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Executive Board of UNICEF  
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### Joint comprehensive cost recovery policy

#### *Summary*

In UNDP/UNFPA/UNOPS Executive Board decision 2018/21, UNICEF Executive Board decision 2018/21 and UN-Women Executive Board decision 2018/6, the Executive Boards directed the agencies to: (a) present a preliminary comprehensive proposal on the cost-recovery policy for consideration by the Executive Board at its first regular session in 2020, with a view to present a final comprehensive proposal for decision of the Executive Board at its second regular session in 2020; (b) review in a comprehensive manner cost-recovery rates, as part of the comprehensive proposal; and (c) present an assessment of the reasons why full cost recovery is not currently being achieved, as part of the comprehensive proposal. The present joint comprehensive policy on cost recovery responds to the above requests with the aim to present the policy that can be used as a reference by other agencies in the UN system.

The present joint policy is premised on a harmonized cost classification framework adopted by the agencies and a harmonized cost recovery framework. Elements of a decision for consideration by the Boards are contained in section VIII.

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## **I. Introduction**

1. In decisions 2018/21 (UNDP, UNFPA), 2018/21 (UNICEF) and 2018/6 (UN-Women), the Executive Boards directed the agencies to: (a) jointly review existing cost definitions and classifications of activities and associated costs, with a view to further harmonize their approaches by determining common definitions of cost categories and corresponding activities and functions at a granular level, while taking into account the different business models of individual agencies; (b) present a preliminary comprehensive proposal on the cost-recovery policy for consideration by the Executive Board at its first regular session in 2020, and to present a final comprehensive proposal for decision of the Executive Board at its second regular session in 2020; (c) review, in a comprehensive manner, cost-recovery rates, as part of the comprehensive proposal; and (d) present an assessment of the reasons why full cost recovery is not currently being achieved, as part of the comprehensive proposal. Based on the Executive Board decisions of the respective four agencies and subsequent extensive deliberations, the agencies developed the joint comprehensive policy on cost recovery. Annex 1 provides a brief historical context of the cost recovery.
2. The policy is premised on a harmonized cost classification and cost recovery framework and aims to be transparent and straightforward to implement.

## **II. Context**

3. A harmonized cost recovery policy is premised on a harmonized cost classification framework, and thus is not purely a budget exercise. Cost recovery is about ensuring that the agencies' budgets are fully financed so that they can fulfil their respective mandates as stated in their strategic plans. Stable funding is critical for the institutional backbone and normative work of the United Nations organizations and is vital to deliver projects and results in line with country programmes and strategic plan outcomes. Basic costs need to be covered by all donors proportionally, and cost recovery is the integral framework which makes this possible, while further stimulating inter-agency collaboration, as envisioned by the Secretary-General's reform agenda, and transparently demonstrate that partnering with the United Nations offers considerable value for money.
4. The role of cost recovery is further guided by General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR), which emphasized two critical concepts that guide any cost recovery policy and form the basis for the current proposals. These concepts are: (a) regular resources form a bedrock of United Nations operational activities for development owing to their untied nature; and (b) regular resources should not subsidize other resources.
5. The role of regular resources includes support to Member States in the establishment and implementation of United Nations norms or standards to implement the strategic plans. This differs from the mandate of a project implementation agency, particularly given the gradual and relative escalation of contributions to other resources. Nonetheless, the harmonized policy remains guided by the QCPR.
6. As a result of these factors, cost recovery policy, while rooted in technical finance and budgetary methodologies, has considerable implications for institutional transparency, politics, resource mobilization, and inter-agency cooperation. The cost recovery policy also indicates what is covered by direct costs, and what is covered by indirect costs.

## **III. Cost recovery: basis and principles**

7. Cost recovery refers to the requirement of the organization to ensure that regular resources are not used to subsidize the implementation of programmes funded from other resources. It is essential that the organization recover all of its costs if it is to remain sustainable. The cost-recovery methodology recognizes that certain functions integral to the existence and advancement of an organization's mandate must be carried out regardless of the volume of programme implementation. Therefore, funding for these critical functions must be assured from regular resources.

8. The overarching principles the agencies observed in defining the cost-recovery approaches discussed in this paper include: (a) continuing a harmonized approach across all four entities, mindful of the wider UN reform; (b) maximizing the allocation of regular resources to programmatic activities; (c) minimizing cross-subsidization between regular resources and other resources; and (d) continuing to be efficient, transparent and competitive within the overall development cooperation context.
9. A harmonized approach to cost recovery can include harmonization of cost-recovery methodology, cost classifications and cost-recovery rates. This cost-recovery policy encompasses all three in an effort to reduce competition between agencies based on rates and to lower thresholds for collaboration among United Nations agencies in line with the Secretary General's funding compact.
10. Full cost recovery includes both direct and indirect costs. Costs are categorized as direct (directly linked and traceable to a programme or project and to benefits derived by programme/project beneficiaries) or as indirect (not directly linked or traceable to a programme/project). Direct costs are recovered from regular resources or other resources depending on the funding source of the programme or project. Examples of direct costs relating to programmes/projects include:
  - (a) Costs of missions and travel incurred specifically to carry out or support programme/project activities;
  - (b) Cost of staff and consultants hired for the programme/project;
  - (c) Cost of policy advisory or technical services (fully costed: staff cost, share of office rent, utilities, communications, supplies, office security);
  - (d) Cost of processing transactional services (finance, administration, procurement, human resources, logistics);
  - (e) Equipment, including information technology equipment, maintenance, licenses and support for the programme/project;
  - (f) Programme/project audit and evaluation fees.
11. Indirect costs are associated with the organizational structure and services necessary to support implementation of development programmes and projects (the costs of running the organization). Indirect costs are allocated to programmes/projects and are recovered through application of indirect cost-recovery rates as a percentage fee on direct costs. Indirect costs are included in the organizations' institutional budgets; thus, the indirect cost-recovery model is designed to recover the designated costs of the institutional budget. Examples of indirect costs of an organization's activities include:
  - (a) Corporate executive management;
  - (b) Corporate resource mobilization, partnership relations, and corporate advocacy and communications;
  - (c) Corporate accounting and financial management staff;
  - (d) Institutional legal support;
  - (e) Corporate human resources management;
  - (f) Country office, regional or corporate management;
  - (g) Internal audit and investigation function at headquarters and unit level.

