

Cost Classification and Cost Recovery

**Executive Board Joint Informal Consultation with
UNDP, UNFPA, UNICEF & UN-Women
1 November 2019**

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Today's informal is intended to foster an exchange of views regarding the work of the past years and the next steps in the process.

Cost Recovery Recent History

- A new policy on cost recovery was implemented in 2014 as per EB's decision 2013/5 (UNICEF), decision 2013/9 (UNDP/UNFPA).
- The Executive Boards requested the agencies to recommend adjustments to the approved cost-recovery rates, as required, to be presented at the annual session 2016 of the Executive Board.
- Independent consultants' report was prepared and shared with the Boards.
- Agencies were requested to continue consultations with Member States with regards to the cost-recovery policy and to present evidence-based proposals for harmonized cost-recovery policies.

Cost Recovery Recent History (Cont'd)

- In 2018, several proposals were put forward by the agencies. The Boards requested additional work to jointly review existing cost classifications with a view to further harmonizing their approaches.
- The outcome of this work, including recommendations for further harmonization, were presented and 2 recommendations were approved in Sep 2019.
- Building on the above, the agencies were requested by the Boards to present a preliminary comprehensive proposal on the cost recovery policy at the first regular session 2020.
- A final comprehensive proposal will be presented for decision at the second regular session 2020.

Revised proposal for Recommendation 3

Building on the feedback received from the Executive Boards during the second regular session in 2019, the agencies revised their proposal for recommendation 3 and recommend the following:

- To keep the RC cost-sharing contributions in the same cost classification line item as initially approved, i.e. UN Development Coordination;
- To separately show a new cost classification category called ‘Independent Oversight and Assurance Activities’ in the Institutional Budget comprising of:
 - Audit and Investigations; and
 - Corporate Evaluation
- Each Agency will present this new proposed cost classification line in the same manner within their Integrated Resource Plan/Integrated Budgets
- This is presented in the following detailed mock-ups.

Mock-Up of Application of Recommendations 1-2 and Revised Recommendation 3: UNICEF

Integrated Resource Plan - APPROVED (E/ICEF/2017/AB/L.4)							
	Regular resources		Other resources		Total resources		Trust funds
	2018-2021						
	Programme Cost		recovery				
1. Resources available	\$m	%	\$m	\$m	\$m	%	\$m
Opening balance	562.3		1,235.9	-	1,798.2		727.0
Income							
Contributions	5,801.9		16,512.5	-	22,314.4		-
Other income	500.0		-	-	500.0		-
Total income	6,301.9		16,512.5	-	22,814.4		-
Tax reimbursement adjustment	(80.0)		-	-	(80.0)		-
Trust fund receipts			-	-	-		7,148.0
Total available	6,784.1		17,748.4	-	24,532.5		7,875.0
2. Use of resources							
A. Development							
A.1 Programmes	4,360.0	67.9%	15,917.3	-	20,277.3	84.6%	7,116.0
Country Programmes	4,140.0	64.5%	15,107.1	-	19,247.1	80.3%	
Global programme	220.0	3.4%	810.2	-	1,030.2	4.3%	
A.2 Development effectiveness	589.0	9.2%	133.0	-	721.9	3.0%	
Subtotal: Development	4,949.0	77.1%	16,050.3	-	20,999.3	87.6%	7,116.0
B. United Nations development coordination	23.3	0.4%	25.9	-	49.3	0.2%	-
C. Management	459.9	7.2%	6.4	1,138.0	1,604.3	6.7%	
D. Special purpose							
D.1 Capital investments	23.0	0.4%	-	57.0	80.0	0.3%	-
D.2 Private fundraising and partnerships, direct/investment costs	725.1	11.3%	273.0	-	998.3	4.2%	-
D.3 Other	240.0	3.7%	-	-	240.0	1.0%	-
Subtotal: Special purpose	988.1	15.4%	273.0	57.0	1,318.4	5.5%	-
Institutional budget (A.2+B+C+D.1)	1,095.2	17.1%	165.3	1,195.0	2,455.5	10.2%	-
Integrated budget (A+B+C+D)	6,420.3	100.0%	16,355.6	1,195.0	23,971.0	100.0%	7,116.0
3. Closing balance of resources	363.8		197.8		561.6		759.0

