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United Nations Development Programme,  
the United Nations Population Fund and  
the United Nations Office for Project Services**

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United Nations Children's Fund**

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and the Empowerment of Women**

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## Joint report on cost recovery

### *Summary*

Recalling UNDP/UNFPA Executive Board decisions 2013/9, 2017/11 and 2017/14, UNICEF Executive Board decisions 2013/5, 2017/7 and 2017/14 and UN-Women Executive Board decisions 2013/2 and 2017/2, in which the Executive Boards directed the agencies to implement a cost-recovery policy and ensure full cost recovery proportionally from regular and other resources funding sources, and provide incentives to increase regular resources funding, the present document includes two evidence-based proposals.

The two proposals for recovery of indirect costs are either: (a) to maintain the current harmonized cost-recovery policy and Executive Board-approved general, harmonized cost-recovery rate of 8 per cent for other resources contributions, which has been applied since 2014; or (b) to implement an alternative harmonized methodology based on a modular approach (the "LEGO" model), using one of two options, A or B. These proposals are premised on the overarching principles under which the cost-recovery update has been undertaken, namely, to maintain a harmonized approach, to minimize cross-subsidization of regular and other resources, to maximize the allocation of regular resources to programmes and remain efficient and competitive within the development cooperation system. It should be noted that full recovery of direct costs from projects forms a necessary and important second component of total cost recovery, regardless of which proposal for recovery of indirect costs is approved.

The evidence-based proposals contained in this paper may be considered in the context of several strategic issues which will affect the harmonized cost-recovery methodology and rates in the future. These issues include, but are not limited to, the outcome of implementation of the General Assembly resolution 72/279 of 31 May 2018 ([A/RES/72/279](#)) pertaining to the repositioning of the United Nations



development system, humanitarian considerations in development service delivery and new business opportunities requiring different cost-recovery approaches. These factors, when considered independently or in combination, may also signal the future need for a broader review of the cost-recovery framework, including the current cost classification categories.

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<sup>1</sup> UNDP and UN-Women forecasts are for 2018-2019 and UNFPA and UNICEF forecasts are for 2018-2021.

## I. Introduction

1. The present report responds to two sets of requests of the Executive Boards of UNDP/UNFPA, UNICEF and UN-Women (“the agencies”) on the issue of cost recovery. In 2013, the Executive Boards (UNDP/UNFPA decision 2013/9, UNICEF decision 2013/5 and UN-Women decision 2013/2) requested the agencies to present evidence-based proposals for harmonized cost-recovery policies with adjustments, if required. While the Executive Boards acknowledged progress made in cost alignment through implementation of the cost-recovery policy, they noted that further progress should be made and encouraged contributors to adhere to the provisions of the policy.

2. 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 by the respective Executive Boards no later than their annual sessions in 2018. The present paper proposes two alternatives to respond to the 2013 decisions of the respective Executive Boards. The paper includes evidence-based information on the application of the decisions related to the cost-recovery policy as well as the challenges that the agencies faced during the period 2014-2017. It also addresses issues of strategic significance which could influence the level of cost recovery in the near term, as well as the traditional application of indirect cost-recovery formulas in the longer term.

## II. Cost recovery: basis and principles

3. 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 its costs if it is to remain sustainable. The cost-recovery methodology recognizes that certain functions which are 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 functions must be assured from regular resources.

4. The overarching principles which the agencies have observed in defining the cost-recovery approaches discussed in this paper include: (a) continuing a harmonized approach across all four entities; (b) maximizing the allocation of regular resources to programmatic activities; (c) minimizing cross-subsidization between regular and other resources; and (d) continuing to be efficient and competitive within the overall development cooperation context.

5. A harmonized approach to cost recovery can include harmonization of the cost-recovery methodology, the cost classifications and the cost-recovery rate. The current cost-recovery policy encompasses all three. In the alternative proposal, a harmonized approach is used with respect to methodology and cost classifications, but without a derived harmonized rate.

6. Full cost recovery includes both direct and indirect costs. Costs are categorized as **direct**, i.e., directly linked and traceable to a programme or project and to benefits derived by programme/project beneficiaries, or as **indirect**, i.e., not directly linked or traceable to a programme/project. Direct costs are recovered from regular or other resources depending on the funding source of the programme/project. Examples of direct costs relating to programmes/projects include:

- (a) Costs of missions and travel incurred specifically to carry out or support project activities;
- (b) Cost of staff and consultants hired for the project;

- (c) Cost of policy advisory services (fully costed: staff cost, share of office rent, utilities, communications, supplies and 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.