#### **IV. Cost recovery: Cost classification categories**

12. Cost recovery requires the organizations to classify costs following a commonly approved structure to ensure that similar elements are appropriately grouped to enhance further harmonization, transparency and comparability across agencies as well as their contribution to the results. Costs are classified and defined as per below:

(a) **Development activities**. comprising costs associated with programmes and development effectiveness activities which contribute to and are essential for the realization of effective development results, as follows:

- i. **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.
- ii. **Development effectiveness activities**. 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.

(b) **United Nations development coordination activities**. comprises activities and associated costs supporting the coordination of development activities of the United Nations system.

(c) **Management activities**. 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, information technology, finance, administration, security and human resources. Management costs are classified as recurrent or non-recurrent.

(d) **Independent oversight and assurance activities**. comprises activities and associated costs supporting the independent audit and investigations and corporate evaluation functions.

(e) **Special-purpose activities**. covers activities and associated costs of: (a) capital investments; and (b) services for other United Nations organizations.

More details are provided in Annex 2 for each of the agencies.

## V. Cost recovery: Methodology

13. Cost recovery refers to the requirement of the organization to ensure that regular resources are not subsidizing the implementation of programmes funded from Other Resources (OR). The cost recovery methodology recognizes that certain functions that are integral to the existence and advancement of the mandate of an organization must be carried out regardless of the volume of programme implementation. Therefore, funding for these functions must be assured from regular resources.
14. The methodology ensures more equitable funding of organizational costs based on the fundamental principle that organizational costs that are eligible for cost recovery should be proportionally funded from Regular Resources (RR) and Other Resources (OR).
15. Costs that are considered eligible for indirect cost recovery are those that are indirectly linked to the delivery of development results. Costs directly linked to the delivery of development results will be directly funded from Regular Resources or Other Resources, depending on where the cost originates.
16. The current indirect cost-recovery methodology starts by identifying the following functions as integral to the mandate of the organization and as such are to be covered solely from regular resources as part of the organizations Institutional Budgets. For UNDP and UNICEF, some of these functions may also be directly funded from programmes/projects:
  - (a) Development effectiveness activities
  - (b) United Nations development coordination
  - (c) Critical cross cutting management functions
  - (d) Critical cross cutting independent oversight and assurance functions
  - (e) Non-comparable special-purpose activities

17. The remaining balance of the Institutional Budget is covered by the indirect cost-recovery rate, proportionally between regular and other resources.
18. The methodology to calculate the cost recovery rate is as follows:
  - (i) Calculate the proportionate percentage share of RR and OR per the planned use of resources in the organizations Integrated Budgets
  - (ii) Calculate the sum of the Institutional Budget costs that are to be funded from regular resources only and the balance to be funded proportionally from regular and other resources. The starting point will always be the Institutional Budget, and remove costs related to the mandate of the organization to be solely funded from regular resources (paragraph 16).
  - (iii) Take the balance of the Institutional Budget amount calculated in step (ii) to be recovered from core and non-core resources and apply the percentages calculated in step (i)
  - (iv) Take the amount to be recovered from non-core resources in step (iii) and calculate it as a percent of total planned other resources
  - (v) The amount in step (iv) equals the notional cost-recovery rate to be recovered from other resources.
19. The evidence-based financial implications of the application of the current cost-recovery policy model to the Executive Board-approved integrated budgets for 2018-2019 or 2018-2021 for each agency are shown in Table 1 below. Annex 3 provides detailed calculations of the indirect cost recovery rates calculated by applying the cost recovery methodology on the respective UNDP, UNICEF, UNFPA and UN-Women integrated resource plan and integrated budgets for 2018-2021, taking into account the implementation of the recommendations on cost classification endorsed by the Executive Boards at the second regular session 2019. Hence, this provides a forward perspective on the cost recovery rates. For both UNDP and UNICEF, the indirect cost-recovery rates are 6.2 per cent and 6.6 per cent, respectively, which is below the standard rate of 8 per cent. For UNFPA and UN-Women, the opposite is true, the cost-recovery rate is above the standard rate, at 10.3 per cent and 9.4 per cent respectively.

**Table 1**  
**Overview of indirect cost recovery rates calculated on 2018-2021 integrated resources plans and integrated budgets**

	<b>UNDP</b>	<b>UNICEF</b>	<b>UNFPA</b>	<b>UN-Women</b>
Indirect cost recovery rate	6.2%	6.6%	10.3%	9.4%

20. As UNDP indicated in the Midterm Review of the Integrated Resources Plan/Integrated Budget (DP/2020/8), from 2019 onwards, the management costs include costs related to activities that previously (i.e., in 2018 and prior years, when UNDP managed the resident coordinator system) were part of the “backbone” services provided by the resident coordinator/UNDP resident representative and UNDP country office to the United Nations system coordination and representation functions. This resulted in an adjustment for UNDP of the critical cross-cutting management functions, which now includes the full cost of the UNDP representative. This is in alignment with approach applied in UNFPA, UNICEF, and UN-Women with respect to critical cross-cutting management functions.

## **VI. Cost recovery: rates**

21. During 2014-2019, the agencies remained compliant with their respective Executive Board decisions on cost recovery.<sup>1</sup> The below table summarizes the actual financial performance for the six-year period for each agency. The effective rate represents the actual cost-recovery rate realized after taking into account the effect of differentiated rates and waivers granted each year. Definitions of cost recovery rates are provided in Annex 4.

