

COST RECOVERY POLICY

Joint Preliminary Comprehensive Proposal

Summary

Recalling UNDP/UNFPA Executive Board decision 2018/21, UNICEF Executive Board decision 2018/21 and UN-Women Executive Board decision 2018/6, in which 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) to review in a comprehensive manner cost-recovery rates, as part of the comprehensive proposal; and (c) to 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.

Recalling UNDP/UNFPA Executive Board decision 2019/21, UNICEF Executive Board decision 2019/28 and UN-Women Executive Board decision 2019/12, in which the Executive Boards requested additional information on recommendation 3. The present joint report responds to the request on recommendation 3 (regarding the oversight & assurance functions).

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A. Introduction & Recap

1. The present report responds to the requests of the Executive Boards of UNDP/UNFPA, UNICEF and UN-Women (“the agencies”) on the issue of cost recovery. Executive Board decisions 2018/21 (UNDP/UNFPA), 2018/21 (UNICEF) and 2018/6 (UN-Women) 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) to review in a comprehensive manner cost-recovery rates, as part of the comprehensive proposal; and (c) to 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 paper also responds to UNDP/UNFPA Executive Board decision 2019/21, UNICEF Executive Board decision 2019/28 and UN-Women Executive Board decision 2019/12, in which the Executive Boards requested additional information on recommendation 3 with respect to harmonization of cost classifications between the agencies (DP/FPA-ICEF-UNW/2019/1).

B. Cost classification recommendation: Oversight & Assurance

3. Recalling UNDP/UNFPA Executive Board decision 2019/21, UNICEF Executive Board decision 2019/28 and UN-Women Executive Board decision 2019/12, which endorsed further alignment relating to cost classification for application effective 2022, and which called 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 its institutional budget. The proposed definition of this cost category is, “*activities and associated costs supporting the independent audit and investigations and corporate evaluation functions*”.
4. The rationale and benefit of including independent oversight and assurance activities as a separate cost classification is that in successive Executive Board sessions, the agencies have been asked for increased transparency on the budget for the independent oversight and assurance functions. Through proposing a separate cost classification, the agencies are able to highlight the costs for a second line of defense and costs for the third line of defense. It also further promotes the independent nature of these functions and enables the Executive Boards an easier comparison of investments made to the independent oversight functions by each agency.
5. Further details on the numbers and presentation of this cost classification within the institutional budget is provided in Annex 2 – Mock up for Recommendation 3.

C. Cost recovery: strategic issues

6. QCPR: General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (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 and/or standards to

implement strategic plans. This differs with the mandate of a project implementation agency, particularly given the gradual relative escalation of other resource contributions.

7. **Funding Compact:** The decision on further harmonization of cost recovery policy within the four agencies should be seen within the context of the broader UN 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 UN 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 Board, are the most harmonized with respect to cost classification and their harmonized cost recovery policy than any other two agencies in the UN system.
8. **Lessons Learned & Cost Efficiencies:** The effort to harmonize cost classification and cost recovery policies originated in 2009, with the Executive Board directing UNDP, UNFPA & UNICEF (note: UN Women formed in 2010) to present a roadmap to achieve harmonized budgets by 2014 in 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.
9. **Delinking of RC System (GA Resolution 72/279):** A reinvigorated RC system is at the center of a repositioned UNDS at the country level, with an enhanced coordination function promising to add critical value to the UN Country Team's (UNCT) support to national development priorities. Among the four harmonized agencies, this GA Resolution most directly affects UNDP with changes to its management & 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 principal operational support provider to the new RC system. In so doing UNDP remains firm to honour its commitment to an optimally repositioned UNDS, and this harmonized cost classification and cost recovery policy to deliver on the 2030 Agenda. In connection to this, the discussion on critical cross cutting functions, whilst 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.

D. Cost recovery: basis and principles

10. These 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 at the second regular session 2018, in DP/FPA-ICEF-UNW/2018/1 (copied into Annex 3 attached here).
11. 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 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 critical functions must be assured from regular resources.

12. 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.
13. 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 (see Section E below).
14. 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.
15. 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. 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 function at headquarters and unit level;

The current harmonized cost recovery policy

16. 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 at the second regular session 2018, in DP/FPA-ICEF-UNW/2018/1, and reaffirmed in UNDP/UNFPA Executive Board decision 2018/21, UNICEF Executive Board decision 2018/21 and UN-Women Executive Board decision 2018/6.

