

Compendium of written responses to questions from Member States at the Joint Briefing on Cost Classification held on 28 August 2019

Timeline

1. *In the event the recommendations put forward in the 'Joint review of existing cost definitions and classifications of activities and associated costs' (the joint paper) are not approved; how will this impact the timeline for the broader roadmap on cost recovery outlined in the Executive Board decisions 2018/21 (UNDP/UNFPA), 2018/21 (UNICEF) and 2018/6 (UN-Women), as well as the preparation of the integrated budgets starting 2022?*

The timeline of an Executive Board decision on the joint paper on cost classification will have a direct impact on the subsequent steps leading up to the ensuing joint deliverables (i.e. the preliminary comprehensive joint proposal on cost-recovery at the first regular session, 2020, and the final comprehensive proposal on cost-recovery at the second regular session, 2020). Any slippage in the agreed-upon timelines will not allow sufficient lead time to formulate the agencies' next budget proposals in accordance with a new cost recovery policy. Additionally, for UN-Women the Executive Board direction and decision on this joint paper will not only impact the integrated budget preparation, it will also influence their current change management processes.

System-wide harmonization

2. *Why are only UNDP, UNFPA, UNICEF and UN-Women part of the harmonization of cost classification exercise? Resolution 72/279, 2016 QCPR and 2019 funding compact calls out for all UN entities to harmonize to enhance further transparency and comparability across all UN entities.*

The four agencies have shared the joint paper on cost classification and made a presentation on the same at the July 2019 meeting of the High-Level Committee on Management Finance and Budget Network in Geneva to the United Nations Sustainable Development Group (UNSDG) entities. The UNSDG entities well received our dialogue and joint effort, and an inter-agency working group will be established to further the work. We will continue to update the other UN entities on our joint effort whilst noting that the four agencies do not have authoritative influence on the budgeting frameworks of other UN entities. Member states may wish to encourage, through the governing mechanisms of the other UN entities, the UN system-wide harmonization efforts.

Development effectiveness and programme definition

3. *There appears to be some overlap in the items included in development effectiveness and programme? For example, international outreach is mentioned in both development effectiveness and programme costs. Could agencies elaborate further to explain the exact difference between these two categories?*

As indicated in the joint report (paragraph 21), the broad classification of development activities comprises costs associated with programmes and development effectiveness activities which contribute to and are essential for the realization of effective development results. Both the programme and development effectiveness sub-classifications are mutually reinforcing for the realization of effective development results.

The distinction between development effectiveness and programmes is dependent on the respective functions, in particular in HQ vs. Field. Under the corporate HQ role, the contribution to mandated activities is not specific to programme or project deliverable but aligned more with the overall normative mandate, where applicable, and is thus classified as development effectiveness. As an example, in-case of UN-Women, global intergovernmental policy dialogue at HQ falls under Development Effectiveness as it relates to dialogue with Member States and UN entities at HQ with policy implications that impact all countries.

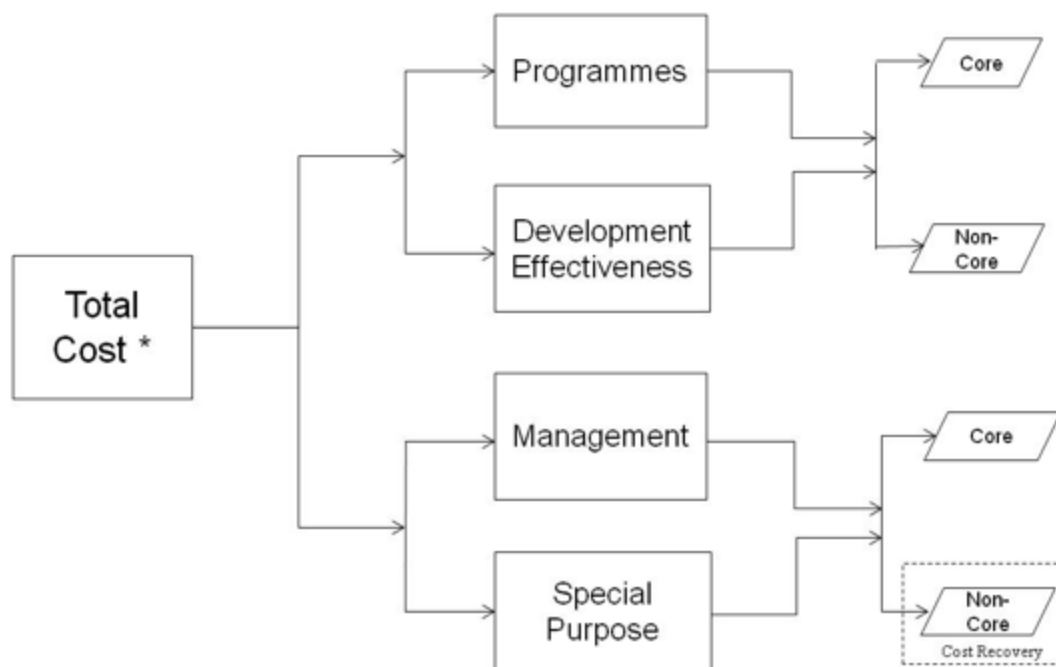
The same function in the field is classified as Programme where it entails activities specific to a Country or Region as defined under a Programme/project. As an example, at the country level, the programme itself can be advocacy-based and the corresponding costs would thus be classified as programme costs. It depends on how the programmes are formulated and what the priorities in that country are. In general, programmes costs are those that directly contribute to output and outcome of the country, regional or global programme.