**Table 2**  
**Effective average indirect cost-recovery rate for each agency, 2014-2019**

<b>Effective average indirect cost-recovery rates</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2014-2019 (weighted average)</b>
UNDP	6.1%	6.3%	6.4%	6.1%	6.2%	6.4%	6.2%
UNFPA	7.07%	7.1%	7.27%	7.33%	7.26%	7.25	7.2%
UNICEF	6.3%	6.5%	6.6%	6.5%	6.3%	7.0%	6.5%
UN-Women	7.12%	7.0%	7.14%	7.25%	7.0%	6.85%	7.0%

22. Table 3 below indicates the financial impact of differentiated rates compared to the 8 per cent rate, broken down by financial impact in four categories, where applicable, as: (a) thematic funding; (b) framework / umbrella agreements; (c) programme government preferential rates. In addition, the impact of the waivers is presented.

**Table 3**  
**Financial impact of the differentiated cost-recovery rates, by agency, 2014-2019**

<b>Financial impact by agency and category</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2014-2019 (average)</b>
<b>UNDP<sup>2</sup></b>							
Thematic contributions	\$1.1m	\$1.0m	\$0.5m	\$0.3m	\$0.4m	\$0.3m	\$0.6m
Agreements with multilateral partners	\$9.1m	\$7.9m	\$6.8m	\$9.3m	\$6.5m	\$6.7m	\$7.7m
Preferential rates (programme country)	\$32.9m	\$33.9m	\$30.4m	\$37.6m	\$40.2m	\$32.7m	\$34.6m
Waivers	\$21.7m	\$18.9m	\$20.6m	\$29.2m	\$19.4m	\$23.5m	\$22.2m
<b>Total impact</b>	<b>\$64.8m</b>	<b>\$61.5m</b>	<b>\$58.3m</b>	<b>\$76.4m</b>	<b>\$66.6m</b>	<b>\$63.2m</b>	<b>\$65.2m<sup>3</sup></b>
<b>UNFPA<sup>4</sup></b>							
Thematic trust funds	\$1.90m	\$1.51m	\$1.31m	\$1.24m	\$1.40m	\$1.51m	\$1.48m
Umbrella agreements	\$1.00m	\$1.20m	\$1.30m	\$1.14m	\$1.33m	\$2.04m	\$1.34m
Programme government preferential rates	\$0.45m	\$0.68m	\$0.53m	\$0.83m	\$1.71m	\$1.28m	\$0.92m

<sup>1</sup> For UNDP, this includes Executive Board-approved transitional measures of \$199 million during 2014-2017 per EB decision 2013/28.

<sup>2</sup> Financial impact in line with details provided on differentiated rates and waivers provided to in DP/2019/10/Annex 5.

<sup>3</sup> For UNDP, the financial impact for 2019 of the differentiated cost-recovery rates represented 1.3% of the total resources. The majority of the impact relates to preferential rates for programme country government cost sharing, and the impact of a small number of waivers.

<sup>4</sup> 2014-2017 as reported in DP/FPA-ICEF-UNW/2018/1. 2018 as reported in DP/FPA/2019/4 (Part1/Add1). 2019 as reported in DP/FPA/2020/4/(Part1/Add1).

Legacy agreements	\$0.90m	\$0.65m	\$0.28m	\$0.11m	\$0.00m	\$0.00m	\$0.32m
Multilateral agreements with inherited reduced indirect cost rate						\$0.18m	\$0.18m
Waivers	\$0.12m	\$0.18m	\$0.07m	\$0.18m	\$0.36m	\$0.37m	\$0.21m
<b>Total impact</b>	<b>\$4.37m</b>	<b>\$4.22m</b>	<b>\$3.49m</b>	<b>\$3.50m</b>	<b>\$4.80m</b>	<b>\$5.38m</b>	<b>\$4.30m</b>
<b>UNICEF<sup>5</sup></b>							
Thematic funding	\$11.19m	\$8.49m	\$7.67m	\$8.17m	\$8.59m	\$6.10m	\$8.37m
Umbrella agreements	\$7.21m	\$7.77m	\$7.23m	\$6.71mm	\$6.98m	\$7.98m	\$7.31m
Preferential rates (programme government and private sector, South South)	\$5.70m	\$8.72m	\$9.45m	\$8.75m	\$13.09m	\$14.15m	\$9.98m
Waivers	\$0.01m	\$1.60m	\$0.00m	\$18.40m <sup>6</sup>	\$0.90m <sup>7</sup>	\$13.90m <sup>8</sup>	\$5.80m
<b>Total impact</b>	<b>\$24.11m</b>	<b>\$26.58m</b>	<b>\$24.35m</b>	<b>\$42.03m</b>	<b>\$29.56m</b>	<b>\$42.13m</b>	<b>\$31.46m</b>
<b>UN-Women</b>							
Various umbrella agreements	\$0.25m	\$0.28m	\$0.24m	\$0.49m	\$0.41m	\$1.1m	\$2.7m
Programme Government preferential rates	\$0.016m	\$0.019m	\$0.002m	\$0.022m	\$0.020m	\$0.043m	\$0.12m
Legacy agreements	\$0.27m	0.23m	\$0.022m	\$0.015m	\$0.014m	\$0.007m	\$0.56m
Waivers	--	\$0.026m	\$0.018m	\$0.001m	--	\$0.001m	\$0.044m
<b>Total impact</b>	<b>\$0.53m</b>	<b>\$0.55m</b>	<b>\$0.28m</b>	<b>\$0.52m</b>	<b>\$0.44m</b>	<b>\$1.1m</b>	<b>\$3.4m</b>

