

**Compendium of Question & Answers**  
**Joint Board Informal Consultation on Cost Recovery**  
**1 November 2019**

UNDP, UNFPA, UNICEF, UN-Women (“agencies”) welcome and appreciate questions, comments and feedback from member states on cost recovery. These important suggestions will inform the formulation of our preliminary comprehensive proposal on cost recovery to be submitted to member states during the first session of 2020. As the preliminary comprehensive proposal will include many of the elements being asked, the written responses to member states questions are brief and succinct.

**Questions and Answers**

1. Please elaborate and provide reasons why you think continuing a harmonized rate weighs heavier than, for example, preventing cross-subsidization?

A harmonized rate offers UN coherence at country level, delivering as one and joint programming, eliminates competition among the four agencies (though not UN wide), simplifies negotiation and reduces the transaction costs, eases communication/mainstreaming and uniformity across projects/programmes. An agency-specific rate may be slightly more accurate, but at the cost of the advantages stated above. In the end, the approach or trade-off is a political question which would benefit from EB consideration.

2. If sticking to a harmonized rate is your position, a key question revolves around the reduction of inevitable cross-subsidization. **What are your ideas for aiming to reduce cross-subsidization?**

There is no way to both have a harmonized rate and no cross-subsidization at the same time. The harmonized approach to cost recovery will never be absolutely perfect given slightly different rate structures and incentives (thematic funding, programme country cost sharing, private sector, etc.). However, the current harmonized approach to cost classification and cost recovery has led to very significant changes in each of the agency’s financial management & reporting – far more than any other two agencies in the UN system. These agencies feel that leveraging this progress, it would be useful to share lessons learned with other UN agencies towards their progress to be made under the SG’s Funding Compact.

3. The LEGO approach was an attempt to provide a transparent yet more flexibly applied methodology that would allow different rates per agency and an application based on differing mandates, sizes and business models.

Clarification: the LEGO model did not presume to allow different rates per agency, but rather, presented the calculated (notional) rate for each agency, which will always be different due to the size, economies of scale and structure. The LEGO approach attempted to provide a modular methodology with a detailed breakdown of functions in which regular resources funding of the most essential activities of the organization would be prioritized based on the guidance, preference or decision by the EB.

- Are there elements of the LEGO approach that you still see as helpful for a new proposal? If so, which ones?

LEGO approach was in direct response to the EXB request to provide options for consideration. Both the current approach and the LEGO approach are based on the same premise, that is, there are elements that the core resources should fully cover to recognize the universal presence and being an international development organization, as opposed to a project implementation agency. The current methodology works for the four agencies.

- How do you judge **the idea of using the idea of flexibility behind the LEGO approach but refraining from abolishing a harmonized rate?**

That is possible, but it may lead to more complexity if the goal is to ensure EB oversight, transparency and comparability across agencies. The same can be achieved with the EXB decision deciding to apply a harmonized rate based on the agencies' transparent calculations of the notional rate. In fact, this is exactly how the current rate has been approved.

- More specifically: **Could an agency-specific application of the LEGO block idea allow to bring each agency's notional rate as close as possible to a continued harmonized rate of 8%?**

See answer above.

4. We would welcome feedback on the agencies' judgement of the idea of using a flexible, but transparent and mandate-based system of diverging levels of "protected core functions". This would be an advancement of the LEGO approach and the LEGO blocks. The latter would have to be geared much more clearly to each organization's mandate, size, business model: Why, for example, would it be justified that UNFPA, for example, has (fictional) set A of core functions "protected" but UNICEF does not?

Noting that feedback received from some Member states to the agencies is not to proceed with the LEGO model, whilst elaboration on the LEGO model is in theory possible, it may lead to a reduced degree of harmonization, and more complexity, in contrast to the overarching goal of ensuring EB oversight, transparency and comparability across agencies. The same goal can be achieved with the EXB decision deciding to apply a harmonized rate based on the agencies' transparent calculations of the notional rate. In fact, this is exactly how the current rate has been approved by the EBs.

5. What will be the **approach to determine the proportional share of OR and RR** contributing to cost recovery and what is the rationale behind it?

Adherence to this principle has not changed as a key priority for each agency. It is determined simply by the proportion of OR and RR utilization of resources that each agency expects to receive.

6. What do you (the funds and programmes) think we should do for the new comprehensive proposal? The EB needs the guidance from the UNDS in order to make informed decisions.

The current approach as described above, although imperfect, is acceptable to all agencies. 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.

7. How will the new mock up affect the calculation basis for the rates? We need a more analytical and narrative description of how it will impact the cost recovery rates.

The impact of new harmonized cost classifications on the cost recovery model will be provided in the preliminary comprehensive proposal. The only exception might be UN-Women where the change management process might delay the resulting analysis although it is not expected to be material.

8. There are other overarching principles of importance to us when it comes to the new cost recovery model, such as full financing of the entire budget incl. oversight and management, incentivize core and higher quality of earmarked funding such as pooled and thematic funds etc. Why were they not listed in the PPTs slide no 11?