Integrated Resource Plan - MOCK-UP							
	Regular resources		Other resources		Total resources		Trust funds
	2018-2021						
	Programme Cost		recovery				
1. Resources available	\$m	%	\$m	\$m	\$m	%	\$m
Opening balance	562.3		1,235.9	-	1,798.2		727.0
Income							
Contributions	5,801.9		16,512.5	-	22,314.4		-
Other income	500.0		-	-	500.0		-
Total income	6,301.9		16,512.5	-	22,814.4		-
Tax reimbursement adjustment	(80.0)		-	-	(80.0)		-
Trust fund receipts			-	-	-		7,148.0
Total available	6,784.1		17,748.4	-	24,532.5		7,875.0
2. Use of resources							
A. Development							
A.1 Programmes	4,360.0	67.9%	15,917.3	-	20,277.3	84.6%	7,116.0
Country Programmes	4,140.0	64.5%	15,107.1	-	19,247.1	80.3%	
Global programme	220.0	3.4%	810.2	-	1,030.2	4.3%	
A.2 Development effectiveness	589.0	9.2%	133.0	-	721.9	3.0%	
Subtotal: Development	4,949.0	77.1%	16,050.3	-	20,999.3	87.6%	7,116.0
B. United Nations development coordination	23.3	0.4%	25.9	-	49.3	0.2%	-
C. Management	446.1	6.9%	6.4	1,103.9	1,556.5	6.5%	
D. Independent Oversight and Assurance Activities							
D.1 Audit and Investigations	11.0	0.2%		27.1	38.1	0.2%	
D.2 Corporate Evaluation	2.8	0.0%		6.9	9.7	0.0%	
Subtotal: Independent Oversight and Assurance Activities	13.8	0.2%		34.1	47.8	0.2%	
E. Special purpose							
E.1 Capital investments	23.0	0.4%	-	57.0	80.0	0.3%	-
E.2 Private fundraising and partnerships, direct/investment costs	725.1	11.3%	273.0	-	998.3	4.2%	-
E.3 Other	240.0	3.7%	-	-	240.0	1.0%	-
Subtotal: Special purpose	988.1	15.4%	273.0	57.0	1,318.4	5.5%	-
Institutional budget (A.2+B+C+D+E.1)	1,095.2	17.1%	165.3	1,195.0	2,455.5	10.2%	-
Integrated budget (A+B+C+D+E)	6,420.3	100.0%	16,355.6	1,195.0	23,971.0	100.0%	7,116.0
3. Closing balance of resources	363.8		197.8		561.6		759.0

Mock-Up of Application of Recommendations 1-2 and Revised Recommendation 3: UNFPA

	Integrated budget, 2018-2021 - DP/FPA/2018/8/Corr.1					Integrated budget, 2018-2021 (restated)				
	Regular resources	Other resources Programme	Cost recovery	Total resources	Percentage of total	Regular resources	Other resources Programme	Cost recovery	Total resources	Percentage of total
1. Resources available										
Opening balance ^{ai}	48.5	458.8	-	507.3		48.5	458.8	-	507.3	
Income										
Contribution-gross	1,400.0	2,100.0	-	3,500.0		1,400.0	2,100.0	-	3,500.0	
Other ^{bv}	19.9	-	-	19.9		19.9	-	-	19.9	
Total income	1,419.9	2,100.0	-	3,519.9		1,419.9	2,100.0	-	3,519.9	
Less tax reimbursement ^{ci}	(23.8)	-	-	(23.8)		(23.8)	-	-	(23.8)	
Total available	1,444.6	2,558.8		4,003.4		1,444.6	2,558.8		4,003.4	
2. Use of resources										
A. Development activities										
A.1 Programme ^{di}	716.5	2,325.1	(155.6)	2,886.0	76.6%	716.5	2,325.1	(155.6)	2,886.0	76.6%
A.2 Global and regional interventions	152.5	-	-	152.5	4.0%	152.5	-	-	152.5	4.0%
A.3 Emergency fund	22.5	-	-	22.5	0.6%	22.5	-	-	22.5	0.6%
A.4 Development effectiveness	139.4	-	-	139.4	3.7%	140.3	-	-	140.3	3.7%
Total development	1,030.8	2,325.1	(155.6)	3,200.3	84.9%	1,031.7	2,325.1	(155.6)	3,201.2	84.9%
B. United Nations development coordination	16.6	-	-	16.6	0.4%	16.6	-	-	16.6	0.4%
C. Management activities										
C.1 Recurring costs	372.6	0.0	152.5	525.1	13.9%	338.9	-	141.7	480.6	12.8%
C.2 Non-recurring costs	4.1	-	3.1	7.2	0.2%	-	0.0	-	0.0	0.0%
Total management	376.7	-	155.6	532.3	14.1%	338.9	-	141.7	480.6	12.8%
D. Independent oversight and assurance activities										
D1. Corporate evaluation	-	-	-	-	-	9.0	-	3.8	12.7	0.3%
D2. Audit and investigation	-	-	-	-	-	24.3	-	10.2	34.5	0.9%
Total independent oversight and assurance	-	-	-	-	-	33.3	-	13.9	47.2	1.3%
E. Special purpose										
E.1 Premises capital plan and MOSS	-	-	-	-	0.0%	3.6	-	-	3.6	0.1%
E.2 ICT transformation	20.0	-	-	20.0	0.5%	20.0	-	-	20.0	0.5%
Total special purpose	20.0	-	-	20.0	0.5%	23.6	-	-	23.6	0.6%
Total use of resources (A+B+C+D+E)	1,444.1	2,325.1		3,769.2	100.0%	1,444.1	2,325.1		3,769.2	100.0%
3. Net amounts from/(to) reserves ^e	0.5			0.5		0.5			0.5	
4. Balance of resources (1-2+3)	1.1	233.7		234.7		1.1	233.7		234.7	
Total institutional budget (A.4+B+C+D+E)	552.6		155.6	708.2	18.8%	552.6		155.6	708.2	18.8%