17. 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 categories¹ are:
 - a. development activities (composed of programme and development effectiveness categories);
 - b. United Nations development coordination;
 - c. Management;
 - d. special-purpose activities.
18. 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^{1,2}:
 - 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. Critical cross-cutting management functions^{1,3}: integral to the existence and advancement of the mandate;
 - d. Non-comparable special-purpose activities: largely agency-specific, not harmonized among the four agencies.

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

19. 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.
20. In UNDP/UNFPA decision 2013/9, UNICEF decision 2013/5 and UN-Women decision 2013/2, 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 (non-core) contributions was endorsed, consistent with the principle of full cost recovery as mandated by the QCPR.
21. 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.

¹ Refer to the Glossary 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. As such, they are directly funded from RR and OR.”

³ Refer to the glossary for explanation of the concept.

E. Cost recovery: proposed approach

22. 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 will under the proposed changes per the September 2019 Executive Board decisions and proposal to show the Oversight & Assurance functions separately, lead to revised management and critical cross-cutting management functions, the latter due to the effects of the RC function de-linking to UNDP's management structure. The areas of change are bolded and underlined in the below copy of the current cost recovery policy.
23. *"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 categories⁴ are:*
- a. development activities (composed of programme and development effectiveness categories);*
 - b. United Nations development coordination;*
 - c. **Removed: Oversight & Assurance activities** from Management;*
 - d. **Added: Oversight & Assurance activities**;*
 - e. special-purpose activities.*
24. *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^{1,5}:*
- 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: Oversight & Assurance activities** from critical cross-cutting management functions^{1,6}: integral to the existence and advancement of the mandate;*
 - d. **Added: Critical cross-cutting Oversight & Assurance functions**;*
 - e. Non-comparable special-purpose activities: largely agency-specific, not harmonized among the four agencies.*

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

25. *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.*

⁴ Refer to the Glossary for definitions of cost categories.

⁵ 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. As such, they are directly funded from RR and OR."

⁶ Refer to the glossary for explanation of the concept.

26. In UNDP/UNFPA decision 2013/9, UNICEF decision 2013/5 and UN-Women decision 2013/2, 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 (non-core) contributions was endorsed, consistent with the principle of full cost recovery as mandated by the QCPR.
27. 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.”

F. Cost recovery: rates

Effective average indirect cost-recovery rate by agency, 2014-2018

28. During the period 2014-2018, the agencies were compliant with their respective Executive Board decisions on cost recovery⁷. 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.

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%	7.10%	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%	7.00%	7.14%	7.25%	7.0%	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	9	28
UNICEF	1	9	0	2	5	17
UN-Women	1	1	6	5	10	23

⁷ For UNDP this includes Executive Board-approved transitional measures of \$199 million during 2014-2017 per EB decision 2013/28

29. Looking forward, 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 3 below. 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, the opposite is true, its notional cost-recovery rate is above the standard rate at 10.3 per cent (UN-Women pending change management exercise).

Notional indirect cost recovery rate under 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%	To be available by February 2020 pending change management exercise

G. Cost recovery: advantages & challenges

30. The agencies recognize that due to different mandates, structures and economies of scale, the calculation of a single notional cost recovery rate for the four agencies is mathematically impossible. Where the harmonized standard rate is lower than the notional cost recovery rate, the shortfall would be funded from regular (core) resources. Where the harmonized standard rate is higher than the notional cost recovery rate, the difference is funded from other (non-core) resources.
31. 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 UNDS agencies have different rates, mostly lower. This creates challenges in negotiating joint programming.
32. Nevertheless, 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 UN coherence, particularly at the country level. It also reduces competition among the four agencies (though not UN wide), simplifies negotiation and reduces transaction costs and eases communication/mainstreaming and uniformity across joint programmes.
33. 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 UN entities such as the UN Secretariat and others each have a different cost recovery methodology and rate. Having collectively harmonized the cost classification methodology and cost recovery policy of the agencies, it is the position of UNDP, UNFPA, UNICEF & UN-Women to maintain the current system.

34. 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.
35. The current harmonized approach to cost classification and cost recovery has led to significant changes in each of the agency’s financial management and reporting. The agencies are of the opinion that it is more beneficial to turn attention to working with other agencies to further harmonize cost recovery within the UN as part of the SG's funding compact, as well as to focus on more pressing and value adding work directly linked to their mandates.
36. The current approach, although imperfect, is acceptable to the four agencies and forms a good basis for discussing harmonization across the UN system. The model, and its application is practical and works. Moreover, it will from 2022 onwards be premised on a more harmonized application of the cost classification categories.

