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## Joint Briefing on Cost Classification

Executive Boards of UNDP, UNFPA, UNICEF, and UN Women

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1. Cost classification context and principles
  - a. Recap of Executive Board decision
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### “Requests the four 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, which allows for a **full understanding of each category’s composition**; and
- options for **possible alignment of similar functions** to the same cost classifications across agencies, and continues to provide a **basis for comparisons among organizations** as well as alignment with the strategic plans of the organizations – to be **presented to the Executive Board for decision at its second regular session in 2019.**”

# Executive Board Endorsed Harmonized Cost Classification Categories and Definitions

## 1 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:

**(a) 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.

**(b) 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.

1

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## 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, oversight, audit, corporate evaluation, information technology, finance, administration, security and human resources. Management costs are classified as recurrent or nonrecurrent.

3

## United Nations development coordination activities:

This comprises activities and associated costs supporting the coordination of development activities of the United Nations system.

4

## Special-purpose activities:

Activities and associated costs of a cross-cutting nature that involve material capital investments or do not represent a cost related to the management activities of the organization.

### Executive Board Decisions

Classification of activities and associated costs approved in 2010

## Key Principles Guiding Further Harmonization

1. The cost classification categories should provide information that would support strategic decision-making by the Executive Boards and by the respective organizations;
2. There is a need to create a basis for a reasonable comparison of estimates among agencies and changes over time within the same agency;
3. The approach needs to be practical, transparent and simple so as to ensure that the application of the classification and reporting thereon result in meaningful, consistent estimates;
4. The cost classification and funding frameworks should align with the business model and the strategic plan results, within an integrated budget framework;
5. The categories and definitions should facilitate measurement of organizational efficiency.

# Areas of harmonization

**1. Definitions** (approved by EXB in 2010) are common and remain valid and appropriate for all four agencies

**2. The following Management activities** of the four agencies are fully aligned and harmonized:

**a) Leadership and Corporate Direction (Executive Office, Ethics Office)**

**b) Corporate Oversight and Assurance (Independent Audit, Investigation, and Evaluation)**

**c) Corporate Financial, Information and Communication Technology, and Administrative Management**

**d) Corporate Human Resources Management**

**e) Corporate External Relations and Partnerships, Communication and Resource Mobilization**

## Areas of harmonization (cont.)

**3. UN Development Coordination activities** are fully aligned and harmonized for **UN Resident Coordinator Support/Cost sharing**

**4. Special Purpose activities** are fully aligned and harmonized for **Capital Investments**

# Differences

## 1. Attribution of post costs for P5 and below

a) UNDP applies multi-funding of positions P5 and below between cost classification categories based on results that positions contribute to (budgetary approval for core resources envelope, not discrete posts). UNFPA and UNICEF attribute all position costs to one specific cost classification category; UN Women mostly follows the same as UNFPA and UNICEF, except the classification of senior leaderships posts in the field

## 2. Development vs. Management Activities

a) UNDP classifies Deputy Regional Directors as **Management** while UNFPA, UNICEF and UN Women classify them as **Development Effectiveness**

b) UNDP and UN Women classify a significant portion of operational support to programmes/projects at the country level as **Management** while UNFPA and UNICEF classify them as **Programme**

## 3. Programme vs. Development Effectiveness Activities

a) UNICEF at the country level classifies the costs related to the functions of the Deputy Representative, Communication and M&E specialists as **Development Effectiveness** (UNFPA – only Deputy Representatives or national equivalent). All other programmatic support at the field level is classified as **Programme**. In contrast, UNDP and UN Women classify overall programmatic support not directly linked to distinct projects at the country level as **Development Effectiveness**



## Differences (cont.)

### 4. Management vs. UN Development Coordination / Special Purpose:

a) UN Women classifies its Representatives/Heads of Offices as 50% Management and 50% **UN Development Coordination** while other agencies classify them as **Management**

b) Harmonized Approach for Cash Transfers (HACT) operations support in HQ is classified as **Management** by UNDP and UN Women while UNFPA and UNICEF classify it as **Development Effectiveness**

c) Minimum Operating Security Standards (MOSS) investments are classified as **Management: recurring** by UNDP and UN Women, while UNFPA classifies them as **Management: non-recurring** and UNICEF as **Capital Investments under Special Purpose**

### 5. Agency specific cost classification lines under common cost categories:

a) UNICEF classifies humanitarian cluster coordination as **UN Development Coordination**

b) UNICEF classifies direct costs/investments for private sector fundraising and procurement services as **Special Purpose**, not included in the Institutional Budget

# Joint recommendations for further alignment

## Recommendation 1: Fully align HACT and MOSS cost classification:

a) HACT operational support to be included in **Development Effectiveness**

b) MOSS compliance investments to be included in the **Special Purpose** under Capital Investments

