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Joint Briefing on Cost Recovery

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

29 May 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

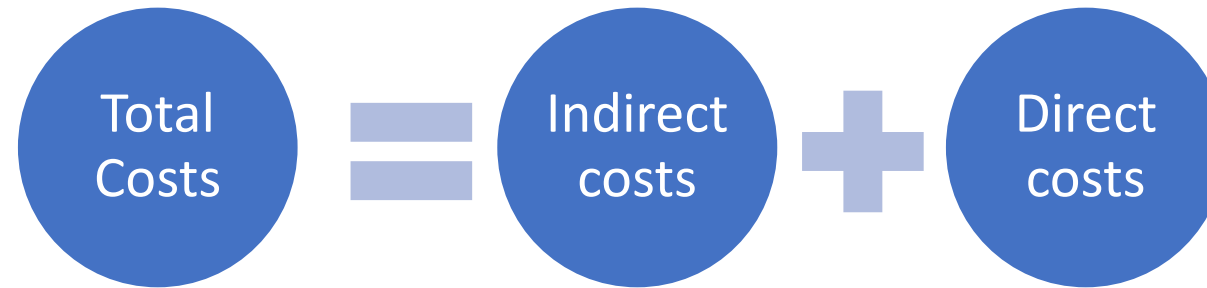
III. Annex – cost classification categories

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

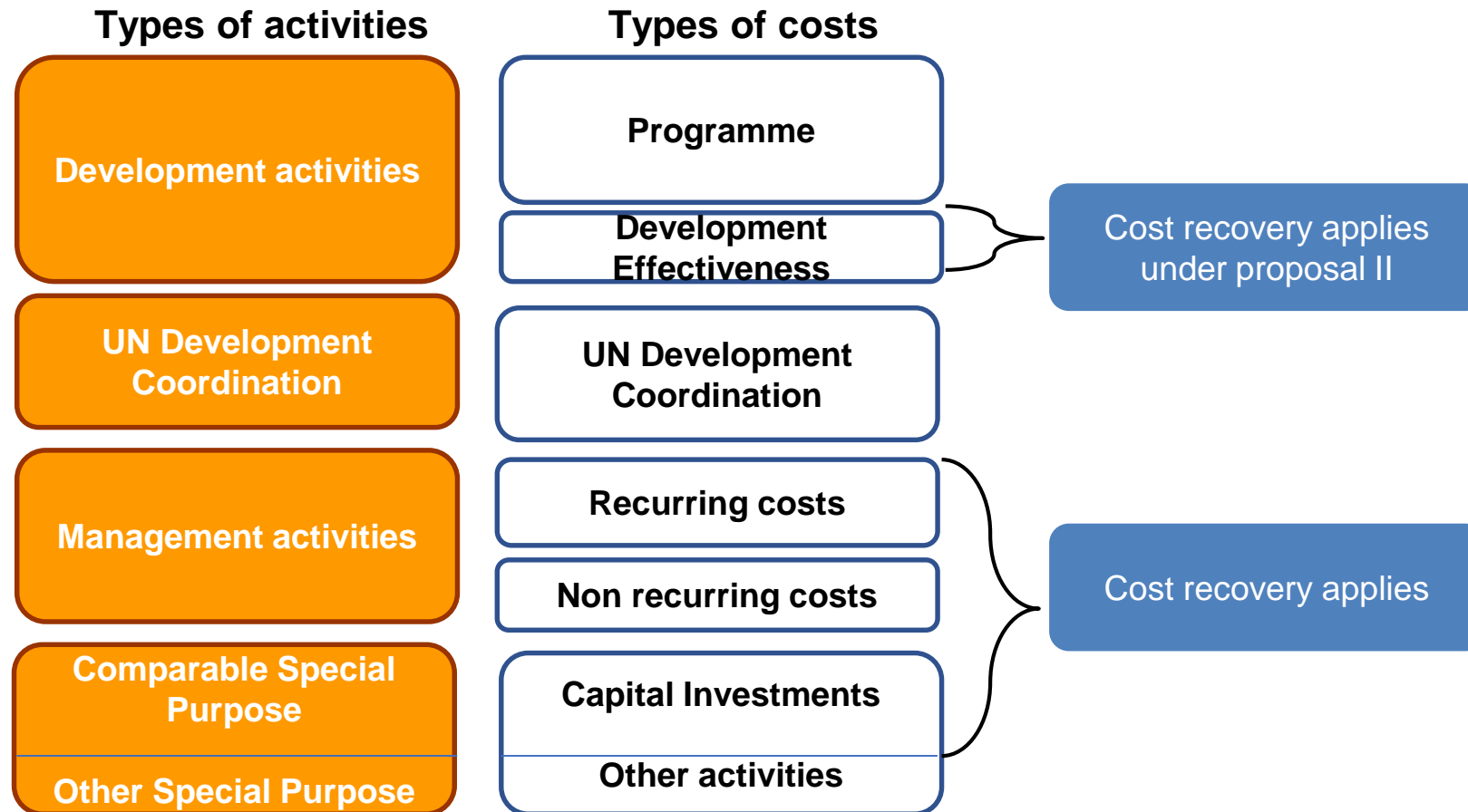
- Costs that are indirectly linked to the delivery of development results are recovered through the cost recovery rate

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.