7. Indirect costs are associated with the organizational structure and services necessary to support implementation of development programmes and projects, i.e., 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 which support an organization's activities include:

- (a) Corporate executive management;
- (b) Corporate resource mobilization;
- (c) Country office, regional or corporate management;
- (d) Corporate accounting and financial management staff;
- (e) Internal audit function at headquarters and unit level;
- (f) Institutional legal support;
- (g) Corporate human resources management.

8. General Assembly resolution 71/243 of 21 December 2016 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR) emphasized two critical concepts that guide any cost-recovery policy and form the basis for both the current and alternate 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.

9. The role of regular resources includes support to Member States in the establishment and implementation of United Nations norms and/or standards to implement strategic plans. This contrasts with the mandate of a project implementation agency.

### **III. Proposal I: Maintain the current harmonized cost-recovery policy**

10. The current harmonized approach to indirect cost recovery is based on the principle that the methodologies for recovering costs and their classification by type, or category, are aligned for the four agencies. The approved cost categories<sup>2</sup> are:

- (a) development activities (composed of programme and development effectiveness categories);
- (b) United Nations development coordination;
- (c) management;
- (d) special-purpose activities.

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<sup>2</sup> Refer to the glossary for definitions of cost categories

11. The current indirect cost-recovery methodology identifies the following functions to be covered solely from regular resources. For UNDP and UNICEF, some of these functions may also be directly funded from programmes/projects:<sup>3</sup>

- (a) Development effectiveness activities, which contribute directly to the achievement of development results;
- (b) United Nations development coordination: largely agency-specific, not harmonized among the four agencies;
- (c) Critical cross-cutting management functions:<sup>4</sup> integral to the existence and advancement of the mandate;
- (d) Non-comparable special-purpose activities: largely agency-specific, not harmonized among the four agencies.

The balance of the institutional budget is covered by the indirect cost-recovery rate, proportionally between regular and other resources.

12. In the context of the current cost-recovery framework, there is no duplication in recovery of direct programme/project costs and indirect costs. It should be noted that the agencies have faced challenges in implementing direct cost recovery. Some funding and national government implementing partners are unwilling to include all eligible direct costs in programme budgets.

13. In UNDP/UNFPA decision 2013/9, UNICEF decision 2013/5 and UN-Women decision 2013/2, the Executive Boards approved a harmonized methodology for calculating indirect cost-recovery rates. A harmonized standard cost-recovery rate of 8 per cent for other (non-core) contributions was endorsed, consistent with the principle of full cost recovery as mandated by the QCPR.

14. In those decisions, the Executive Boards also endorsed: (a) differentiated rates lower than 8 per cent for thematic contributions (7 per cent); and (b) pre-existing preferential rates for government cost sharing, South-South contributions and private sector contributions. It should be noted that the combined effect of the differentiated rates affects the overall effective indirect cost-recovery rate; the effective indirect cost-recovery rate will always be lower than the standard rate of 8 per cent, as it is a net result of application of all the various rates, all of which are lower than the standard 8 per cent.

#### **Effective average indirect cost-recovery rate by agency, 2014-2017**

15. During the period 2014-2017, the agencies were compliant with their respective Executive Board decisions on cost recovery.<sup>5</sup> The table below summarizes the actual financial performance for the four-year period and the number of waivers approved by each agency. The effective rate represents the actual cost-recovery rate realized after taking into account the effect of differentiated rates, pre-existing preferential rates and waivers granted each year. Annexes 1A to 1D provide more details of each agency's calculation of the cost-recovery rates.

<sup>3</sup> Per Executive Board document DP-FPA/2013/1-E/ICEF/2013/8, paragraph 8, "... costs classified as Development Effectiveness are an integral part of Development activities and therefore directly contribute to the achievement of Development Results. As such, they are directly funded from RR and OR."

<sup>4</sup> See the glossary for explanation of the concept.

<sup>5</sup> For UNDP this includes Executive Board-approved transitional measures of \$199 million.