23. Table 3 above reflects the financial impact of the differentiated cost recovery rates for the agencies. It provides empirical evidence over the six-year period during which the present policy has been in effect that broadly the financial impact of cost recovery waivers and legacy agreements has been declining in terms of net dollar value. While not conclusive, the data indicates that preferential rates have been useful in acknowledging different sources of funds.
24. It is important to emphasize that there is no direct correlation between cost recovery rates and resource mobilization incentives. In the agencies' experience, contributions are premised on an organization's given mandate, business model and operational efficiency, and the quality of results/outcomes delivered. Only after these criteria have been rigorously reviewed and evaluated does the question of a given agency's cost recovery generally arise.
25. However, there is indicative evidence that in certain instances, differentiated rates have been a useful tool to acknowledge and diversify among funding sources. For instance, in the case of UNDP, differentiated rates in the Latin America and the Caribbean (LAC) region have provided

<sup>5</sup> After further analysis and based on the actual expenditures, UNICEF revised the impact of differentiated rates for thematic contributions, umbrella agreements and preferential rates for programme governments and private sector as well as South-South for 2014-2018.

<sup>6</sup> \$18.4m represents two waivers in 2017 on two agreements signed for the total value of \$327.8m.

<sup>7</sup> 2018 waivers and their impact were reported in the 2018 annual report of the UNICEF Executive Director (E/ICEF/2019/10).

<sup>8</sup> 2019 waivers and their impact were reported in the 2019 annual report of the UNICEF Executive Director (E/ICEF/2020/8).



additional incentives for many countries to participate financially to their own development priorities. With 63% of UNDP funding coming from partner countries, the differentiated rate opens great opportunities for partnering engagement as well as a broader array of substantive and operational cooperation in the region. To this effect, LAC has made significant development strides in recent decades, from the consolidation of democratic governments and continued advances in health, education, reducing poverty and inequality, to more recent progress in protecting the environment. Those efforts over the past decades have enabled LAC to become a middle-income region. But more is still required to consolidate middle-class societies among other priorities leading to the 2030 SDG Agenda.

26. To this end, the current model with differentiated rates is broadly serving its purpose in terms of contributing to incentives for more support from programme countries, hence broadening the funding base. In another area, the 7 per cent charge for thematic contributions have helped UNDP, UNICEF and UNFPA make the case for thematic funding in certain instances. However, thematic funding for these agencies as a whole has not dramatically increased.
27. These discussions have been part of the ongoing structured funding dialogues between agencies and Member States. An indirect cost recovery rate is not meant to be an instrument to incentivize fundraising; rather it provides a budgetary mechanism for an organization to recover the indirect costs that it has incurred, which is important for organizational sustainability. The updated cost recovery policy retains the schema of differentiated rates at current levels as shown in Table 4 below. In harmonization with UNDP, UNICEF and UNFPA, UN Women will also apply a differentiated rate of 7 per cent on thematic contributions.

**Table 4**  
**Overview of the differentiated cost-recovery rates, by agency**

Contribution type	UNDP	UNFPA	UN-Women	UNICEF
				<i>Public/private sector</i>
Non-thematic contributions	8%	8%	8%	8%
Thematic contributions	7%	7%	7%	7% / 5%
Various umbrella agreements (formal existing inter-institutional agreements) <sup>9</sup>	Based on the respective umbrella agreement			
Private-sector contributions in programme countries	8%	8%	8%	N/A / 5%
Programme government cost-sharing contributions	Minimum of 3%	5%	5%	5% / N/A
South-South contributions	3%-5%	5%	5%	5% / N/A

## VII. Waivers

28. Waivers to the Executive Board approved rates are discouraged and should be kept to a minimum. Agencies will not volunteer waivers. The agencies will carefully review all waiver requests by funding partners and will agree to such requests only in exceptional cases, where the programme funding would otherwise be at risk, negatively impacting the agency's ability to help programme countries to achieve results.
29. Waivers may be granted by the Executive Director/Administrator in an exceptional circumstance and on a case-by-case basis, considering specific priorities and furthering of Agency's mandate. Each waiver will be transparently reported to the Executive Board on an annual basis, as part of the Executive Director/Administrator annual report.
30. Note that the number of waivers granted has considerably declined over the past six years and is limited to exceptional cases at the discretion of each agency's senior management and reported to the Executive Board annually. Table 5 below shows number of waivers granted by agencies in 2014-2019 and Table 3 above reflects the financial impact of these waivers.

<sup>9</sup> Includes EC, GPPs and multi-partner trust funds.

**Table 5**  
**Waivers granted, by agency, 2014-2019**

<b>Number of waivers</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
UNDP	24	9	12	6	5	3	59
UNFPA <sup>10</sup>	4	4	4	7	10	3	32
UNICEF	1	9	0	2	5	8	17
UN-Women	1	1	6	1	0	1	10

### VIII. Elements of a decision

31. The Executive Board may wish to:

- (a) Take note of the joint comprehensive cost recovery policy [DP/FPA/ICEF-UNW/2020/XX];
- (b) Approve the cost classification categories, and their definitions outlined in the policy, effective 1 January 2022, as follows:
  - i. Development activities, which comprise programmes and development effectiveness activities
  - ii. United Nations development coordination activities
  - iii. Management activities, which comprise recurring and non-recurring activities
  - iv. Independent oversight and assurance activities
  - v. Special purpose activities
- (c) Approve the cost recovery policy, including the methodology and rates as outlined in the policy, as follows:

<b>Contribution type</b>	<b>UNDP</b>	<b>UNFPA</b>	<b>UN-Women</b>	<b>UNICEF</b>
				<i>Public/private sector</i>
Non-thematic contributions	8%	8%	8%	8%
Thematic contributions	7%	7%	7%	7% / 5%
Various umbrella agreements (formal existing inter-institutional agreements)	Based on the respective umbrella agreement			
Private-sector contributions in programme countries	8%	8%	8%	N/A / 5%
Programme government cost-sharing contributions	Minimum of 3%	5%	5%	5% / N/A
South-South contributions	3%-5%	5%	5%	5% / N/A

- (d) Resolve that the comprehensive cost recovery policy as outlined in the document DP/FPA/ICEF-UNW/2020/XX, supersedes the previous cost recovery policy and rates.