The purpose of the informal was to get the ideas and guidance from the board members, rather than presenting pre-determined proposals. We would welcome further exchange and interactions with member states as well as their guidance. As for incentivization and quality of earmarking, they are very much the part of the Structured Funding Dialogue.

9. Has the current model with differentiated rates served its purpose in terms of creating incentives for more qualitative earmarked funds, more support from programme countries etc.?

UNFPA: For UNFPA the current model with differentiated rates has served its purpose in some areas, but not in all. For example, 7% charge for thematic and pooled funds has helped UNFPA to increase the thematic funding in a particular for UNFPA Supplies thematic fund, but not in the other thematic funds that the organization has. However, lower rate for government cost-sharing contributions has not resulted in increased funding from programme countries. These discussions have been part of the ongoing Structured Funding dialogue between agencies and member states. In its pure form, an indirect cost recovery rate is not meant to be an instrument of incentivization for fund raising, but a method for an organization to recover the indirect costs that it has.

UNDP: The current model with differentiated rates is broadly serving its purpose in terms of contributing to incentives for more support from programme countries.

UNICEF: While the incentives structure is there, the level to which it is contributing to is below plan. The level and rate of growth of earmarked contributions are still higher than contributions to thematic pools.

UN-Women: UN Women does not have thematic contributions and has minimal government cost sharing contributions so assessing the impact of differentiated rates does not apply to date.

However, UN-Women is in the process of pursuing thematic funding where the 7% charge does serve as an incentive.

10. Could you clarify if the organizations use regular resources to cover indirect costs of earmarked projects and programmes? And do the organizations use income from cost-recovery charges to cover indirect costs of earmarked projects and programmes?

Due to the different mandates 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 required cost recovery rate, the shortfall would be funded from regular (core)

resources. Where the harmonized standard rate is higher than the required cost recovery rate, there would be a net 'subsidy' from other (non-core) resources.

As for the usage, the indirect cost recovery is used to recover the costs of the Institutional budget that has been approved by the Executive Board.

11. Regarding the revised Recommendation: could you please clarify the necessity to have a separate cost classification category for "independent oversight and assurance activities"? Is it not possible to keep this in the present category: "Management activities" (possibly as additional sub-categories besides 'recurring' and 'non-recurring' costs)?)

Independent oversight and assurance activities are the third line of defence and management is the second line of defence for any organization. In successive EB 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, we want to highlight the costs for second line of defence and costs for the third line of defence. 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.

12. Regarding the extension of harmonization beyond the four organizations towards system-wide efforts, we understand that further harmonization would require legislation at the General Assembly level and other governing bodies. Could you please elaborate on the steps you are currently undertaking to realize such legislation?

While the four agencies are harmonized in cost classification and cost-recovery model, this is not the case for other UN agencies. In line with the SG's Funding Compact, discussions have started at a system-wide level as part of FB network on harmonization among all UN entities. The agencies don't have governance authority over other UN entities and hence urge member states to use their authority as the governing bodies of other UN entities in enforcing system wide harmonization among UN entities.

13. Current cost recovery policies were approved by Executive Boards in 2013. In the meantime, the Grand Bargain was launched. It includes, among others, commitments to scale-up the use of cash-based programming, reduction of management costs, or more multi-year humanitarian funding. Will the new proposal take those ongoing developments into account, and foresee alternatives rates, or partial waivers, for multi-year commitments or large cash-based programmes, as they are a source of reduced management costs?

The risks inherent in humanitarian action are wide-ranging and complex. Humanitarian programming is associated with operating in difficult humanitarian context which makes such programming more expensive as it necessitates a greater emphasis on managing fiduciary risks. Fraud and corruption lead to significant financial and operational risks that could hinder the implementation and delivery of programmes. They also pose significant reputational risks that will harm the image of the organization in the communities it serves, with donors, other aid organizations and the public at large. All these risks could jeopardize organizational goals and undermine its ability to fulfil its mission. Operating in difficult humanitarian context is more expensive, especially in case of cash-based programming due to high financial risks. For example, there is no risk sharing in case of fraud or ineligible payments. Cash-based programmes must be guided by up-to-date risk analysis, including analysis of particular financial risks, in order to design and implement the necessary risk mitigation and prevention measures as well as establish various financial control processes and actions.

The current model allows, on an exceptional basis and when the urgency of the circumstances requires, agencies may consider granting waiver of the cost recovery rates on a case-by-case basis, taking into account specific priorities, modalities that incur lower management costs, and harmonization goals. There are no plans or considerations currently to reduce the rates, as reduction of the rates would necessitate cross subsidization from RR.

14. What is the proportion of core and non-core resources that the different NY-based organizations use to cover the cost sharing contribution for the Resident coordination system?

Cost sharing contribution to the UN Resident coordination system is fully funded by core by all four agencies.