

Information on cost recovery related matters

September 7, 2016

UNDP/UNFPA Executive Board decision 2013/9

Paragraph 15. Requests UNDP and UNFPA, in collaboration with UNICEF and UN-Women, to include in the midterm review of their integrated budgets, information on the implementation of the approved cost-recovery rates, including the approved underlying calculation methodology and the inclusion of each cost category; their actual cost-recovery rates for the two previous financial years; and an analysis of compliance with the principle of full cost recovery, funded proportionally from core and non-core resources, as mandated in General Assembly resolution 67/226;

Paragraph 17. Requests that an independent and external assessment be performed in 2016 on the consistency and alignment of the new cost-recovery methodology with General Assembly resolution 67/226.

UNDP/UNFPA Executive Board decision 2013/9

Paragraph 3. Approves the harmonized methodology for calculating cost-recovery rates presented in document DP-FPA/2012/1-E/ICEF/2012/AB/L.6, which is further developed in the present document (DP-FPA/2013/1- E/ICEF/2013/8), and welcomes the increased **transparency** and **proportionality** in the new harmonized framework;

Paragraph 4. Endorses a general, harmonized cost-recovery rate of 8 per cent for non-core contributions that will be reviewed in 2016, with the possibility of increasing the rate if it is not consistent with the principle of full cost recovery, proportionally from core and noncore funding sources, as mandated by the quadrennial comprehensive policy review of operational activities for development of the United Nations system; and decides that the review of the cost-recovery rate will take place after the analysis and independent assessment of the reports mentioned in paragraphs 15 and 17, below;

Calculation of effective rate (as reported in Independent assessment on cost recovery)

Extracted from UNDP audited Financial Statements for 2013, 2014 and 2015 :

In US\$ millions

	2013	2014	2015
Total non-core expenditures	3,807.3	3,882.7	3,805.4
Less CR	212.3	225.2	229.3
Non-core expenditures less CR (1-2) adjusted for GEF/MP CR (*)	3,623.6	3,691.9	3,614.6
Effective CR rate (2/3)	5.9%	6.1%	6.3%

Notes:

1. Total non-core expenditures related to Cost Sharing and Trust Funds are from UNDP audited Financial Statements for 2013-2015.

2. GMS cost recovery from Atlas GL in line with UNDP audited Financial Statements for 2013-2015.

(*) Adjusted for GEF/MP related GMS Cost Recovery, which is not accounted as part of Cost Sharing and Trust Funds expenditures of \$28.6m for 2013, \$34.3m for 2014 and \$38.5m for 2015.

Highlights on waivers granted in 2014-2015

	Number of new cases (as reported in DP/2016/10)	
	2014	2015
Waivers	24	9

- Per EB decision 2013/9, the Administrator of UNDP may consider granting a waiver of the cost-recovery rates
- The financial impact of above waivers relates largely (i.e. more than 95 %) to the Law & Order Trust Fund for Afghanistan (LOTFA)
- Details on these waivers are reported annually in the Annual review of the financial situation (posted on EB website on August 4, 2015 for ARFS-2014 and on August 8, 2016 for ARFS-2015).

Actions taken for compliance with cost recovery policy



As reported in DP/2016/10:

Increasing cost alignment through enhanced cost recovery.

To make further progress towards the full implementation of the cost-recovery policy with the support of UNDP funding partners, compliance with the 8 per cent rate for third-party contributions will be monitored rigorously.

Furthermore, recognizing the need to accelerate efforts to plan for and implement the direct project charging of eligible programmatic and development effectiveness costs, internal targets have been set.

Progress against these targets will be monitored through a robust performance measurement system.

As reported in DP/2016/10:

- Planning assumption in the integrated budget 2014-2017 for implementing GMS cost-recovery rate of 8 per cent was that 50 per cent of the agreements would be in compliance with this policy by the end of 2015.
- However, UNDP exceeded that initially envisaged level by achieving 76 per cent rate of the compliance by the end of 2015.
- The remaining 24 per cent of agreements relate primarily to extensions of ongoing projects with legacy cost-recovery rates (below 8 per cent), as well as the impact of waivers to the 8 per cent cost-recovery policy.
- Nevertheless, if the 8 per cent GMS cost-recovery rate had been in effect for all third-party contributions in 2014-2015, an additional amount of \$42 million would have been earned as GMS cost-recovery income.

Financial performance: 2014-2015 actuals vs 2012-2013 actuals



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As reported in DP/2016/10:

Regular resources: comparison of 2012-2013 and 2014-2015 actuals

In US\$ millions

	2012-2013 actuals*		2014-2015 actuals*	
Programmatic	58%	\$1,058	62% ↑	\$958
Institutional	42%	\$757	38% ↓	\$586
Total	100%	\$1,815	100%	\$1,544

Institutional	2012-2013 actuals*		2014-2015 actuals*	
Development effectiveness	17%	\$128	21% ↑	\$119
United Nations coordination	17%	\$129	25% ↑	\$149
Management	62%	\$472	49% ↓	\$289(**)
Special purpose	4%	\$28	5%	\$29
Total	100%	\$757	100%	\$586

(*) per audited financial statements

(**) Management expenditures of \$289m include transitional measures of \$132m

Regular resources: comparison of 2014-2015 budget and 2014-2015 actuals

In US\$ millions

	2014-2015 budgets		2014-2015 actuals*	
Programmatic	59%	\$1,037	62%	\$958
Institutional	41%	\$713	38%	\$586
Total	100%	\$1,750	100%	\$1,544

The share of regular resources for programme activities within the 2014-2015 period of the EB approved integrated budget was 59%.

In 2014-2015, UNDP achieved an increase of the proportion of regular resources allocated to programmatic activities above this level, by reaching a level of 62% in actual spend by the end of 2015.

1. Cost recovery guidelines on cost recovery from Other Resources effective 1 January 2014 issued in November 2013
2. Guidance note on recovery of direct and indirect costs issued in November 2013
3. POPP updated in May 2015
4. Guidelines on Direct project Costs issued in November 2015

Direct Project Costs



As per UNDP POPP Guidance on cost recovery:

“Direct project costs (DPC) are organizational costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity (projects & programmes) or service. Therefore, these costs are included in the project budget and charged directly to the project budget for the development activity and/or service.”

UNDP is reporting on cost recovery in the following official documents:

1. Audited Annual Financial Statements
2. Annual review of the financial situation: waivers to EB approved rates for 2014-2015
3. Annual reports of the Administrator: Percentage of cost-sharing agreements that comply with the new cost recovery policy (third party contributions only) and average cost recovery rate (disaggregated by funding instrument)
4. Midterm review of the Integrated Budget 2014-2017: waivers to EB approved rates for 2014-2015