Mock-Up of Application of Recommendations 1-2 : UNDP

2018-2021 estimates						2018-2021 Adjusted for Recommendations 1 & 2								
		Regular resources	Other resources	Cost recovery	Total resources			Regular resources	Other resources	Cost recovery	Total resources			
Estimated expenditures						Estimated expenditures						% of Total	Difference, %*	
I. Development activities						I. Development activities								
I.A - Programme		1,633.4	19,409.6	-	21,043.0	I.A - Programme		1,718.0	19,473.1	-	21,191.1		\$148m, 0.6%	
I.B - Development effectiveness		356.1	96.7	322.2	775.0	I.B - Development effectiveness		327.6	96.7	279.4	703.7		\$(71)m, (0.3)%	
Total - I. Development activities		1,989.5	19,506.3	322.2	21,818.0	Total - I. Development activities		2,045.6	19,569.8	279.4	21,894.8	91.1%	\$77m, 0.3%	
II. United Nations development coordination activities						II. United Nations development coordination activities								
Total - II. United Nations development coordination activities		126.0	-	-	126.0	Total - II. United Nations development coordination activities		126.0	-	-	126.0	0.5%		
III. Management activities						III. Management activities								
III.A - recurring (excluding Independent Evaluation Office, Office of Audit and Investigations and Ethics Office)		601.9	-	1,022.4	1,624.3	III.A - recurring (excluding Independent Evaluation Office, Office of Audit and Investigations and Ethics Office)		545.8	-	991.7	1,537.5		\$(87)m, (0.4)%	
III.B - Independent Evaluation Office		32.6	-	9.5	42.1	III.B - Independent Evaluation Office		32.6	-	9.5	42.1			
III.C- Office of Audit and Investigations		50.7	-	18.8	69.5	III.C- Office of Audit and Investigations		50.7	-	18.8	69.5			
III.D - Ethics Office		3.6	-	-	3.6	III.D - Ethics Office		3.6	-	-	3.6			
Subtotal recurring		688.8	-	1,050.7	1,739.5	Subtotal recurring		632.7	-	1,020.0	1,652.7			
III.B - non-recurring		28.0	-	-	28.0	III.B - non-recurring		28.0	-	-	28.0			
Total - III. Management activities		716.8	-	1,050.7	1,767.5	Total - III. Management activities		660.7	-	1,020.0	1,680.7	7.0%		
IV. Special purpose activities						IV. Special purpose activities								
IV.A - Capital investments		-	-	29.9	29.9	IV.A - Capital investments		-	-	39.9	39.9		\$10m, 0.04%	
IV.B1 - Non-UNDP operations - United Nations Volunteers		42.4	-	41.2	83.6	IV.B1 - Non-UNDP operations - United Nations Volunteers		42.4	-	41.2	83.6			
IV.B2 - Non-UNDP operations - United Nations Capital Development Fund		12.2	-	-	12.2	IV.B2 - Non-UNDP operations - United Nations Capital Development Fund		12.2	-	-	12.2			
IV.B3 - Non-UNDP operations - services for United Nations partner organizations		-	-	190.4	190.4	IV.B3 - Non-UNDP operations - services for United Nations partner organizations		-	-	190.4	190.4			
IV.B - Subtotal non-UNDP operations administered by UNDP		54.6	-	231.6	286.2	IV.B - Subtotal non-UNDP operations administered by UNDP		54.6	-	231.6	286.2			
Total - IV. Special purpose activities		54.6	-	261.5	316.1	Total - IV. Special purpose activities		54.6	-	271.5	326.1	1.4%		
Total institutional components		1,093.9	-	1,634.4	2,728.3	Total institutional components		1,009.3	-	1,570.9	2,580.2			
Total programmatic components		1,793.0	19,506.3	-	21,299.3	Total programmatic components		1,877.6	19,569.8	-	21,447.4			
Total Estimated expenditures (I + II + III + IV)		2,886.9	19,506.3	1,634.4	24,027.6	100.0%	Total Estimated expenditures (I + II + III + IV)		2,886.9	19,569.8	1,570.9	24,027.6	100.0%	