Source of funding (core vs. non-core) and cost recovery implications

4. *The joint paper does not clarify which cost categories are funded by core resources vs. non-core resources. We request agencies to provide a distinction between what is paid by core resources vs. non-core resources.*

The focus of the Joint Review of the Existing Cost Definitions and Classifications of Activities and Associated Costs (DP/FPA-ICEF-UNW/2019/1) was to further harmonize approaches of the 4 agencies by determining common definitions of cost categories and corresponding activities and functions at a granular level. Funding for the harmonized categories comes both from core and non-core funds as well as from indirect cost recovery, as illustrated in the Roadmap to the Integrated Budget; Joint UNDP, UNFPA and UNICEF review on the impact of cost definitions and classifications of activities on harmonized cost-recovery rates (DP/FPA/2012/1-E/ICEF/2012/AB/L.6) and endorsed by the Executive Boards in 2012. The below chart is excerpted from the document:

Figure 1: Proposed harmonized conceptual framework for defining and attributing organizational costs



* excludes activities and associated costs of a non-comparable nature, such as those relating to United Nations development coordination activities and special-purpose activities (UNV and UNCDF).

5. *The cost classification paper does not describe how the four cost classification categories will be financed? Are these cost categories financed from the indirect cost recovery or are they financed from other sources?*

The financing of cost classifications categories was approved in 2012 as described in question 4 above. Furthermore, an update was provided in the Joint Report on Cost Recovery (DP/FPA-ICEF-UNW/2018/1). In that report Section III: Maintain the current harmonized cost-recovery policy of the Joint Report on Cost Recovery (DP/FPA-ICEF-UNW/2018/1) provides a description of which costs are part of the indirect cost recovery calculation based on the current approved methodology. As per the Executive Boards of UNDP/UNFPA (in decision 2018/21), UNICEF (in decision 2018/21) and UN-Women (in decision 2018/6), the agencies will provide 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.

Recommendation # 3 - RC system and independent oversight and assurance services

6. *Will the RC system and independent oversight and assurance services continue being part of the institutional budget? Is there expected to be a separate appropriation for these cost categories?*

The RC system and independent oversight and assurance services will continue to be part of the integrated resources plan/integrated budget proposal and presented in each organization's document for Executive Board decision. However, the agencies recommend to present these items as separate cost categories and therefore seek separate appropriation, outside of the Institutional Budget, for each of these cost categories for the following reasons:

- a. **Ease of governance by the Executive Board:** The value of differentiating funding between RC system and other activities is that it allows member states to see how each agency is serving its coordination mandate, and recognizes the responsibility of the governing body to comply with GA resolution 72/279 where new RC system is funded a) 1% levy , b) special Trust Fund and c) doubling of current cost-sharing from participating agencies. It also recognizes the fact that the agencies do not have discretion in influencing these decisions, the amount and use of these resources.
 - b. **Independent nature of the oversight functions:** The Executive Boards have consistently requested additional investments to strengthen independent oversight and assurance services, which negatively impacts the agencies' ability to maintain their overall management costs. It also further promotes the independent nature of these functions. In addition, separate appropriation would safeguard the independent functions from any austerity measures that may need to be undertaken in case of income decline, and would enable the Executive Boards to make an easier comparison of investments made to the independent oversight functions by each agency.
7. *Can you confirm that RC system cost sharing is funded by core resources, as the non-core funds are charged the 1% levy?*

Yes, the RC system cost-sharing that is part of the current Institutional budget for each agency is fully funded from core resources.

