

# **Joint comprehensive proposal on the cost-recovery policy**

**Joint briefing on cost recovery with UNICEF, UNFPA,  
UN-Women and UNDP**

**30 November 2023**

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# Cost recovery: background

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**UNICEF Decision 2020/24 – Para 7**

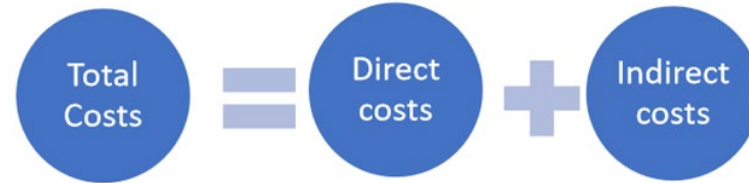
**UNFPA, UNDP, UN Women decision 2020/12 – Para 7**

Further requests UNICEF, in collaboration with UNDP, UNFPA and UN-Women, to present a comprehensive review of the cost-recovery policy and its implementation for decision at the second regular session of 2024, and requests UNICEF to work with UNDP, UNFPA and UN-Women to organize a briefing in 2023 to present a joint timeline for the review and preliminary observations and findings from the implementation of the cost-recovery policy.

# Cost recovery: basic principles

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## Components of costs



Cost recovery refers to the recovering or funding the costs associated with programme delivery. Specifically for UNICEF, UNDP, UNFPA and UN-Women, it also refers to the requirement to ensure that Regular Resources are not used to subsidize the implementation of programmes funded from Other Resources.

Direct costs • Costs that are directly linked to the delivery of development results are directly funded from regular resources or other resources, depending on where the cost originates

Indirect costs • Costs that are indirectly attributable to the delivery of development results are recovered through the cost recovery rate

**Significant progress** has been made in harmonizing cost recovery policy:

- 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 cost-competitive within the overall development cooperation system

# Cost-recovery: differentiated rates

## Overview of the differentiated cost-recovery rates, by agency

<i>Contribution type</i>	<i>UNDP</i>	<i>UNFPA</i>	<i>UN-Women</i>	<i>UNICEF</i>
Non-thematic contributions	8%	8%	8%	8%
Thematic contributions	7%	7%	7%	7%
Various umbrella agreements (formal existing inter-institutional agreements)	Based on the respective umbrella agreement			
National Committee <sup>a</sup> and programme country (private sector) contributions	5% <sup>b</sup>	No preferential rate <sup>c</sup>		5%
Programme government cost-sharing contributions	Minimum of 3%	5%	5%	5%
South-South contributions	3%–5%	5%	5%	5%

# Cost recovery: effective rate

The **effective rate** represents the actual cost-recovery rate realized after taking into account the effect of differentiated rates and waivers granted each year

<i>Effective average indirect cost-recovery rates</i>	2014	2015	2016	2017	2018	2019	2020	2021	2022	2014–2022 Average
UNDP	6.10%	6.30%	6.40%	6.10%	6.16%	6.38%	6.17%	6.01%	6.33%	6.22%
UNFPA	7.07%	7.10%	7.27%	7.33%	7.26%	7.25%	7.22%	7.25%	7.32%	7.23%
UNICEF	6.30%	6.50%	6.60%	6.50%	6.30%	7.00%	7.10%	6.90%	6.80%	6.67%
UN-Women	7.12%	7.00%	7.14%	7.25%	7.00%	6.85%	6.90%	6.90%	7.18%	7.04%

As regards preliminary observations and findings from the implementation, we can see that effective rates have broadly risen in the past years, indicating improved performance and effective management of waivers.

# Use of waivers

## Waivers Granted by Agency

<i>Agency</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>	<i>Total</i>
UNDP	24	9	12	6	5	3	1	0	3	63
UNFPA	4	4	4	7	10	3	3	3	3	41
UNICEF	1	9	0	2	5	8	9	3	4	41
UN-Women	1	1	6	1	0	1	3	1	1	15

- We can observe that agencies have substantially reduced the use of waivers over the past years, implying effective management of waivers
- Note that all waivers and their financial impacts are declared in each organization's annual reports as per Executive Board decisions.

# Opportunities and Challenges

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## Opportunities

- New ERP systems provide an opportunity to further refine direct costs to programme within the existing cost recovery policy.
- Working with donors to ensure consistent understanding and application of cost recovery policy in all countries/office globally.

## Challenges

- Steadily declining proportion of core resources puts increasing stress on organizations – full cost recovery becomes even more important
- Joint approach requires full recovery of direct as well as indirect costs, but many donors are reluctant to accept direct costs in budget proposals ex ante, or even ex post, upon submission of financial reports
- Stakeholder comparisons to UNOPS who have a Management Fee for services rendered which is different than indirect cost recovery on programmes.
- Long-term agreements with Donors, including United Nations partners, commit a specific agency to charging lower fees compared to the regular rate for cost recovery.
- The differentiated cost-recovery rates may, in some cases, prove challenging to communicate, particularly with new donors.
- Complexity of current approach / methodology (e.g. exclusions) makes communication to donors and stakeholders challenging at times



# Way forward

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## Improvement

- Agencies continue to evaluate whether and how to improve upon the current harmonized cost recovery policy.
- Further refinement of direct costs to programmes within the existing cost recovery policy.

## Communication

- Enhanced communication with stakeholders on the importance of indirect cost recovery and eligible direct project costs to enable the achievement of development outcomes and results.

## Reporting

- Continued harmonized reporting on waivers and financial impact of the harmonized differentiated rates to enable oversight of the application of the cost recovery policy.

## Timeline

- Next informal (if required) would be Q1/2024 to discuss any proposed enhancements to the harmonized cost recovery policy
- **Informal in Q2/2024** with draft comprehensive review of harmonized approach
- **Decision** at second regular session 2024

# Questions

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