

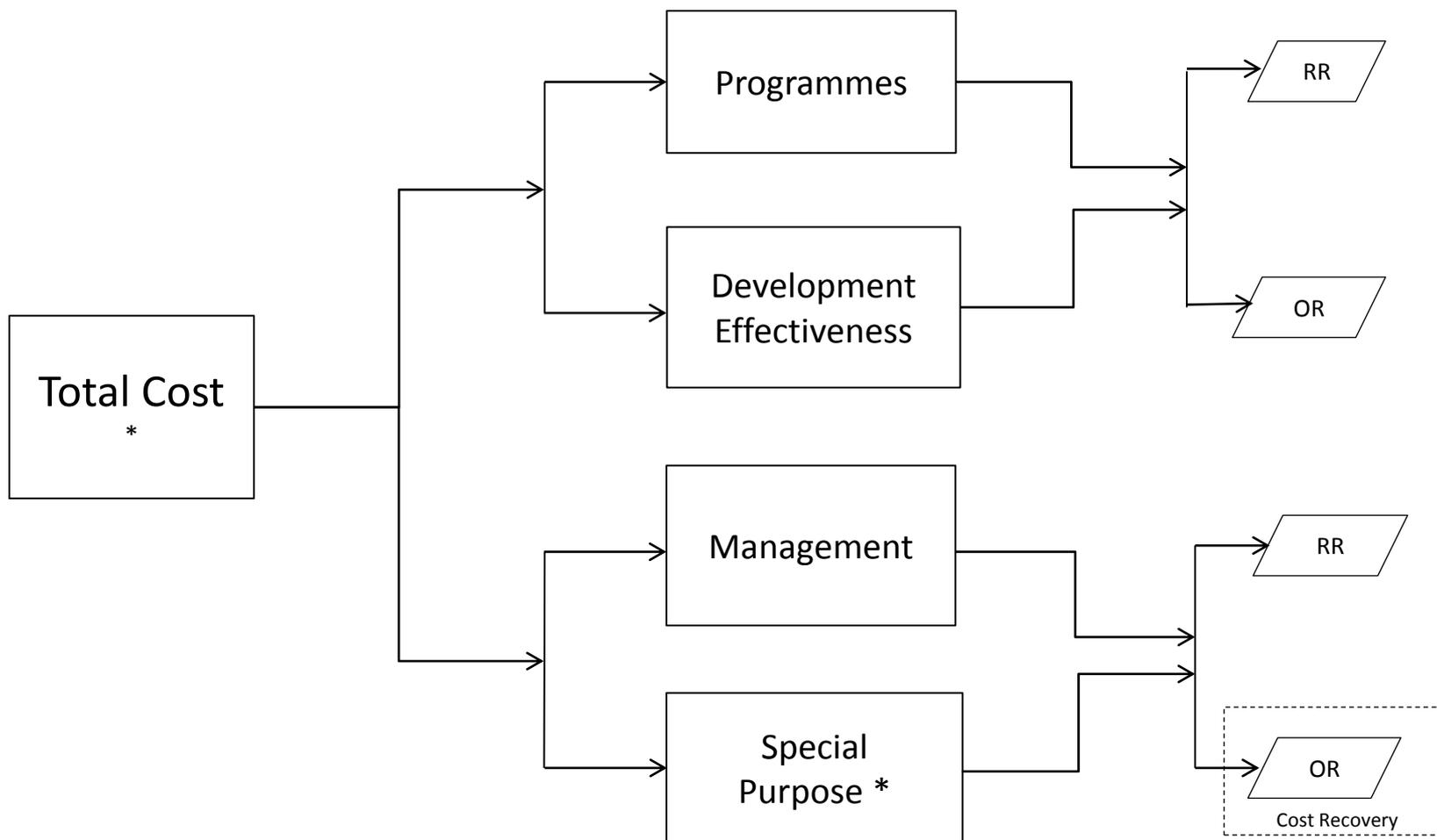
Joint Informal Executive Board Presentation on Cost Recovery