## Recommendation 2: Create separate cost classification line items in Integrated Resource Plans to report on and obtain separate appropriation for (i.e. separate from Institutional Budget):

a) Independent Oversight and Assurance activities (Audit and Evaluation)

b) UN Resident Coordinator cost sharing

## Recommendation 3: Improve alignment between Management and Development activities:

a) UNDP will classify Deputy Regional Directors as **Development Effectiveness**

b) UNDP will classify overall programmatic support at the country level as **Programme**

c) UNDP and UN Women will classify a portion of operational support to projects at the country level as **Programme**

## Summary

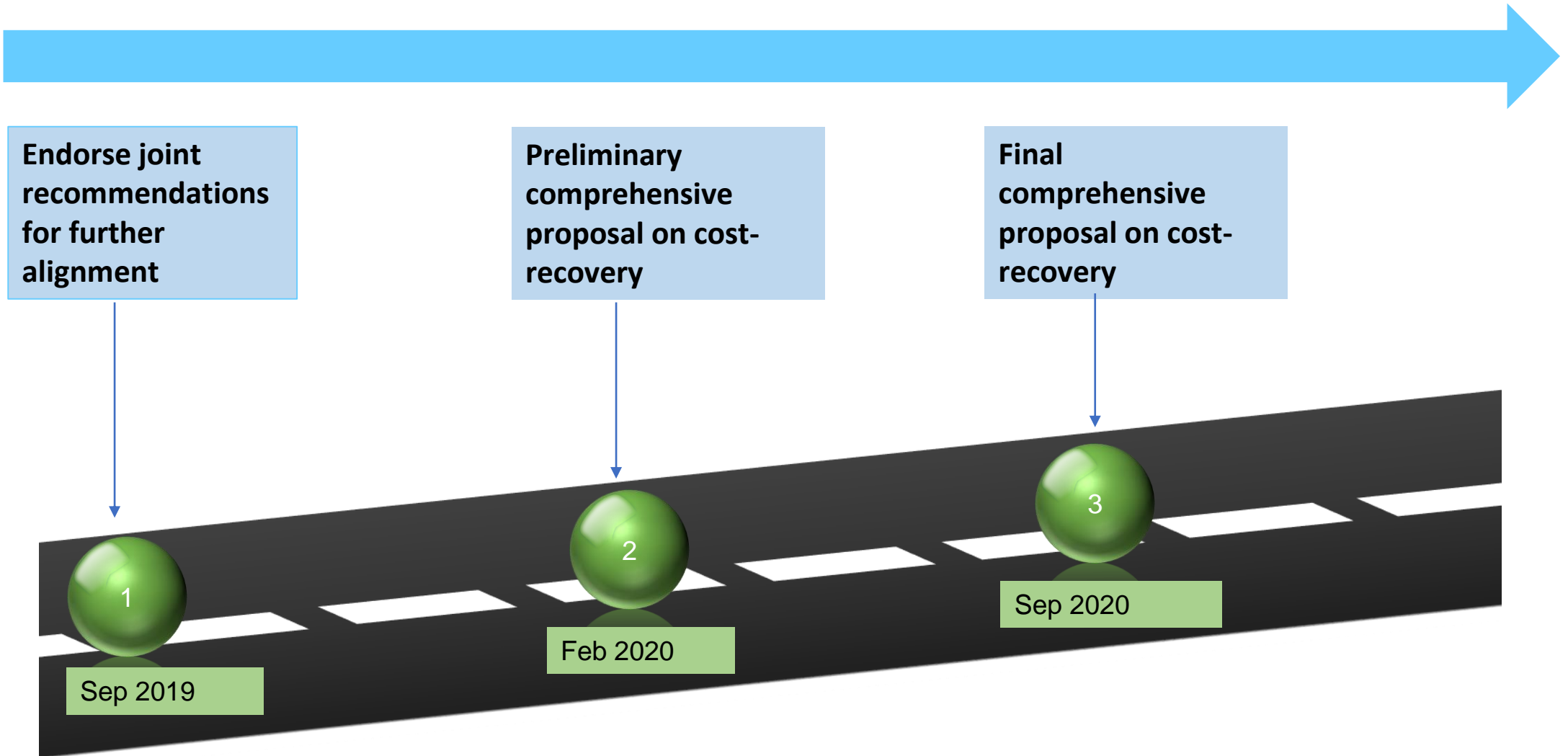


1. UNDP, UNFPA, UNICEF and UN Women conducted a joint and in-depth review of **existing cost classifications of activities and associated costs, including activities and functions at a granular level**

2. **While the four agencies are aligned in the majority of areas, it is important to note that differences in application of cost classification activities do exist** due to the agencies having different mandates, business models, universal presence and economies of scale

3. Following detailed analysis of each categories' composition, the agencies have **identified areas currently treated differently by the four agencies that can be further aligned** as outlined in the recommendations

# Next Steps





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# Thank You