H. Case for continued harmonization

37. The calculation of a single indirect cost-recovery rate across multiple United Nations organizations is not possible because of differences in economies of scale, mandates, and structures. However, this does not necessarily preclude the establishment of a harmonized standard rate, if it is understood that where the harmonized standard rate is lower than the notional indirect cost-recovery rate, the shortfall would be funded from regular resources. It will also hold true that, where the harmonized standard rate is higher than the notional indirect cost-recovery rate, the difference would be funded from other resources.
38. Table 4 below shows a comparative analysis of harmonized versus organization-specific cost recovery rates, including opportunities, challenges and risks:

Table 4. 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 UN 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, etc.
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, etc. At the margin, may result in under- or over-recovery.

39. 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 quadrennials. Harmonized rates are an integral dimension of UN coherence, particularly at the country level, and to providing the right incentives for Delivering as One and joint programming.

40. General Assembly resolution 72/279 calls for a further harmonization of cost recovery by individual United Nations development system entities, and in this regard 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 UNSDG entities at the HLCM/Finance and Budget network meetings, and work has initiated at Finance & Budget network level on this topic.
41. 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’s work, and that in addition to full compliance with established cost-recovery policies, entities of the 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.

I. Elements of a decision

42. The Executive Board may wish to:
 - a. Take note of the report 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 of activities and associated costs supporting the independent audit and investigations and corporate evaluation functions”, and
 - 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 UNDP/UNFPA decision 2013/9, UNICEF decision 2013/5 and UN-Women decision 2013/2, which was reaffirmed in decisions UNDP/UNFPA decision 2018/21, UNICEF decision 2018/21 and UN-Women decision 2018/6.
 - e. In line with Executive Board decision 2018/21, on the basis of the present report, request UNDP, UNFPA, UNICEF and UN-Women to fully update the current harmonized cost recovery policy to account for the appropriate cost classification changes and to present

the final comprehensive proposal for decision by the Executive Boards at the second regular sessions 2020.

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Annexes

Annex 1 - 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 harmonization has been achieved:
 - 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. to review in a comprehensive manner cost-recovery rates, as part of the comprehensive proposal; and
 - iii. to present an assessment of the reasons why full cost recovery is not currently being achieved, as part of the comprehensive proposal.

Annex 2 – Mock-Up of Recommendation 3

UNICEF	2018-2021						2018-2021										
	Regular resources		Other resources		Total resources		Trust funds		Regular resources		Other resources		Total resources		Trust funds		
	\$m	%	\$m	%	\$m	%	\$m		\$m	%	\$m	%	\$m	%	\$m		
1. Resources available																	
Opening balance	562.3		1,235.9	-	1,798.2		727.0		562.3		1,235.9	-	1,798.2		727.0		
Income																	
Contributions	5,801.9		16,512.5	-	22,314.4		-		5,801.9		16,512.5	-	22,314.4		-		
Other income	500.0		-	-	500.0		-		500.0		-	-	500.0		-		
Total income	6,301.9		16,512.5	-	22,814.4		-		6,301.9		16,512.5	-	22,814.4		-		
Tax reimbursement adjustment	(80.0)		-	-	(80.0)		-		(80.0)		-	-	(80.0)		-		
Trust fund receipts	-		-	-	-		7,148.0		-		-	-	-		7,148.0		
Total available	6,784.1		17,748.4		24,532.5		7,875.0		6,784.1		17,748.4		24,532.5		7,875.0		
2. Use of resources																	
A. Development																	
A.1 Programmes	4,360.0	67.9%	15,917.3	-	20,277.3	84.6%	7,116.0		4,360.0	67.9%	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%	-		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%	-		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%	-		589.0	9.2%	133.0	-	721.9	3.0%	-		
Subtotal: Development	4,949.0	77.3%	16,050.3	-	20,999.3	87.6%	7,116.0		4,949.0	77.3%	16,050.3	-	20,999.3	87.6%	7,116.0		
B. United Nations development coordination	23.3	0.4%	25.9	-	49.3	0.2%	-		23.3	0.4%	25.9	-	49.3	0.2%	-		
C. Management	459.9	7.2%	6.4	1,138.0	1,604.3	6.7%	-		446.1	6.9%	6.4	1,103.9	1,556.5	6.5%	-		
D. Independent Oversight and Assurance Activities																	
D.1 Audit and investigations	11.0	0.2%	-	27.1	38.1	0.2%	-		11.0	0.2%	-	27.1	38.1	0.2%	-		
D.2 Corporate Evaluation	2.8	0.0%	-	6.3	9.7	0.0%	-		2.8	0.0%	-	6.3	9.7	0.0%	-		
Subtotal: Independent Oversight and Assurance Activities	13.8	0.3%	-	33.4	47.8	0.3%	-		13.8	0.3%	-	33.4	47.8	0.3%	-		
E. Special purpose																	
E.1 Capital investments	23.0	0.4%	-	57.0	80.0	0.3%	-		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%	-		725.1	11.3%	273.0	-	998.3	4.2%	-		
E.3 Other	240.0	3.7%	-	240.0	1.0%	-			240.0	3.7%	-	240.0	1.0%	-			
Subtotal: Special purpose	988.1	15.4%	273.0	57.0	1,318.4	5.5%	-		988.1	15.4%	273.0	57.0	1,318.4	5.5%	-		
Institutional budget (A.2+B+C+D+E.1)	1,095.2	17.1%	165.3	1,195.0	2,455.5	10.2%	-		1,095.2	17.1%	165.3	1,195.0	2,455.5	10.2%	-		
Integrated budget (A+B+C+D)	6,420.3	100.0%	16,355.6	1,195.0	23,971.0	100.0%	7,116.0		6,420.3	100.0%	16,355.6	1,195.0	23,971.0	100.0%	7,116.0		
3. Closing balance of resources	363.8		197.8		561.6		759.0		363.8		197.8		561.6		759.0		