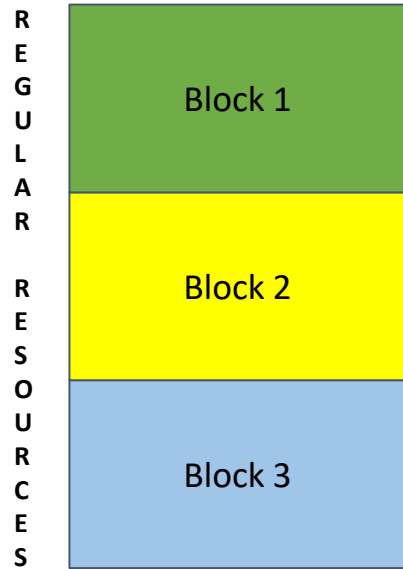
Recap: What is the link between cost recovery and cost classification?



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

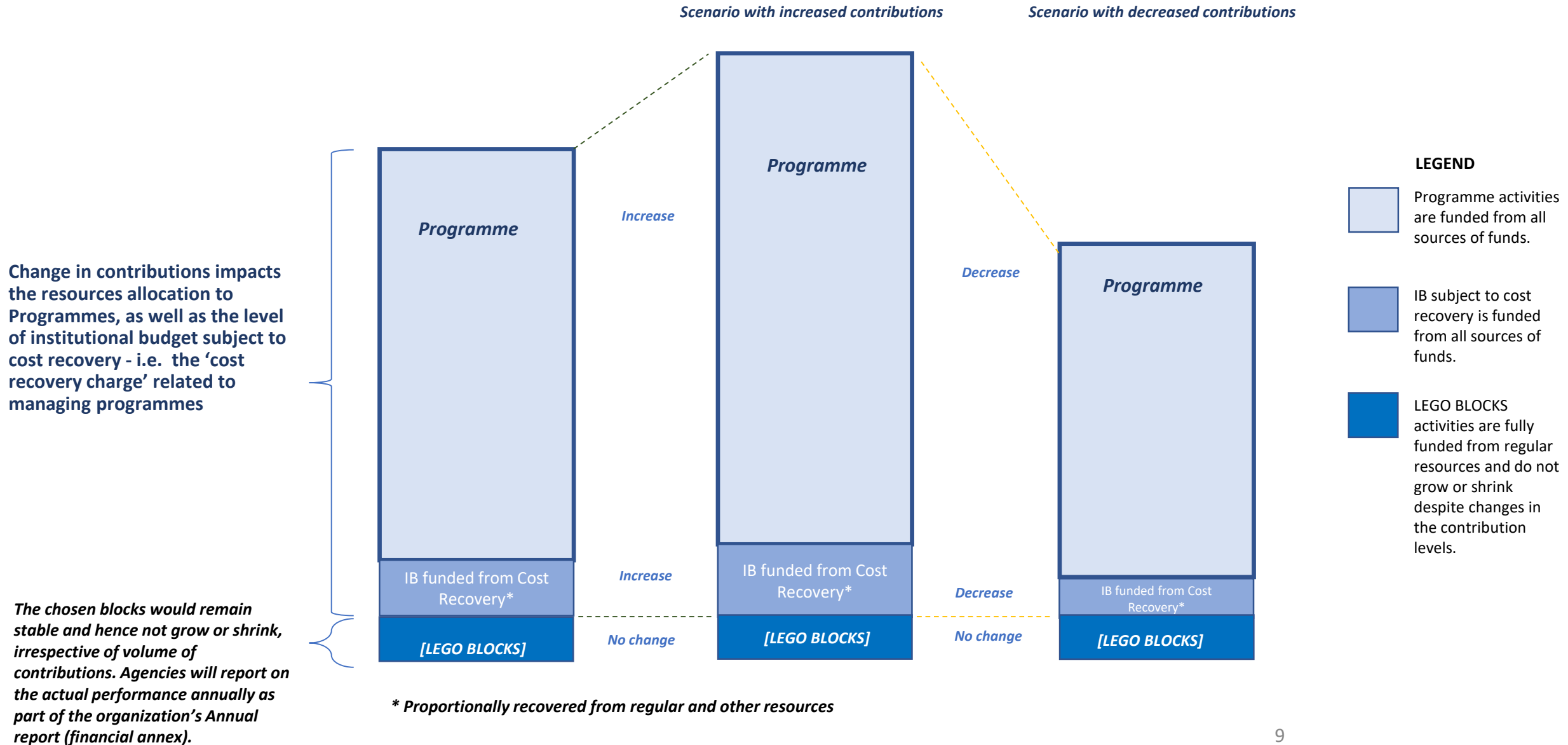


1. As with the current methodology, the cost recovery model is designed to recover the designated costs of the Institutional Budget - thus the starting point is the total Institutional Budget
2. From this starting point, “blocks” are presented to provide a spectrum of what can be considered as a minimum 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

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

Effective average indirect cost-recovery rates	2014	2015	2016	2017	2014-2017 (weighted average)
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

Number of waivers	2014	2015	2016	2017	Total
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)

	UNDP	UNICEF	UNFPA	UN Women
(%)				
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

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

	UNDP	UNICEF	UNFPA	UN-Women
Current model	\$367	\$815	\$345	\$126

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

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



Discussion



ANNEX - 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.