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## DRAFT

# Joint Briefing on Cost Recovery

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

27 August 2018



# Topics covered in the Presentation

## I. Introduction

- Overarching principles/objectives

## II. Presentation/Discussion of evidence-based proposals

- Components of costs
- Proposal 1: Continuation of the Current Cost Recovery Policy
- Proposal 2: Modular 'LEGO building block' approach – Option A or B
- Estimated indicative cost recovery rates and protected levels of core functions by agency

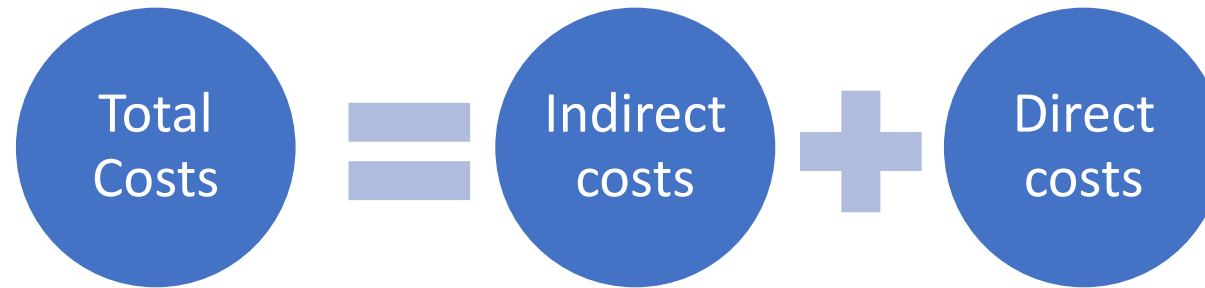
## III. Annex – cost classification categories

# I. Introduction - Overarching principles/objectives

1. Continue a harmonized approach 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 cost-effective 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

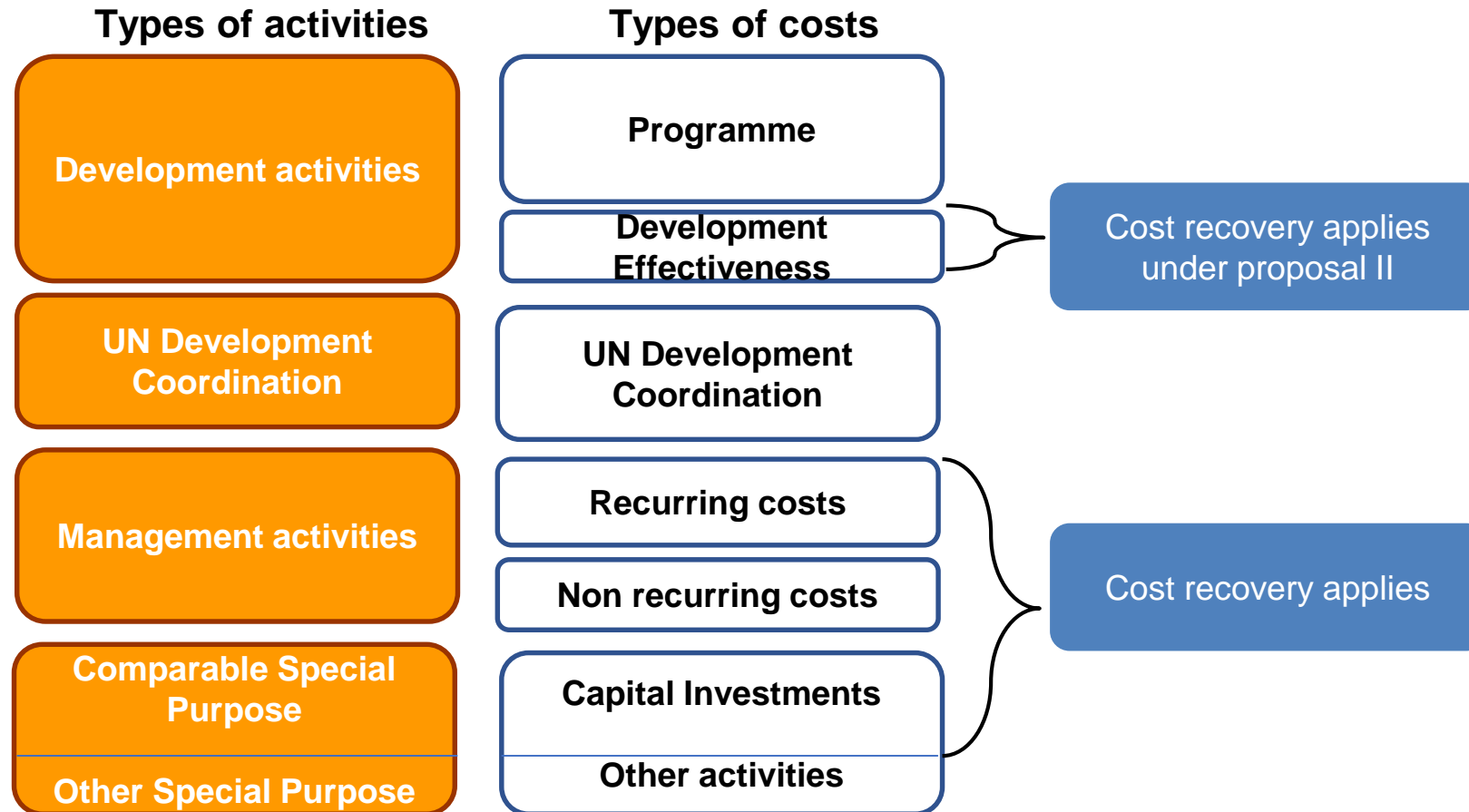
- Costs that are indirectly linked to the delivery of development results are recovered through the cost recovery rate