8 January 2013

Background

- September 2012 - DP-FPA/2012/1 & E/ICEF/2012/AB/L.6 Roadmap to the integrated budget: Joint UNDP, UNFPA and UNICEF review on the impact of cost definitions and classification of activities on harmonized cost-recovery rates presented to Executive Boards
- EB decision 2012/27 & UNICEF 2012/20
- Formal inclusion of UN Women, so now four agencies will be harmonized (UNDP/UNFPA/UNICEF/UNWOMEN)
- 14th December 2012 - QCPR Resolution

Harmonized conceptual framework



*Excludes activities and associated costs of a non-comparable nature, such as those relating to United Nations development coordination activities and special purpose activities (UNV and UNCDF).

Proportionality by Agency

| Proportion of expenditure between RR and OR, based on 2012-2013 budget estimates | | | | | | | | |
|--|----------------|-----|-----------------|-----|-----------------|-----|--------------|-----|
| In USD million | | | | | | | | |
| | UNDP | | UNFPA | | UNICEF | | UN Women | |
| RR | 2,081.0 | 23% | 1,074.13 | 61% | 2,222.0 | 32% | 347.4 | 47% |
| OR | 6,882.0 | 77% | 677.67 | 39% | 4,802.0 | 68% | 390.4 | 53% |
| Total | 8,963.0 | | 1,751.80 | | 7,024.00 | | 737.8 | |
| <i>Source: 2012-2013 Institutional Budget document of each Organization</i> | | | | | | | | |

Cost recovery methodology: analysis based on application to 2012-2013 institutional budgets

| DRAFT- Cost Recovery Based on Harmonized Conceptual Framework - analysis on 2012-2013 budgets | | | | |
|---|----------------|--------------|--------------|--------------|
| | UNDP | UNICEF | UNFPA | UNW * |
| 2012-2013 institutional budget | 1,315.5 | 966.0 | 292.2 | 140.8 |
| <i>Less - Development effectiveness activities</i> | (203.2) | (256.0) | (57.5) | (39.9) |
| <i>Less - Non-comparable special purpose activities</i> | (109.0) | | | |
| <i>Less - UN development coordination activities</i> | (192.1) | (3.5) | - | (20.9) |
| <i>Less - Attribution of centrally managed costs to programmes/projects</i> | (86.0) | (98.0) | (18.0) | |
| <i>Less - Critical cross-cutting functions</i> | (81.3) | (90.0) | (67.0) | (30.5) |
| Total - 2012-2013 institutional budget cost subject to cost recovery | 643.9 | 518.5 | 149.7 | 49.5 |
| <i>Regular resources proportional share</i> | 149.5 | 165.9 | 93.6 | 23.3 |
| <i>Other resources proportional share (A)</i> | 494.5 | 352.6 | 56.1 | 26.2 |
| 2012-2013 planned use of other donor resources (B) | 6,387.5 | 4,449.4 | 630.3 | 364.2 |
| Cost recovery rate (C)= (A)/(B) | 7.74% | 7.92% | 8.90% | 7.19% |
| * UN Women rate will change as a result of: | | | | |
| i) The review of cost classification including critical functions, and | | | | |
| ii) The restated Budget approved by the Board in November 2012 | | | | |

Proposed cost recovery rate

The Agencies propose a revised and harmonized rate of 8% for non-core contributions

Rationale

- Moving in the direction of more equitable burden sharing between core and non-core.
- Provision of resources to fulfill critical cross-cutting functions to support the mandate, integrity, and resource mobilization platform.
- A harmonized rate is an integral dimension of UN coherence, particularly at the country level, and to providing the right incentives for Delivering as One and joint programming.

