference - annualized size of the organization (total regular and other resources)		\$5,837	\$5,837	\$5,837	\$5,993	\$5,993	\$5,993	\$897	\$897	\$897	\$440	\$440	\$440

Table 2. Annualized ‘subsidy’ between regular and other resources for each proposal vs. current cost recovery rate
In US\$ millions

B. Calculations for the four agencies combined as a total

	Current model	LEGO option A	LEGO option B
Net subsidy (from other to regular resources)	\$129	\$147	\$70
Fer reference - annualized size of the four agencies combined (total regular and other resources)	\$13,166	\$13,166	\$13,166