#### 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.

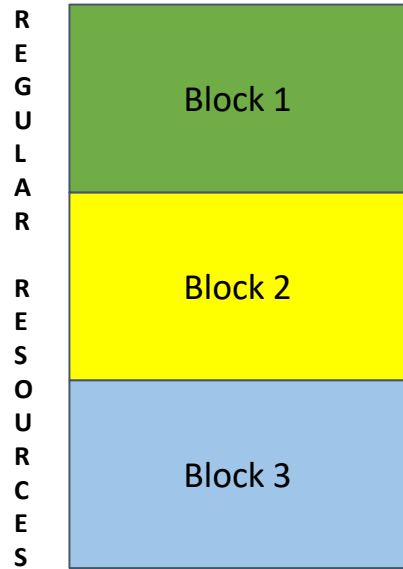
# Recap: What is the link between cost recovery and cost classification?



# 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 identifies the following functions to be protected and hence covered from regular resources or directly funded from programmes, as approved by the Executive Board:
  - 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
4. The balance (i.e. the total institutional budget less items under 3.a-3.d) is covered by cost recovery

# Proposal 2 - Modular 'LEGO building block' approach



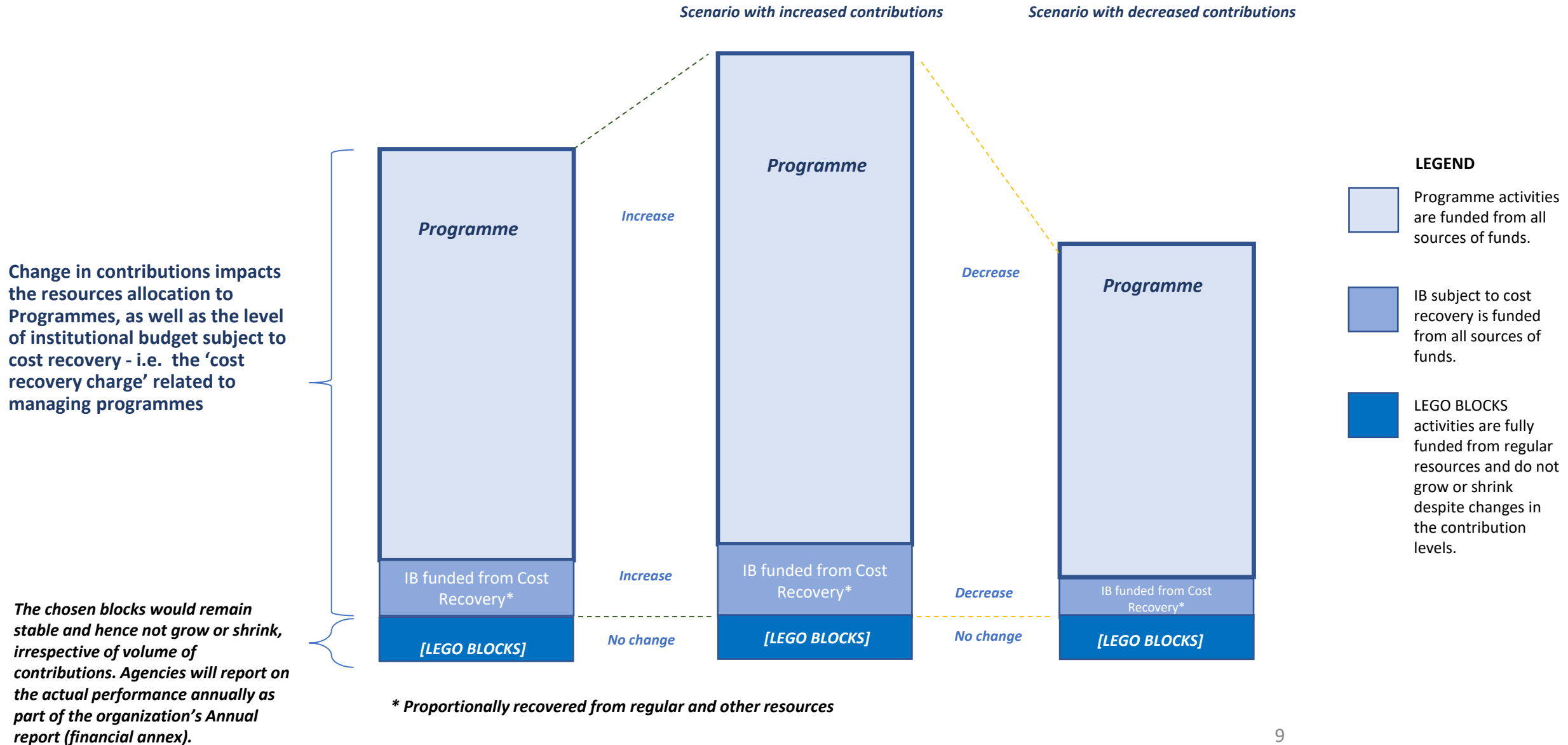
1. As with the current methodology, the cost recovery model is designed to recover the designated costs of the Institutional Budget - thus the starting point is the total Institutional Budget
2. From this starting point, “blocks” are presented to provide a spectrum of what can be considered as a minimum 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. The balance of the Institutional Budget would be covered by cost recovery.
3. These “blocks” would then be solely funded from regular resources and thus the costs of the function they encompass would not be covered by cost recovery model
4. The modular “Lego building block” cost recovery approach allows for consideration of various permutations of block elements, in line with request of the EBs

## Modular 'LEGO building block' approach

1. Represents an opportunity for the EB members to identify the critical items to be 'protected', so as to be funded 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; January, March 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

(\*) refer to annexes 2A-2D for details for each agency

**Table 1. Evidence of effective average indirect cost-recovery rate for each agency, 2014-2017**

<b>Effective average indirect cost-recovery rates</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2014-2017 (weighted average)</b>
UNDP	6.1%	6.3%	6.4%	6.1%	6.2%
UNFPA	7.07%	7.10%	7.27%	7.33%	7.19%
UNICEF	6.3%	6.5%	6.6%	7.5%	6.8%
UN-Women	7.12%	7.00%	7.14%	7.255	7.13%

**Table 2. Waivers granted, by agency, 2014-2017**

<b>Number of waivers</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
UNDP	24	9	12	6	51
UNFPA	4	4	4	7	19
UNICEF	1	9	0	2	12
UN-Women	1	1	6	5	13

**Table 3. Estimated financial impact of indicative indirect cost recovery rates for protected levels by Agency (2018-2019/21)**