* Programme; +\$148m (plus \$75m for operational support at CO level with a direct link to projects & programmes, plus \$73m for overall programmatic support at the CO-level); Development Effectiveness; a \$2m increase for HACT from Management less \$73m in operational support to projects at the CO-level which is moving to Programme, Management; \$87m decrease due to minus \$75m due operational support at the CO level projects + minus \$2m HACT Capital Investment; and a \$10m capital expenditure for MOSS

Mock-Up of Application of Revised Recommendations 3: UNDP

	2018-2021 Adjusted for Recommendations 1 & 2				% of Total
	Regular resources	Other resources	Cost recovery	Total resources	
Estimated expenditures					
I. Development activities					
I.A - Programme	1,718.0	19,473.1	-	21,191.1	
I.B - Development effectiveness	327.6	96.7	279.4	703.7	
Total - I. Development activities	2,045.6	19,569.8	279.4	21,894.8	91.1%
II. United Nations development coordination activities	-	-	-	-	
Total - II. United Nations development coordination activities	126.0	-	-	126.0	0.5%
III. Management activities	-	-	-	-	
III.A - recurring (excluding Independent Evaluation Office, Office of Audit and Investigations and Ethics Office)	545.8	-	991.7	1,537.5	
III.B - Independent Evaluation Office	32.6	-	9.5	42.1	
III.C - Office of Audit and Investigations	50.7	-	18.8	69.5	
III.D - Ethics Office	3.6	-	-	3.6	
Subtotal recurring	632.7	-	1,020.0	1,652.7	
III. - non-recurring	28.0	-	-	28.0	
Total - III. Management activities	660.7	-	1,020.0	1,680.7	7.0%
IV. Special purpose activities	-	-	-	-	
IV.A - Capital investments	-	-	39.9	39.9	
IV.B1 - Non-UNDP operations - United Nations Volunteers	42.4	-	41.2	83.6	
IV.B3 - Non-UNDP operations - services for United Nations partner organizations	-	-	190.4	190.4	
IV.B - Subtotal non-UNDP operations administered by UNDP	54.6	-	231.6	286.2	
Total - IV. Special purpose activities	54.6	-	271.5	326.1	1.4%
Total institutional components	1,009.3	-	1,570.9	2,580.2	
Total programmatic components	1,877.6	19,569.8	-	21,447.4	
Estimated expenditures (I + II + III + IV)	2,886.9	19,506.3	1,634.4	24,027.6	100.0%

