

Joint comprehensive proposal on the cost-recovery policy

**Joint Consultation with the UNDP/UNFPA, UNICEF &
UN-Women Executive Boards**

4 April 2024

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1. Recap: last informal

- Broad support for maintaining joint harmonized approach to cost recovery and cost classification
- Significant decreased use of waivers across agencies, strengthening effective recovery of indirect costs
- Discussed structural changes affecting agencies including:
 - Steadily declining proportion of core resources puts increasing financial stress on organizations to enhance cost recovery
 - Joint approach requires full recovery of direct as well as indirect costs, some donors are reluctant to accept full direct costs
 - Some elements of current cost classification approach may be complex to communicate to donors

Cost-recovery: basic principles

Components of costs



Cost recovery refers to the recovering or funding the costs associated with programme delivery. Specifically, for UNICEF, UNDP, UNFPA and UN-Women, it also refers to the requirement to ensure that regular resources are not used to subsidize the implementation of programmes funded from other resources.

Direct costs • Costs that are directly attributable to the delivery of programme results are directly funded from regular resources or other resources, depending on where the cost originates

Indirect costs • Costs that are indirectly attributable to the delivery of programme results are recovered through the cost recovery rate

2. Proposal to maintain joint approach

- Value of joint approach to cost recovery and cost classification is supported by UNDP, UNFPA, UNICEF and UN Women and acknowledged by Executive Board and QCPR
- Agencies propose to maintain the joint harmonized approach
- More specifically, Agencies propose to
 - Continue to enhance and institutionalize the attribution of all direct costs to projects/programmes related to programme and allocable operational support activities
 - Maintain the current approved harmonized rates for indirect cost recovery
 - Fine-tune the existing cost classifications (see next slide), with agencies continuing to review the classification of all costs and functions in their application of the joint approach

Overview of cost classification: proposal

Current

1. Development activities
 - a. Programme
 - b. Development Effectiveness

2. UN Development Coordination

3. Management Activities

4. Independent oversight and assurance

5. Special Purpose

Proposed

- Development activities
- a. Programme
 - b. Development Effectiveness (as applicable)

UN Development Coordination

- Enabling functions:
- a. Management
 - b. Independent oversight and assurance
 - c. Special Purpose

Potential for sub-groups (as applicable) within programmes to enhance transparency

Align with FBN definition

3. Way forward

1. As in the current approach, agency specific different mandates, regulatory frameworks and funding models will continue to inform differentiated applications of the cost classifications for each agency
- 1. Proposed application and implementation of the policy:**
 - + Use the “development effectiveness” category only where applicable and material to agencies - simplification for some agencies who have minimal DE functions
 - + Potentially create subgroups within programmes to enhance transparency
 - + Create a new category ‘Enabling Functions’ which would include management, oversight and assurance, and special purpose as sub categories - enabling further harmonization across the UN

3. Way forward: *continued*

3. Further enhance the recovery of direct costs within existing cost recovery policy

- + Agencies continue to enhance the full costing (and funding) of programmes
- + Where possible, recover from projects/programmes all directly attributable costs (including relevant country level costs), and global shared service centre costs
- + Support from all funding partners required as full recovery of direct costs is a necessary component of total cost recovery
- + The EB may wish to consider to note/acknowledge the criticality of ensuring the recovery of all direct projects costs to projects and programmes in the subsequent decisions

4. Next EB sessions

- + Informal in Q2, agencies will share full proposal for continuing joint harmonized approach based on input received from the Executive Board
- + Decision in second regular session 2024

Questions

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