<sup>10</sup> For 2018 and prior years, the number also includes the multilateral agreements with inherited reduced indirect cost rate, thus artificially increasing the number of real waivers. Starting 2019 they are disclosed separately, details available in DP/FPA/2020/4(Part1/Add1).

## Annexes

### Annex 1. Historical context of cost recovery

1. In 2009, UNDP, UNFPA and UNICEF were requested to present a roadmap to achieve harmonized integrated budgets by 2014 in the context of new strategic plans. This required the three organizations to address and better harmonize their actions to the extent feasible in three major areas:
  - (a) Alignment of planned results presented in budgetary documents to the respective strategic plans and clear linkage between planned results and budgetary allocations;
  - (b) Classification of activities and their associated costs;
  - (c) Assessment of the impact of the approved cost definitions and classifications of the harmonized cost-recovery rates.
2. With respect to the first area, alignment of planned results:
  - (a) Harmonization was achieved in 2011 (“joint informal note of UNDP, UNFPA and UNICEF on the road map to an integrated budget: cost classification and results-based budgeting, prepared in response to decision 2010/32 of the Executive Board of UNDP and of UNFPA, and decision 2010/20 of the Executive Board of UNICEF, containing: (a) information on differences in the categorization of costs into cost classifications; and (b) an informal mock-up illustrating the format of key budget tables and accompanying explanations”) as part of the Executive Boards of UNDP/UNFPA in decision 2011/10 and UNICEF decision 2011/32.
3. With respect to the second area, classification of activities and their associated costs:
  - (a) Harmonization was achieved in 2010 (Executive Board documents DP-FPA/2010/1 and E/ICEF/2010/AB/L.10) as part of the Executive Boards of UNDP/UNFPA in decision 2010/32 and UNICEF decision 2010/20.
  - (b) The cost classifications endorsed in 2010 was a result of a joint review undertaken by the agencies in response to decision 2010/2 of UNDP/UNFPA Executive Board and decision 2010/5 of the UNICEF Executive Board, which requested the agencies to jointly review the then existing cost definitions and classifications of activities and associated costs of 1997 (DP/1997/10, DP/1997/10/Add.1, E/ICEF/1997/AB/L.3 and E/ICEF/1997/AB/L.3/Add.1).
  - (c) Further, Executive Boards in decisions 2018/21 (UNDP/UNFPA/UNICEF) and 2018/6 (UN-Women) requested the agencies to “jointly review existing cost definitions and classifications of activities and associated costs, with a view to further harmonize their approaches by determining common definitions of cost categories and corresponding activities and functions at a granular level, while taking into account the different business models of the individual agencies”. Executive Board document DP/FOA-ICEF-UNW/2019/1 provided recommendations for further harmonization of cost classifications. Executive Board decision 2019/21 (UNDP/UNFPA) and decision 2019/28 (UNICEF) and decision 2019/12 (UN-Women) endorsed two of the three recommendations proposed by the agencies, resulting in further harmonization.
4. With respect to the third area, cost recovery:
  - (a) Harmonization was achieved in 2013 as described in Executive Board documents DP-FPA/2012/1E/ICEF/2012/AB/L.6 and DP-FPA/2013/1-E/ICEF/2013/8 and approved through Executive Board decisions 2013/9 (UNDP/UNFPA), 2013/5 (UNICEF) and 2013/2 (UN-women). This harmonization was a result of thorough joint review undertaken by the agencies derived from:
    - i. Benchmarking with international organizations for comparative purposes and best practices;
    - ii. Analysis of the agencies’ business models in the context of the integrated budget and new strategic plans from 2014 onwards; and
    - iii. Development of a harmonized conceptual framework for defining and attributing organizational costs and cost-recovery calculation methodology.

(b) In 2017, the Executive Boards (UNDP/UNFPA decisions 2017/11 and 2017/14, UNICEF decisions 2017/7 and 2017/14 and UN-Women decision 2017/2) asked the agencies to continue consultations with Member States regarding the cost-recovery policy and to present said proposals for consideration. Executive Board document DP/FPA-ICEF-UNW/2018/1 was presented in response to that request.

(c) In 2018, the Executive Boards (UNDP/UNFPA/UNICEF decisions 2018/21 and UN-Women 2018/6) asked the agencies to:

- i. Present a preliminary comprehensive proposal on the cost-recovery policy for consideration by the Executive Board at its first regular session in 2020, with a view to present a final comprehensive proposal for decision of the Executive Board at its second regular session in 2020;
- ii. Review, in a comprehensive manner, cost-recovery rates, as part of the comprehensive proposal; and
- iii. Present an assessment of the reasons why full cost recovery is not currently being achieved, as part of the comprehensive proposal.

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**Annex 2. Details of the cost classification categories at the granular level**