	2018-2021 Adjusted for Recommendations 1,2 & revised recommendation 3				% of Total
	Regular resources	Other resources	Cost recovery	Total resources	
Estimated expenditures					
I. Development activities					
I.A - Programme	1,718.0	19,473.1	-	21,191.1	
I.B - Development effectiveness	327.6	96.7	279.4	703.7	
Total - I. Development activities	2,045.6	19,569.8	279.4	21,894.8	91.1%
II. United Nations development coordination activities	-	-	-	-	
Total - II. United Nations development coordination activities	126.0	-	-	126.0	0.5%
III. Management activities	-	-	-	-	
III.A - recurring (excluding Ethics Office)	545.8	-	991.7	1,537.5	
III.B - Ethics Office	3.6	-	-	3.6	
Subtotal recurring	549.4	-	991.7	1,541.1	
III. - non-recurring	28.0	-	-	28.0	
Total - III. Management activities	577.4	-	991.7	1,569.1	6.5%
IV. Special purpose activities	-	-	-	-	
IV.A - Capital investments	-	-	39.9	39.9	
IV.B1 - Non-UNDP operations - United Nations Volunteers	42.4	-	41.2	83.6	
IV.B3 - Non-UNDP operations - services for United Nations partner organizations	-	-	190.4	190.4	
IV.B - Subtotal non-UNDP operations administered by UNDP	54.6	-	231.6	286.2	
Total - IV. Special purpose activities	54.6	-	271.5	326.1	1.4%
V. Independent Oversight and Assurance activities					
V.A Independent Evaluation Office	32.6	-	9.5	42.1	
V.B Office of Audit and Investigations	50.7	-	18.8	69.5	
Total - V. Independent Oversight and Assurance activities	83.3	-	28.3	111.6	0.5%
Total institutional components	1,009.3	-	1,570.9	2,580.2	
Total programmatic components	1,877.6	19,569.8	-	21,447.4	
Estimated expenditures (I + II + III + IV + V)	2,886.9	19,506.3	1,634.4	24,027.6	100.0%

Difference, %

\$(111), -0.5%

\$111, +0.5%

Mock-Up of Application of Recommendations 1, partial 2 and Revised Recommendation 3: UN Women

Financial Framework- Based on 2018-2019 Integrated Budget- doubled to represent a 4 year budget for comparability

(Millions of United States dollars)

	2018-2019 Approved				
	Regular resources	Other Resources		Total	%
		Programme	Cost Recovery		
1. Resources available					
Opening balance	115.0	379.6	56.8	551.4	
Income					
Contributions	800.0	897.2	62.8	1,760.0	
Other Income and reimbursements	6.0			6.0	
Total available	921.0	1,276.8	119.6	2,317.4	
2. Use of resources					
A. Development activities					
A.1 Programme	465.2	1,027.2		1,492.4	
A.2 Development effectiveness	87.5		12.6	100.1	
Subtotal Development Activities	552.7	1,027.2	12.6	1,592.5	84.0%
B. United Nations development coordination	54.4			54.4	2.9%
C. Management Activities					
c.1 Recurring	167.4		50.2	217.6	
c.2 Non-recurring					
c. 3 Evaluation	13.5			13.5	
c. 4 Audit and Investigation	11.9			11.9	
Subtotal Management Activities	192.8	-	50.2	243.1	12.8%
D. Special-purpose activities					
D.1 Resource Mobilization	2.0	-	-	2.0	
D.2 ICT Transformation	4.0	-	-	4.0	
Subtotal Special Purpose Activities	6.0	-	-	6.0	0.3%
Total Institutional Budget (A.2+B+C+D)	340.8	-	62.8	403.6	
Total Use of resources (A+B+C+D)	806.0	1,027.2	62.8	1,896.0	100.0%
Balance of resources (1-2)	115.0	249.6	56.8	421.4	

	2018-2019 MOCK UP				
	Regular resources	Other Resources		Total	%
		Programme	Cost Recovery		
1. Resources available					
Opening balance	115.0	379.6	56.8	551.4	23.8%
Income					
Contributions	800.0	897.2	62.8	1,760.0	75.9%
Other Income and reimbursements	6.0			6.0	0.3%
Total available	921.0	1,276.8	119.6	2,317.4	100.0%
2. Use of resources					
A. Development activities					
A.1 Programme	465.2	1,027.2		1,492.4	
A.2 Development effectiveness	89.6		12.6	102.2	
Subtotal Development Activities	554.8	1,027.2	12.6	1,594.6	84.1%
B. United Nations development Coordination Activities	54.4			54.4	2.9%
C. Management Activities	162.9		50.2	213.1	11.2%
D. Independent Oversight and Assurance Activities					
D.1 Audit and Investigations	11.9			11.9	
D.2 Corporate Evaluation	13.5			13.5	
Sub Total Independent Assurance	25.4	-	-	25.4	1.3%
E. Special-purpose activities					
D.1 Capital Investments MOSS	2.4	-	-	2.4	
D.2 Resource Mobilization	2.0	-	-	2.0	
D.3 ICT Transformation	4.0			4.0	
Subtotal Special Purpose Activities	8.4	-	-	8.4	0.4%
Total Institutional Budget (A.2+B+C+D+E)	340.8	-	62.8	403.6	
Total Use of resources (A+B+C+D+E)	806.0	1,027.2	62.8	1,896.0	100.0%
Balance of resources (1-2)	115.0	249.6	56.8	421.4	