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

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

2018-2021 estimates					2018-2021 Adjusted for Recommendations 1 & 2					% of Total	
Regular resources	Other resources	Cost recovery	Total resources		Regular resources	Other resources	Cost recovery	Total resources			
Estimated expenditures					Estimated expenditures						
I. Development activities					I. Development activities						
I.A - Programme	1,633.4	19,409.6	-	21,043.0	1,718.0	19,473.1	-	21,191.1		\$148m, 0.6%	
I.B - Development effectiveness	356.1	96.7	322.2	775.0	327.6	96.7	279.4	703.7		\$(71)m, (0.3)%	
Total - I. Development activities	1,989.5	19,506.3	322.2	21,818.0	2,045.6	19,569.8	279.4	21,894.8	91.1%	\$77m, 0.3%	
II. United Nations development coordination activities					II. United Nations development coordination activities						
Total - II. United Nations development coordination activities	126.0	-	-	126.0	126.0	-	-	126.0	0.5%		
III. Management activities					III. Management activities						
III.A - recurring (excluding Independent Evaluation Office, Office of Audit and Investigations and Ethics Office)	601.9	-	1,022.4	1,624.3	545.8	-	991.7	1,537.5		\$(87)m, (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 recurring	688.8	-	1,050.7	1,739.5	632.7	-	1,020.0	1,652.7			
III.B - non-recurring	28.0	-	-	28.0	28.0	-	-	28.0			
Total - III. Management activities	716.8	-	1,050.7	1,767.5	660.7	-	1,020.0	1,680.7	7.0%		
IV. Special purpose activities					IV. Special purpose activities						
IV.A - Capital investments	-	-	29.9	29.9	-	-	39.9	39.9		\$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 Fund	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	54.6	-	271.5	326.1	1.4%		
Total institutional components	1,093.9	-	1,634.4	2,728.3	1,009.3	-	1,570.9	2,580.2			
Total programmatic components	1,793.0	19,506.3	-	21,299.3	1,877.6	19,569.8	-	21,447.4			
Total Estimated expenditures (I + II + III + IV)	2,886.9	19,506.3	1,634.4	24,027.6	2,886.9	19,569.8	1,570.9	24,027.6	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, \$87m 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

2018-2021 Adjusted for Recommendations 1 & 2					2018-2021 Adjusted for Recommendations 1,2 & revised recommendation 3					% of Total	
Regular resources	Other resources	Cost recovery	Total resources		Regular resources	Other resources	Cost recovery	Total resources			
Estimated expenditures					Estimated expenditures						
I. Development activities					I. Development activities						
I.A - Programme	1,718.0	19,473.1	-	21,191.1	1,718.0	19,473.1	-	21,191.1			
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	19,569.8	279.4	21,894.8	2,045.6	19,569.8	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	126.0	-	-	126.0	0.5%		
III. Management activities					III. Management activities						
III.A - recurring (excluding Ethics Office)	545.8	-	991.7	1,537.5	545.8	-	991.7	1,537.5		\$(111), -0.5%	
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 recurring	632.7	-	1,020.0	1,652.7	549.4	-	991.7	1,541.1			
III.B - non-recurring	28.0	-	-	28.0	28.0	-	-	28.0			
Total - III. Management activities	660.7	-	1,020.0	1,680.7	577.4	-	991.7	1,569.1	6.5%		
IV. Special purpose activities					IV. Special purpose activities						
IV.A - Capital investments	-	-	39.9	39.9	-	-	39.9	39.9			
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	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		\$111, +0.5%	
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	83.3	-	28.3	111.6	0.5%		
Total institutional components	1,009.3	-	1,570.9	2,580.2	1,009.3	-	1,570.9	2,580.2			
Total programmatic components	1,877.6	19,569.8	-	21,447.4	1,877.6	19,569.8	-	21,447.4			
Estimated expenditures (I + II + III + IV + V)	2,886.9	19,569.8	1,634.4	24,027.6	2,886.9	19,569.8	1,634.4	24,027.6	100.0%		