	UNDP	UNFPA	UNICEF	UN-Women
<b>I. Development activities</b>				
<b>Programme activities</b>	<p><b>At country level:</b>                      Programme/project policy and advocacy, technical expertise and support; Programme/project monitoring and evaluation; Programme/ project procurement and logistics; Direct programme/project planning; Programme/ project communications; Direct programme/project administrative and operations support; Formulation/management of programme pipeline/new business development; Programme policy advisory services; In-country development effectiveness support for programming; Operational/ administrative support services dedicated to projects: financial services, Procurement services, HR, Logistics support, Field security, Equipment and Asset management, including ICT equipment.</p> <p><b>At regional level:</b>                      Programme/project policy, advocacy, technical expertise, coordination and support for regional projects and regional intergovernmental processes; Audit, evaluation and quality assurance services for regional projects; Direct regional programme/project administrative and operations support; Direct programmatic support and oversight of country offices and programmes; Cross-country capacity-building and knowledge-sharing.</p>	<p><b>At country level:</b>                      Programme/project policy and advocacy, technical expertise and support; Direct humanitarian response; Programme/project monitoring and evaluation; Programme/project procurement and logistics; Direct programme/project planning; Programme/project communications and partnerships; Direct programme/project administrative and operations support</p> <p><b>At regional level:</b>                      Advocacy and policy dialogue with regional and subregional entities and in multi-country settings; Regional inter-agency collaboration and coordination; Provision of technical advisory support to country programmes and intergovernmental regional processes; Direct programmatic support and oversight of country offices and programmes; Cross-country capacity-building and knowledge-sharing; Regional programme coordination and implementation, including knowledge management; Direct programme/ project administrative and operations support; Direct programme/ project communication and media functions.</p>	<p><b>At country level:</b>                      Programme/project policy and advocacy, technical expertise and support; Direct humanitarian response; Programme/project monitoring and evaluation; Programme/project procurement and logistics; Direct programme/project planning; Programme/project communications; Direct programme/project administrative and operations support</p> <p>Creation and dissemination of global and regional public goods, including monitoring and analysing the situation of children for global accountability; Contribution to and strengthening relevant global and regional policy and coordination systems; Contribution to the relevant global evidence base and normative guidelines.</p>	<p><b>At country level:</b>                      Programme/project policy and advocacy, technical expertise and support; Direct humanitarian response; Programme/ project monitoring and evaluation; Direct programme/project administrative and operations support.</p> <p><b>At regional level:</b>                      Empowering and supporting country-level capacities and processes; Overseeing country and region-based delivery across normative, policy, advocacy and United Nations coordination roles; Leveraging regional United Nations coordination mechanisms and liaising closely with other regional bodies; Cross-country capacity-building and knowledge-sharing; Regional programme coordination and implementation, including knowledge management; Direct programme/ project administrative and operations support; Direct programme/ project communication and media functions.</p>

	UNDP	UNFPA	UNICEF	UN-Women
Development effectiveness activities	<p><b>At global/interregional levels:</b> Human Development Report, including support to preparation of national human development reports; Programme/project policy and advocacy, technical expertise and support to global projects; Programme/project monitoring and evaluation of global projects; Audit and quality assurance services for global projects; Direct global programme/project administrative and operations support.</p> <p><b>At country level:</b> Country office presence focusing on strategic country programming (CPD formulation and participation in UNDAF process); Programme quality assurance.</p> <p><b>At regional level:</b> Deputy Regional Directors performing an overall programme development and</p>	<p><b>At headquarters level:</b> Generation, promotion, utilization of state-of-the-art technical knowledge; Promotion of international norms and standards; Building global technical partnerships; Humanitarian response and coordination; Global monitoring of implementation of the Sendai Framework for Disaster Risk Reduction; Coordination and management of prevention/response to sexual and gender-based violence; Strengthening/expansion of surge capacity; Global intergovernmental policy dialogue for International Conference on Population and Development and Sustainable Development Goal follow-up and review; Global outreach with parliamentarians and civil society; Complementary field support in areas not available at regional level undertaken by: Technical Division; Humanitarian Office; Policy and Strategy Division; Division for Communications and Strategic Partnerships; Procurement Services Branch; Liaison Office in Addis Ababa.</p> <p><b>At country level:</b> Deputy Representatives (or national equivalents, assistant representatives) performing an overall programme development, oversight and guidance role.</p> <p><b>At regional level:</b> Deputy Regional Directors performing an overall</p>	<p>Global and regional programme resources are implemented by each of the seven UNICEF regional offices as well as relevant headquarters divisions and offices, including: Programme; Data, Research and Policy; Supply; Evaluation; Emergency Programmes; and Communication.</p> <p><b>At country level:</b> Deputy Representatives performing an overall programme development, oversight and guidance role; Communication officers; select monitoring and evaluation officers.</p> <p><b>At regional level:</b> Deputy Regional Directors performing an overall programme development,</p>	<p><b>At headquarters level:</b> Programme and project guidance; Strategic programme direction and oversight; Programme/project and operational support; Support to inter-agency coordination and normative processes; Crisis and humanitarian response; Development of global reports; Management of global projects for (a) global norms and standard; (b) political participation, governance and data; (c) women's economic empowerment; (d) ending violence against women and girls; (e) peace and security, humanitarian response.</p> <p><b>At country level:</b> Deputy Representatives (or national equivalents, assistant representative) performing an overall programme development, oversight and guidance role; Programme/project posts performing an overall programme oversight and guidance role.</p> <p><b>At regional level:</b> Deputy Regional Directors performing an overall</p>