Operational and other matters

8. *Will there be any implication of these recommendations on each agencies operations and joint programming? What do the agencies see as the benefits of this exercise beyond efficiencies? Do they see any other gains in practice? Will this help in understanding direct vs. indirect costs?*

The agencies do not anticipate these recommendations having any significant operational impact. In terms of joint programming, having a more harmonized approach to cost classification further facilitates (a) understanding of direct and indirect costs that each agency includes, (b) enhances transparency and comparability, and (c) supports better dialogue with funding partners. The same holds true beyond joint programming.

Paragraphs 6 and 7 of the Joint Report on Cost Recovery (DP/FPA/-ICEF-UNW/2018/1) provide details on the components of direct and indirect costs. The purpose of this review was to further harmonize approaches of the 4 agencies by determining common definitions of cost categories and corresponding activities and functions at a granular level. The review helped to understand direct and indirect costs for each agency better and the proposed recommendations will help to further align such costs.

Rationale for remaining differences beyond agency mandate and business model

9. *We aim to harmonize costs as much as possible. Hence, with respect to the remaining differences, we request each agency to provide more detailed explanations beyond “agency mandate and business model” i.e., concrete rationale and examples on why these differences exist and the validity of these differences to be carried forward so to prevent similar questions in the future from the member states.*

Annex 1 provides the rationale for the remaining differences.

Financial implications

10. *What are the financial implications on the budget of each agency if these recommendations are to be endorsed?*

The preliminary estimates of financial implications, based on the current approved integrated budgets, are presented in Annex 2 for each agency. It should be noted that all of the proposals reflect a net zero change for the overall integrated resources frameworks of the agencies. The proposal merely reflects reclassification of costs between various cost classification categories. Moreover, it is important to note that these reclassifications do not reduce the level of resources for core programme.

ANNEX 1 - Rationale for remaining differences

Difference	Rationale
<p>UNDP applies multi-funding of positions P5 and below based on results that positions contribute to (budgetary approval for core resources envelope, not discrete posts).</p>	<p>UNDP applies multi-funding of positions at P5 level and below between cost classification categories based on the results to which the positions contribute. This was introduced in 2014. More specifically, as outlined in the UNDP integrated budget estimates for 2014-2017 (DP/2013/41), (see paragraphs below), the integrated resources plan and integrated budget reflected a strategy for financing positions that recognizes the variety, multiplicity and complexity of the various UNDP funding streams so as to better respond to the evolving development needs of programme countries within the remit of the strategic plan in an accountable, sustainable and agile manner.</p> <p>(DP/2013/39, UNDP's 2014-2017 integrated resources plan/integrated budget):</p> <p><i>54. General Assembly resolution 67/226, and subsequent Executive Board decisions, highlight the principle of full cost recovery, which calls for the alignment of organizational structures with underlying results frameworks and regular and other resources. The integrated budget reflects a strategy for financing positions that recognizes the variety, multiplicity, and complexity of the various UNDP funding streams so as to better respond to the evolving development needs of programme countries within the remit of the strategic plan in an accountable, sustainable and agile manner.</i></p> <p><i>55. The integrated budget incorporates a strategy for financing personnel costs with respect to positions at grade P-5 and below in a manner that more accurately reflects the results framework and the underlying funding sources of the requisite activities by using multiple funding sources. This leads to a more strategic and efficient use of regular resources, allowing UNDP to allocate a greater share to development activities. It results in a more accurate linkage of costs to underlying funding sources.</i></p> <p><i>56. The example below illustrates the change:</i></p> <p><i>(a) Current practice under the institutional budget, 2012-2013, calls for an assistant resident representative-programme (ARR-P) post to be fully core funded even if the ARR-P has responsibilities covering a portfolio of both core and non-core programmes. Furthermore, as the programme portfolio changes, the post continues to be funded from the same core</i></p>

allocation within the budget period.
(b) Under the integrated budget strategy, the same post could, for example – based on the nature of work conducted by the incumbent – be financed from a combination of 70 per cent institutional budget and 30 per cent other resources.