UN Women

Financial Framework - Based on 2018-2019 Integrated Budget- doubled to represent a 4 year budget for comparability
(Millions of United States dollars)

	2018-2019 Assumed			
	Regular resources	Other Resources		Total
		Programme	Cost Recovery	
1. Resources available				
Opening balance	115.0	379.6	56.8	551.4
Income				
Contributions	800.0	897.2	62.8	1,760.0
Other income and reimbursements	6.0			6.0
Total available	921.0	1,276.8	119.6	2,317.4
2. Use of resources				
A. Development activities				
A.1 Programme	465.2	1,027.2		1,492.4
A.2 Development effectiveness	87.5		12.6	100.1
Subtotal Development Activities	552.7	1,027.2	12.6	1,592.5
%				84.0%
B. United Nations development coordination	54.4			54.4
%				2.9%
C. Management Activities				
c.1 Recurring	167.4		50.2	217.6
c.2 Non-recurring				
c.3 Evaluation	13.5			13.5
c.4 Audit and Investigation	11.9			11.9
Subtotal Management Activities	192.8		50.2	243.1
%				12.8%
D. Special-purpose activities				
D.1 Resource Mobilization	2.0	-	-	2.0
D.2 ICT Transformation	4.0	-	-	4.0
Subtotal Special Purpose Activities	6.0			6.0
%				0.3%
Total Institutional Budget (A+B+C+D)	340.5		62.8	403.6
Total Use of resources: (A+B+C+D)	806.0	1,027.2	62.8	1,896.0
%				100.0%
Balance of resources: (1-2)	115.0	249.6	56.8	421.4

	2018-2019 MOCK UP			
	Regular resources	Other Resources		Total
		Programme	Cost Recovery	
1. Resources available				
Opening balance	115.0	379.6	56.8	551.4
Income				
Contributions	800.0	897.2	62.8	1,760.0
Other income and reimbursements	6.0			6.0
Total available	921.0	1,276.8	119.6	2,317.4
2. Use of resources				
A. Development activities				
A.1 Programme	465.2	1,027.2		1,492.4
A.2 Development effectiveness	89.6		12.6	102.2
Subtotal Development Activities	554.8	1,027.2	12.6	1,594.6
%				84.1%
B. United Nations development coordination	54.4			54.4
%				2.9%
C. Management Activities				
c.1 Recurring	167.9		50.2	218.1
c.2 Non-recurring				
c.3 Evaluation	13.5			13.5
c.4 Audit and Investigation	11.9			11.9
Subtotal Management Activities	193.3		50.2	243.5
%				11.2%
D. Independent Oversight and Assurance Activities				
D.1 Audit and Investigations	11.9			11.9
D.2 Corporate Evaluation	13.5			13.5
Sub Total Independent Assurance	25.4			25.4
%				1.3%
E. Special-purpose activities				
D.1 Capital Investments MOSS	2.4	-	-	2.4
D.2 Resource Mobilization	2.0	-	-	2.0
D.3 ICT Transformation	4.0	-	-	4.0
Subtotal Special Purpose Activities	8.4			8.4
%				0.4%
Total Institutional Budget (A+B+C+D+E)	340.5		62.8	403.6
Total Use of resources: (A+B+C+D+E)	806.0	1,027.2	62.8	1,896.0
%				100.0%
Balance of resources: (1-2)	115.0	249.6	56.8	421.4

*Recommendation 2 is linked to the outcome of UN Women change management initiative entailing a review of functions at HQ, RO and CO, hence this cannot be presented under the mock up for the time being.

Annex 3 – Cost recovery: basis & principles (para 3-9 from DP/FPA-ICEF-UNW/2018/1)

3. 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.
4. 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.
5. 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.
6. 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.
7. 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.
8. 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 (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.
 9. 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.

Annex 4 – Glossary

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, reviewed in decision 2019/21, 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:
 - 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.
- b) **United Nations development coordination activities:** This comprises activities and associated costs supporting the coordination of development activities of the United Nations system.
- c) **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.
- d) **Independent oversight and assurance activities:** This comprises activities and associated costs supporting the independent audit and investigations and corporate evaluation functions.
- e) **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.