	UNDP	UNFPA	UNICEF	UN-Women
	<p>guidance; Overall programme development, oversight and guidance role; Technical advisers; Regional development effectiveness support for South-South cooperation programme.</p> <p><b>At global/interregional levels:</b> bureaux and offices responsible for programme and technical policy formulation and guidance: Bureau for Policy and Programme Support; Crisis Bureau; United Nations Office for South-South Cooperation, and the Procurement Support Office; Corporate HACT- related activities.</p>	<p>programme development, oversight and guidance role; Overall programme support to country offices, including monitoring and evaluation.</p> <p><b>At headquarters level:</b> Policy and Strategy Division, except personnel whose work contributes directly to strategic plan development outcomes; Humanitarian Office (leadership and operations support); Technical Division (leadership and operations support of the Directorate and each branch); Procurement Services Branch (leadership and operations support); Quality Management Unit in the Division for Management Services, which is primarily dealing with HACT to implementing partners and partner implementation.</p>	<p>oversight and guidance role; Technical advisers.</p> <p><b>At headquarters level:</b> Programme Division; Division of Data, Research and Policy; Field Results Group; Office of Emergency Programmes; Supply Division; Office of Innovation; Office of Research.</p>	<p>programme development, oversight and guidance role; Technical advisers; Overall programme support to country offices.</p> <p><b>At headquarters level:</b> Programme Division; Policy Division; Humanitarian Office; Civil Society, Procurement Unit</p>
<b>II. United Nations development coordination</b>				
	Contribution to the resident coordinator system.	Contribution to the resident coordinator system.	Contribution to the resident coordinator system; Office of Emergency Programmes: coordination of partners for the humanitarian clusters for water, sanitation and hygiene, nutrition and education, along with the area of responsibility at the global level in child protection.	Contribution to the resident coordinator system United Nations System Coordination Division (headquarters); Regional office directors and drivers (50 per cent cost); Country office representatives/heads of office and drivers (50 per cent cost); Regional office United Nations coordination specialists.
<b>III. Management activities</b>				
Leadership and corporate direction	Executive Office; Ethics Office; Office of the Secretary of the Executive Board, excluding fully reimbursable Executive Board secretariat services provided to other United Nations agencies.	Office of the Executive Director; Ethics Office; Legal Office.	Office of the Executive Director, including Ethics Office and Legal Office.	HQ leadership posts in management and administration and resource mobilization and strategic partnerships.

	UNDP	UNFPA	UNICEF	UN-Women
Corporate financial, ICT and administrative management	Bureau of Management Services (BMS), including Office of Financial Resources Management, Global Shared Services Unit, Procurement Oversight Office; Office of Operations; Centrally managed costs relating to finance, ICT, and administration; Office of Information Management Technology; Legal Support Office; Excludes costs relating to provision of fully reimbursable services provided to other United Nations agencies, which fall under the special-purpose activities classification.	Division for Management Services (excluding Quality Management Unit), IT Solutions Office.	Division of Financial and Administrative Management; Division of Information and Communications Technology.	Division of Management and Administration includes ICT, legal, finance, budget, facilities. Centrally managed costs related to IT and administration.
Corporate human resources management	Cost of Office of Human Resources in relation to the UNDP corporate human resources management function, excluding the fully reimbursable human resources support provided to other United Nations agencies (covered under special-purpose activities); Centrally managed human resources costs related to staff, learning costs; contribution from UNDP to International Civil Service Commission.	Division for Human Resources.	Division of Human Resources.	Division of Human Resources.
Corporate external relations and partnerships, communications and resources mobilization	Bureau for External Relations and Advocacy.	Division for Communications and Strategic Partnerships; Executive Board Branch; UNFPA Liaison Offices (except programmatic activities).	Division of Communication; Public Partnerships Division; Private Fundraising and Partnerships Division: (resources supporting specific National Committee and country office fundraising activities are included under special purpose); Office of the Secretary of the Executive Board	Strategic Partnership, Advocacy and Communications and Resource Mobilization; Office of the Secretary of the Executive Board.
Staff and premises security	Security Office	Office of Security Coordinator	Office of Emergency Programmes in close collaboration with the United Nations Department of Safety and Security and other United Nations security management entities.	Security Office, MOSS compliance
Field/country office oversight, management and operations support	<b>At country level:</b> Country office leadership, representation, and management functions to UNDP. This includes the full-time Resident Representative function, following the delinking of the resident coordinator role; The costs of country offices' support functions to UNDP referred above exclude costs relating to provision of fully reimbursable services provided to the United Nations agencies, which fall under the special purpose activities classification.	<b>At country level:</b> full cost of: representatives, driver and personal assistant to the Representative Office operations support functions not directly linked to programme support (e.g., operations manager/ international operations manager, finance/administrative, some IT and human resources support posts).	<b>At country level:</b> full cost of: Representatives and Assistant to the Representative Office operations support functions that are not directly linked to programme support (e.g. operations manager/ international operations manager, finance/ administrative, IT and human resources support posts).	<b>At country level:</b> Representatives/ Heads of Office and driver posts (50 per cent); Full cost of: operations management functions not directly linked to project/programme support (e.g., operations manager/international operations manager, finance/administrative, IT and human resources support



	UNDP	UNFPA	UNICEF	UN-Women
	<p><b>At the regional and headquarters levels:</b> Regional bureaux and regional hub leadership, including representation, and management functions including regional operations support functions not directly linked to programme support.</p>	<p><b>At regional level:</b> full cost of: Regional Directors, driver and personal assistant to the Director, plus special assistant; Resource mobilization, communications, security and human resources functions; Office operations support functions not directly linked to programme support (e.g., international operations manager, finance/administrative support posts, ICT, etc.).</p>	<p><b>At regional level:</b> full cost of: Senior leaders in each Regional Office (e.g., Regional Director, Regional Chief of Operations) and operations teams <b>At headquarters level:</b> full cost of: Global Shared Services Centre.</p>	<p>posts); Includes a portion of direct programme/project administrative and operations support. <b>At regional level:</b> Regional Directors and driver posts (50 per cent) Full cost of: Operations management functions not directly linked to project/ programme support (e.g., operations manager, finance, administration, procurement posts).</p>
Non-recurring costs	<p><b>At country and headquarters levels:</b> strategic investments to support accelerated programme delivery by improving: (1) business model performance: (a) project delivery and cost recovery; (b) cost effectiveness and efficiency; and (c) operational service arrangements for the United Nations system; (2) business model innovation, e.g., fee-for service consultancies in country offices, clustering of services.</p>		N/A	N/A
<b>IV. Independent oversight and assurance activities</b>				
Corporate oversight and assurance	Office of Audit and Investigations; Independent Evaluation Office; Ombudsman; Board of Auditors, Joint Inspection Unit.	Office of Audit and Investigations Services; Evaluation Office; Board of Auditors, Joint Inspection Unit.	Office of Internal Audit and Investigation; Evaluation Office.	Independent Evaluation and Audit Services Office; Board of Auditors.
<b>V. Special-purpose activities</b>				
Capital investments	MOSS compliance.	ICT transformation, Security Investments to ensure compliance with MOSS	Technology-supported organizational solutions; Allocations to offices to support compliance with MOSS; Eco-efficiency initiatives and capital expenditure linked to premises management.	ICT transformation.
Private-sector fundraising			Includes activities and estimated resource requirements of Private Fundraising and Partnerships Division to support specific	