Overall Goal: Improve complementarity between core and non-core resources

1. Harmonized Cost Classification exercise defined
Management Costs more transparently
2. Strong measures adopted to improve efficiency and effectiveness
3. Better alignment of costs
4. Revisiting the non-core cost recovery rate

Decision 2012/27:

(a) Critical cross-cutting functions

- Functions and activities that underpin the integrity of business models, allow agencies to fulfill normative roles and carry out their respective mandates, and provide a platform for mobilizing resources.
- Fully core funded

(b) Development Effectiveness

- Activities essential to the delivery of development results and therefore should be charged as direct costs to both core and non-core programmes and projects (ie: outside of the cost recovery calculation)

(c) Special Purpose activities

- Comparable Special Purpose activities are included in the Cost recovery calculation (only capital budgets).
- Non-Comparable Special Purpose activities, not included in the Cost recovery calculation. Currently, only apply to UNDP, which uses it to cover its core support to UNCDF and UNV and Reimbursable Services provided to other UN Agencies. These costs will be addressed separately in the context of UNDP's Integrated Budget proposal for 2014-2017.

(d) United Nations development coordination

- As these costs are agency-specific, they are not included in the harmonized cost recovery model. These costs will be addressed separately in the context of each agency's Integrated Budget proposal.

Decision 2012/27:

(e) The transitional arrangements after the new cost-recovery rates are adopted

- The new methodology is a major change in business and therefore may need time to implement fully. Specifically, cost recovery income may still be needed to fund some Development Effectiveness posts until such time as the Development Effectiveness posts can be effectively charged as direct costs to the portfolio of core and non-core projects.

(f) The way the new cost-recovery policy will help to achieve improved cost efficiency

- As mentioned earlier, the cost recovery policy proposed is just one element of the Agencies' collective efforts to improve the complementary roles of core and non-core resources, and to achieve improved cost efficiency.

Decision 2012/27: Harmonized vs. organization-specific rates

A high level comparison of harmonized vs. non-harmonized rate models, including opportunities, challenges and risks, is presented below.

NB. The Agencies strongly recommend the continuation of the harmonized rate option

| | Organization-specific rates | Harmonized rates |
|---------------|---|--|
| Opportunities | Allows agencies flexibility to properly charge all organizational costs to projects according to organization-specific cost basis | Simplifies negotiation. Reduces transaction costs. Eliminates undue competition for funds. Promotes UN coherence. |
| Challenges | Results in undue competition among agencies, and could result in higher transaction costs, particularly for multi-partner trust funds | Determining a harmonized cost recovery rate for four agencies is a demanding exercise due to different business models. |
| Risks | Potentially results in inadequate allocation of resources across agencies, as donors could choose agencies based on rate rather than based on capacity/mandate. Potentially undermines joint programming initiatives. | Results in varying levels of core contributions to organizational costs per agency – due to different scopes, different levels of economies of scale, and different business models. At the margin, may result in under- or over-recovery. |

Decision 2012/27: Consideration of Differentiated Rates

The Agencies strongly recommend the continuation of a harmonized cost recovery rate for non-core contributions at the newly proposed level of 8%. In addition, the agencies propose the following differentiated cost recovery rate structure apply:

- a 1% reduction for non-core contributions greater than \$40 million (8%-1% = 7%)
- a reduction for thematic funds (amount of reduction still under Agency consideration at the time of this draft paper)
- A preferential rate for Government cost-sharing contributions similar to what is reflected already in the status quo. Additionally, a preferential rate for South-South contributions is still under Agency consideration at the time of this draft paper.
- a 0.5% surcharge to establish risk reserves in crisis and complex development situations with attendant higher risks (8% + 0.5% = 8.5%).

Recap of Cost Recovery Proposal

- Since Development Effectiveness is part of the Development cost classification, it would be funded directly from RR and OR, just as programmes are funded directly from RR and OR.
- Since UN Development Coordination is primarily unique to UNDP, (and UNWOMEN for gender advocacy and mainstreaming) it would not be included in the calculation of harmonized cost recovery.
- An assured minimum amount of core resources to fund certain critical cross-cutting functions to provide stability and to support the mandate, integrity, resource mobilization platform and normative functions irrespective of the size of the programme portfolio.

Next Steps

- 8 January 2013 – Joint Executive Board Informal session. DRAFT document distributed to Executive Board members.
- 14th-18th January - additional consultations upon request.
- First regular session 2013 - Executive Boards to decide final cost recovery rate(s) to apply for 2014-2017 period (23-24 Jan for UNWOMEN; 28-31 Jan for UNDP & UNFPA; 5-8 Feb for UNICEF).