<b>%</b>	<b>UNDP</b>	<b>UNICEF</b>	<b>UNFPA</b>	<b>UN Women</b>
Current model	5.9	6.6	11.3	9.4
Modular LEGO A	5.8	6.6	8.9	8.6
Modular LEGO B	7.0	7.1	9.5	9.5
<b>Modular LEGO A</b>	<b>UNDP</b>	<b>UNICEF</b>	<b>UNFPA</b>	<b>UN Women</b>
Block 1	7.4	9.1	13.3	16.7
Block 1+2	6.8	8.7	10.6	12.5
Block 1+2+3	5.8	6.6	8.9	8.6
<b>Modular LEGO B</b>	<b>UNDP</b>	<b>UNICEF</b>	<b>UNFPA</b>	<b>UN Women</b>
Block 1	8.0	9.4	13.8	17.0
Block 1+2	7.5	9.0	11.1	12.8
Block 1+2+3	7.0	7.1	9.5	9.5

**Table 4. Estimated level of protected core functions by Agency (2018-2019/21)  
USD millions**

	UNDP	UNICEF	UNFPA	UN-Women
<b>Current model</b>	\$367	\$815	\$345	\$126

<b>Modular 'LEGO' A</b>				
BLOCK 1	\$366	\$447	\$289	\$76
BLOCK 2	\$69	\$89	\$77	\$28
BLOCK 3	\$98	\$439	\$49	\$28
<b>Total</b>	<b>\$533</b>	<b>\$975</b>	<b>\$415</b>	<b>\$132</b>

<b>Modular 'LEGO' B</b>				
BLOCK 1	\$308	\$392	\$274	\$74
BLOCK 2	\$52	\$89	\$77	\$28
BLOCK 3	\$53	\$377	\$46	\$23
<b>Total</b>	<b>\$413</b>	<b>\$858</b>	<b>\$398</b>	<b>\$125</b>

# Elements of a decision:

The Executive Board may wish to:

1. *Recall* UNDP/UNFPA Executive Board decision 2013/9, [United Nations Children’s Fund Executive Board decision 2013/5, and the United Nations Entity for Gender Equality and the Empowerment of Women Executive Board decision 2013/2], which endorsed the current harmonized cost-recovery policy;
2. *Recall* UNDP/UNFPA Executive Board decisions 2017/11 and 2017/14, [United Nations Children’s Fund Executive Board decisions 2017/7 and 2017/14 and the United Nations Entity for Gender Equality and the Empowerment of Women Executive Board decision 2017/2], in which the Executive Board directed the agencies to implement the cost-recovery policy and ensure full cost recovery proportionally from regular and other resources funding sources, and provide incentives to increase regular resources funding;
3. *Take note* of the report DP/FPA/ICEF-UNW/2018/1 and the two proposals for the recovery of indirect costs presented therein;
4. *Note* that the evidence-based proposals contained in the report DP/FPA/ICEF-UNW/2018/1 may be considered in the context of several strategic issues, including, but not limited to, the outcome of implementation of the General Assembly resolution 72/279 of 31 May 2018 (A/RES/72/279) pertaining to the repositioning of the United Nations development system as well as other areas set out in chapter V of the report, which will affect the harmonized cost-recovery methodology and rates in the future;
5. In this regard, *reaffirm* the harmonized cost recovery policy endorsed by the Executive Board in its decision 2013/9 [United Nations Children’s Fund Executive Board decision 2013/5, the United Nations Entity for Gender Equality and the Empowerment of Women Executive Board decision 2013/2], and *request* UNDP and UNFPA, in consultation with the United Nations Children’s Fund, and the United Nations Entity for Gender Equality and the Empowerment of Women, to present an update after reflecting on the strategic issues referenced in para 4 at the annual session of the Executive Board in 2020.



# Discussion



# ANNEX 1 - cost classification categories

## **Cost classification categories:**

The cost-classification categories and definitions approved in UNDP/UNFPA Executive Board decision 2010/32 and UNICEF Executive Board decision 2010/20 are:

**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:

- (a) *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.
- (b) *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.