	UNDP	UNFPA	UNICEF	UN-Women
Other, including procurement services			<p>private sector fundraising initiatives of the National Committees and UNICEF country offices. The activities related to implementation of the UNICEF Private Fundraising and Partnerships Plan, 2018-2021 and the appropriation for the related resource requirements will be presented to the Executive Board for approval on an annual basis.</p> <p>Supply Division administers procurement services on behalf of Governments and other partners to complement UNICEF programmes. These services provide partners with economical access to selected products, which allows them to leverage programmatic results.</p>	
Non-agency specific operations	<p><b>Support to other United Nations agencies:</b> institutional budget support to UNV, UNCDF; Direct services for United Nations partner agencies under universal price list, local price list, service level agreement arrangements: Ad hoc, payroll, security, payments, Junior Professional Officer-related, procurement, training, benefits management, travel;</p> <p><b>At country level:</b> Fully reimbursable country office support to other United Nations agencies; excludes country offices' leadership, representation, and management functions to UNDP, which covers the full time Resident Representative function, following the delinking of the resident coordinator role.</p> <p><b>At headquarter level:</b> Fully reimbursable headquarters-level support to other United Nations agencies; excludes cost of the Bureau of Management Services (BMS) to UNDP relating to the BMS Directorate, Office of Financial Resources Management, Global Shared Services Unit, Office of Information Management Technology, Legal Support Office, Procurement Oversight Office; Office of Operations; Centrally managed costs relating to finance, ICT and administration. Excludes corporate HACT-related activities.</p>			

### Annex 3. Detailed calculations of the notional cost-recovery rates.

		UNDP 2018-2021 IB	UNICEF 2018-2021 IB	UNFPA 2018-2021 IB	* UN Women 2018-2019 IB
A1	Use of resources Regular Resources (RR)	2,749.8	6,420.3	1,444.1	800.0
A2	Other Resources (OR)	21,140.7	17,550.6	2,325.1	960.0
	Total	23,890.5	23,970.9	3,769.2	1,760.0
<b>1. Calculate the proportionate percentage share of RR and OR in the planned use of resources</b>					
B1	Proportionate share of RR	12%	27%	38%	45%
B2	Proportionate share of OR	88%	73%	62%	55%
<b>2. Calculate the sum of management and comparable special purpose costs (and remove costs related to critical, cross-cutting functions)</b>					
C	Institutional Budget	2,443.1	2,455.5	708.2	405.6
	<b>Less</b>				
C1	Development Effectiveness Activities	(507.0)	(721.9)	(140.3)	(104.4)
C2	Non-comparable Special Purpose Activities	(275.7)		(23.6)	(7.6)
C3	UN Development Coordination activities	(86.0)	(49.3)	(16.6)	(54.4)
C4	Critical cross-cutting management functions	(171.8)	(198.6)	(167.9)	(86.6)
C5	Critical cross-cutting oversight & assurance functions	(7.2)	(4.0)	(8.1)	(2.1)
	<b>Total - institutional budget (IB) subject to cost recovery</b>	<b>1,395.4</b>	<b>1,481.7</b>	<b>351.7</b>	<b>150.5</b>
<b>3. Take the amount calculated in step2. and split it proportionally acc to the levels of total planned core and non-core use of resources</b>					
D=C-(C1:C4)	IB subject to Cost Recovery based on approved methodology	1,395.4	1,481.7	351.7	150.5
E1=B1*D	RR proportional share of IB	160.6	396.9	134.8	68.4
E2=B2*D	OR proportional share of IB	1,234.8	1,084.8	217.0	82.1
F=E2/(A2-E2)	<b>Notional Rate</b>	<b>6.2%</b>	<b>6.6%</b>	<b>10.3%</b>	<b>9.4%</b>

## Annex 4. Glossary

### *Cost classification categories*

- (a) **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:
- i. **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.
  - ii. **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.
- (b) **United Nations development coordination activities.** This comprises activities and associated costs supporting the coordination of development activities of the United Nations system.
- (c) **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, information technology, finance, administration, security and human resources. Management costs are classified as recurrent or non-recurrent.
- (d) **Independent oversight and assurance activities.** This comprises activities and associated costs supporting the independent audit and investigations and corporate evaluation functions.
- (e) **Special-purpose activities.** This covers activities and associated costs of: (a) capital investments; and (b) services for other United Nations organizations.

**Critical cross-cutting functions.** The cost recovery methodology considers that a limited portion of management and independent oversight and assurance functions are integral to the existence and the advancement of the mandate of the organizations must be carried out, irrespective of the volume of programme implementation, and therefore their funding must be assured from the regular resources. They are referred as critical cross-cutting functions.

To estimate the amount of the critical cross-cutting functions in a straightforward manner, the agencies use the key leadership positions, at headquarters, regional and country level, that are part of the management and independent oversight and assurance cost classification categories.

**Notional indirect cost-recovery rate.** The rate as calculated by applying cost recovery methodology on planned budget and/or actual expenditures.

**Standard indirect cost-recovery rate.** The base rate approved by the Executive Board as the percentage fee to be applied to direct costs.

**Differentiated indirect cost recovery rate.** The rate approved by the Executive Board as percentage to be applied to direct costs, based on the funding source.

**Effective indirect cost recovery rate.** The actual cost-recovery rate realized after taking into account the effect of differentiated rates, including pre-existing preferential rates, and waivers granted each year.