As indicated by UNDP to the ACABQ in DP/2013/42, “ This approach would not reduce the control on the level of regular resources allocated to positions, as control would be exercised at the resource envelope level, thus ensuring that organizational units, and UNDP as a whole, would remain within an approved budget.”

The above stated rationale for introducing the multi-funding of positions at P5 and below still holds for UNDP, as it is specifically reflects UNDP’s funding model, with at present a 12%/88% core/non-core ratio.

Positions in UNDP perform multiple functions and a variety of services and thus contribute to different results, including the funding source. The multi-funding of positions, therefore, enables UNDP to better align the cost of staff with the services and results that they contribute to. This helps ensure that relevant portion of the costs of positions are charged at once to the respective core or non-core source of funding, thus, in line with the QCPR, avoiding cross-subsidization of core resources for services provided to non-core funded activities.

If UNDP were not to apply the multi-funding of positions, and the positions were instead charged to core resources, the level of core resources available for programmes would be reduced.

UNDP reports on the cost of positions annually in its audited financial statements. UNDP reports in more detail to the Executive Board on the cost of positions by source of funding and location in the annual review of the financial situation.

UNFPA and UNICEF attribute all position costs to one specific cost classification category. UN Women mostly follows the same as UNFPA and

UNFPA, UNICEF and UN Women do not use multi-funding approach because their institutional budget is approved based on discrete posts unlike UNDP’s institutional budget which is approved as a funding envelope. Therefore, attribution of position costs to one specific cost classification enables a clear and transparent separation and articulation of direct versus indirect costs and avoids potential for double-charging costs of similar nature for the three agencies. This is in line with the current harmonized cost classification model and aligned with the existing approved cost recovery methodology. It ensures verifiable and consistent

<p>UNICEF, except the classification of senior leadership posts in the field</p>	<p>use of regular resources, allowing the three agencies an accurate and straight-forward linkage of costs with their classification and fully transparent attribution of costs.</p>
<p>UN Women classifies its senior leadership posts (Representatives/ Heads of Offices) as 50% Management and 50% UN Development Coordination while other agencies classify them as Management</p>	<p>UN Women includes full cost of the UN Coordination Unit in Headquarters and the regional coordination specialist posts, and at the regional and country level fifty percent of leadership function and the remaining fifty percent as management. The mandate of UN Women derives from the priorities established in its founding General Assembly resolutions in which UN Women was established as a composite entity that functions as a secretariat, carries out operational activities at the country and regional level and leads, coordinates and promotes the accountability of the United Nations system in its work on gender equality and the empowerment of women. Aligned with this mandate, UN-Women continues to chair the Inter-Agency Network on Women and Gender Equality in leading United Nations system-wide coordination and accountability for results.</p>
<p>UNICEF classifies humanitarian cluster coordination as UN Development Coordination</p>	<p>UNICEF has been designated by the Inter-Agency Standing Committee (for global level), Resident Coordinator and/or Humanitarian Coordinator (at country level) to lead coordination for the humanitarian clusters for water, sanitation and hygiene, nutrition and education, along with the area of responsibility at the global level in child protection. UNICEF includes costs for United Nations system cluster coordination under the United Nations coordination category in the institutional budget as the costs are incurred to fulfil the day-to-day coordination and facilitation of cluster partners' work as the designated humanitarian lead agency, for the clusters indicated above.</p>
<p>UNICEF classifies direct costs/investments for private sector fundraising and procurement services as Special Purpose, not included in the Institutional Budget</p>	<p>As per the approved cost classification definitions, Special Purpose activities include those activities that do not represent costs related to the management activities of the organization.</p> <p>Consistent with the Special Purpose definition, UNICEF classifies third-party procurement under special agreements with Governments and other international organizations as Special Purpose as these are not related to UNICEF management costs of ordinary programme delivery. The costs of third party procurement services are fully covered by third parties.</p>

Special Fundraising Investments in new or existing channels in UNICEF National Committees and selected Programme Country Offices with benchmarked performance rates are classified as Special Purpose in line with UNICEF Financial Rules and Regulations. The special investment for private fundraising is approved and monitored by the UNICEF Executive Board as a separate annual appropriation. Management costs of private fundraising and partnerships as ordinary course of business are included in the Institutional Budget.

The above-mentioned costs represent circumstances specific to UNICEF and are not comparable with other UN agencies.

Annex 2 - Financial implications of cost classification recommendations

Please see the separate attachment.