**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, oversight, audit, corporate evaluation, information technology, finance, administration, security and human resources. Management costs are classified as recurrent or non-recurrent.

**United Nations development coordination activities:** This comprises activities and associated costs supporting the coordination of development activities of the United Nations system.

**Special-purpose activities:** This covers activities and associated costs of: (a) capital investments; and (b) services for other United Nations organizations.



## Annex 2A – UNDP application of lego blocks (including differences between option A and B) (\*)

Block	Description	Option A: Takes into account full cost of the functions which are included in 'LEGO building blocks'.	Option B: Focus is on leadership(**) (green and yellow LEGO blocks) and on country facing activities (blue LEGO block). Remaining functions are proportionally covered through indirect cost recovery.
Executive leadership, Country Office leadership, Independent Assurance	Executive Office, Ethics Office and Ombudsman	Fully covered by regular resources	Only leadership posts (fully loaded cost of D1 and higher graded positions), plus UNDP contribution to Ombudsman office, are fully covered by regular resources.
	Independent corporate oversight and assurance <ul style="list-style-type: none"> <li>Internal and external audit and investigation</li> <li>Evaluation</li> </ul>	Fully covered by regular resources	Only leadership posts (fully loaded cost of D1 and higher graded positions plus P5 unit chiefs) are fully covered by regular resources.
	Posts of Representative (CD, where applicable) and Deputy Representative (or national equivalent)	(***) 2 Senior positions for all COs are fully covered by regular resources	(***) 2 Senior positions for large COs, and 1 senior position for medium/small COs, including operations leadership fully covered by regular resources
	Support to UN Development Coordination Support to UNV and UNCDF	Fully covered by regular resources	Fully covered by regular resources
Directing advocacy, resource stewardship and technical leadership	Leadership of management functions at HQ and Regional Office levels: Fiduciary, IT, Human Resources, Partnerships and Security management functions	Fully covered by regular resources	Only leadership posts (fully loaded cost of D1 and higher graded positions) are fully covered by regular resources.
	Leadership of development effectiveness functions at HQ and Regional Office levels: Technical leadership, programmatic policy and support for norm setting functions	Fully covered by regular resources	Only leadership posts (fully loaded cost of D1 and higher graded positions) are fully covered by regular resources.
Integrating professional standards, norms and quality assurance	Remaining development effectiveness functions: <ul style="list-style-type: none"> <li>Integration of professional standards and quality assurance</li> <li>Programme-policy advisory functions</li> </ul>	Fully covered by regular resources	Only positions that provide country level support, as well as country-facing programme policy advisory support, including south-south cooperation are covered by regular resources

(\*) Coverage of positions under both options A and B relates to post plus related non-post costs.

(\*\*) Leadership sets the direction, is responsible for executive management, inter-bureaux and inter-agency coordination, reporting to the Executive Board, research and innovation, partnerships, oversight and assurance, fiduciary functions and operations. Leadership also spearheads the policy, planning and overall management in the respective functional areas for each organization. Leadership ensures that UN norms and standards are integrated across all areas of work.

(\*\*\*) Represents the 'RR' portion of the cost of positions, whereas the 'RC' portion is covered under support to UN Development Coordination. For option B, this covers the financial equivalent of the fully loaded cost of Resident Representative positions in all LICs/MICs plus a pool of regular resources for operations leadership.