*Recommendation 2 is linked to the outcome of UN Women change management initiative entailing a review of functions at HQ, RO and CO, hence this cannot be presented under the mock up for the time being.

Cost Recovery - Overarching Principles/Objectives Have Been Established

- Continue a harmonized approach across the agencies
- Maximize allocation of regular resources to programmatic activities
- Minimize cross subsidization between regular and other resources
- Continue to be cost-effective and competitive within the overall development cooperation system

Cost Recovery - Challenges Identified

- Due to 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

- **Nevertheless, agencies agree that there are advantages in continuing to have a harmonized rate for comparable activities. Key benefits are presented in the next slide.**

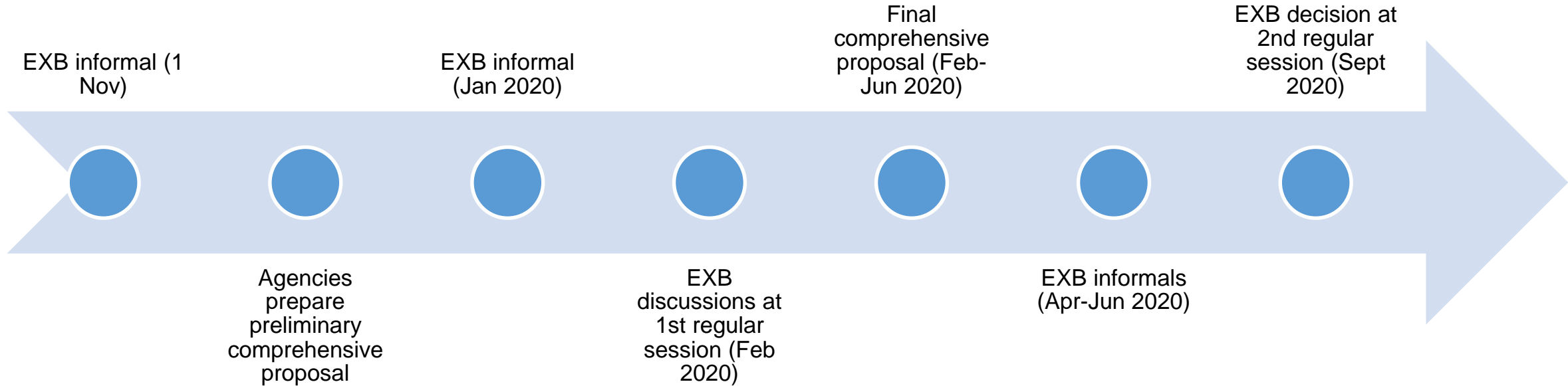
The Case for Continued Harmonization

- A harmonized rate is essential in the context of the call for agencies to work even closer together to help achieve the 2030 Agenda
- It is also an integral dimension to **UN reform**, particularly at the country level
- It provides the right incentives for **Joint programming**
- It reduces the competition among the 4 agencies (not necessarily UN-wide)
- It simplifies negotiation and reduces the transaction costs

Recap & Discussion

- Significant progress has been made in harmonizing cost recovery policy
- This work has also led to significant cost classification harmonization between the agencies. Recommendation 1 & 2 have been approved by the Executive Board and will be reflected in the Integrated Resources Plan/Integrated Budget from 2022 onward
- A mock-up for revised Recommendation 3 has been presented today in this presentation
- The agencies will continue the harmonization work with other agencies through the SG's Funding Compact proposal, F&B Network and HLCM
- Building on the work conducted and the Executive Boards' reflections on the current cost recovery methodology, the agencies will revert with a preliminary comprehensive proposal on cost recovery at the first regular session 2020
- **Executive Board feedback, guidance & discussion is welcome**

Next steps



Questions

Cost Classification and Cost Recovery

1 November 2019