## Annex 2B – UNFPA application of lego blocks (including differences between option A and B)

Block	Description	Option A	Option B
<b>Block 1:</b> Executive leadership, Country Office leadership, Independent Assurance	Executive Office, Ethics and Ombudsman	Fully covered by regular resources	Only leadership posts (+30% GOE), plus UNFPA contribution to Ombudsman office, are fully covered by regular resources.  Remaining functions are proportionally covered through indirect cost recovery.
	Independent corporate oversight and assurance * Internal and external audit and investigation * Evaluation	Fully covered by regular resources	Fully covered by regular resources
	Posts of Representative and Deputy Representative (or national equivalent)	Fully covered by regular resources	Fully covered by regular resources
	Support to UN Development Coordination	Fully covered by regular resources	Fully covered by regular resources
<b>Block 2:</b> Directing advocacy, resource stewardship and technical leadership	Leadership of management functions at HQ and RO levels: Fiduciary, IT, Human Resources, Partnerships and Security management functions	Fully covered by regular resources	Fully covered by regular resources
	Leadership of development effectiveness functions at HQ and RO levels: technical leadership, programmatic policy and support for norm setting functions	Fully covered by regular resources	Fully covered by regular resources
<b>Block 3:</b> Integrating professional standards, norms and quality assurance	Remaining development effectiveness functions: * Integration of professional standards and quality assurance * Programme-policy advisory functions	Fully covered by regular resources	Substantive functions (international professional positions +30% GOE) in headquarters and regional offices covered by regular resources  Remaining functions in headquarters and regional offices covered proportionally through indirect cost recovery

## Annex 2C – UNICEF application of lego blocks (including differences between Option A and Option B)

Block	Description	Option A	Option B
<b>Block 1:</b> Executive leadership, Country Office leadership, Independent Assurance	Executive Office, Ethics and Ombudsman	Executive and Ethics Offices fully covered by regular resources.	Leadership posts (+30% GOE), plus 40% of UNICEF contribution to Ombudsman office, are fully covered by regular resources.  Remaining functions are proportionally covered through indirect cost recovery.
	Independent corporate oversight and assurance * Internal and external audit and investigation * Evaluation	Fully covered by regular resources	Only leadership posts (+30% GOE) are fully covered by regular resources.  Remaining functions are proportionally covered through indirect cost recovery.
	Posts of Representative and Deputy Representative (or national equivalent)	Fully covered by regular resources	Fully covered by regular resources
	Support to UN Development Coordination	Fully covered by regular resources	Fully covered by regular resources
<b>Block 2:</b> Directing advocacy, resource stewardship and technical leadership	Leadership of management functions at HQ and RO levels: Fiduciary, IT, Human Resources, Partnerships and Security management functions	All Critical Recurring senior management functions fully covered by regular resources	Critical Recurring senior management functions (+30% GOE) fully covered by regular resources.  Remaining functions are proportionally covered through indirect cost recovery
	Leadership of development effectiveness functions at HQ and RO levels: technical leadership, programmatic policy and support for norm setting functions	All HQ and RO senior management functions fully covered by regular resources	Critical Recurring senior management functions (+30% GOE) fully covered by regular resources  Remaining functions are proportionally covered through indirect cost recovery
<b>Block 3:</b> Integrating professional standards, norms and quality assurance	Remaining development effectiveness functions: * Integration of professional standards and quality assurance * Programme-policy advisory functions	Fully covered by regular resources	Substantive functions (international professional positions +30% GOE) in headquarters and regional offices covered by regular resources  Remaining functions in headquarters and regional offices covered proportionally through indirect cost recovery

## Annex 2D - UN Women application of lego blocks (including differences between Option A and Option B)

Block	Description	Option A	Option B
<b>Block 1:</b> Executive leadership, Country Office leadership, Independent Assurance	Corporate leadership support to the Executive Office	Fully covered by regular resources.	Covered by regular and indirect resources
	Posts of Representative, Country Director (or national equivalent),	Fully covered by regular resources	Fully covered by regular resources
	Support to UN Development Coordination	Fully covered by regular resources	Fully covered by regular resources
	Independent corporate oversight and assurance * Internal Audit Office * Evaluation	Fully covered by regular resources	Fully covered by regular resources
<b>Block 2:</b> Directing advocacy, resource stewardship and technical leadership	Leadership of management functions at HQ and RO levels: Fiduciary, IT, Human Resources, Partnerships and Security management functions	Fully covered by regular resources	Fully covered by regular resources
	Leadership of development effectiveness functions at HQ and RO levels: technical leadership, programmatic policy and support for norm setting functions	Fully covered by regular resources	Fully covered by regular resources
<b>Block 3:</b> Integrating professional standards, norms and quality assurance	Remaining development effectiveness functions: * Integration of professional standards and quality assurance * Programme-policy advisory functions	Fully covered by regular resources	International Professional Posts at HQ and RO covered by regular resources and all others by indirect cost recovery