**Table 1. Evidence of effective average indirect cost-recovery rate for each agency, 2014-2017**

Effective average indirect cost-recovery rates	2014	2015	2016	2017	2014-2017 (weighted average)
UNDP (a)	6.1%	6.3%	6.4%	6.1%	6.2%
UNFPA	7.07%	7.10%	7.27%	7.33%	7.19%
UNICEF	6.3%	6.5%	6.6%	7.5%	6.8%
UN-Women	7.12%	7.00%	7.14%	7.25%	7.13%

**Table 2. Waivers granted, by agency, 2014-2017**

Number of waivers	2014	2015	2016	2017	Total
UNDP	24	9	12	6	51
UNFPA	4	4	4	7	19
UNICEF	1	9	0	2	12
UN-Women	1	1	6	5	13

16. Looking forward, 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 3 below. For both UNDP and UNICEF, the notional indirect cost-recovery rates of 5.9 per cent and 6.6 per cent respectively, are below the standard rate of 8 per cent. For UNFPA and UN-Women, the opposite is true: the notional cost-recovery rate for UNFPA is 11.3 per cent and for UN-Women it is 9.4 per cent.

Table 3.	UNDP	UNICEF	UNFPA	UN Women
Notional indirect cost recovery rate under current model	5.9%	6.6%	11.3%	9.4%

### Pros and cons of the first proposal

17. The current policy provides a clear harmonized framework with standard and differentiated indirect cost-recovery rates approved by the Executive Boards. Maintaining the current cost-recovery policy requires no changes and there is no additional complexity associated with its implementation. In addition, the current policy honors the three tenets of a harmonized approach as it applies a harmonized methodology, harmonized cost classification and harmonized standard cost-recovery rate (8 per cent). However, the challenges associated with the current cost-recovery policy, which are detailed in paragraph 31, would remain as they would also with the second proposal. Furthermore, the current cost-recovery policy is less explicit about the need to provide a fixed, protected regular resources base as would exist with the second proposal.

18. Application of the updated notional indirect cost-recovery rates per the current cost-recovery model reflect the fact that it provides the highest level of regular resources available for the programmatic component of each agency's activities compared to the modular "LEGO" proposal, described below. In addition, the updated notional indirect cost-recovery rates per the current cost-recovery model result in an aggregate amount of cross-subsidization for the four agencies which is not as low as under option B but lower than under Option A of the second proposal, as discussed below. Please refer to details for each agency in annexes 2A to 2D and to annex 3, table 2A for the financial evidence of the cross-subsidization impact by agency.

#### IV. Proposal II: Implement a harmonized methodology for use of regular resources (i.e., modular “LEGO” model)

19. In response to the decisions of the respective Executive Boards, in April 2017 the agencies presented a conceptual model (hereinafter referred to as Option A) to assist the Boards to consider possible adjustments to the current cost-recovery policy. The Option A model was presented again to the Executive Boards in January 2018. The adjustments would be based on identification of those institutional budget costs which should be funded by regular resources versus those that should be charged to programmes/projects via an indirect cost-recovery rate. A second option, Option B, has been added to reflect the application of the methodology taking into consideration the difference in the agencies’ business models and size. See annexes 2A to 2D for the financial evidence supported by a detailed comparison of the application of Option A and Option B for each agency.

20. The model can be described as a building block or modular “LEGO” methodology with a detailed breakdown of functions in which regular resources funding of the most essential activities of the organization would be prioritized according to the guidance, preference or decision of the Executive Board. The modular approach allows the consideration of various options and provides a spectrum of what can be considered as a minimum level of specific, essential functions to be funded from regular resources. Unlike the current methodology, whose entry point is the approved harmonized cost classification categories, the alternative modular approach applies harmonized specific functions (i.e., LEGO blocks) as an entry point. However, no harmonized rate is derived under the second proposal.

21. A schematic diagram of the proposed modular block methodology is shown in figure 1 below, which outlines the nature of the functions in each block and is applicable to both Options A and B. The functions in the green block are the minimum. Moving from green to blue, the amount funded from regular resources increases. Blocks that would not be funded from regular resources would be funded from cost recovery (proportionally from regular and other resources). The notional indirect cost-recovery rates presented in table 4 below show the cumulative effect of the use of regular resources to fund the functions in all three blocks, with the difference in agency business models reflected in the different dollar amounts of protected core functions. Regular resources also continue to fund programmes.

**Figure 1. Proposed modular block methodology**

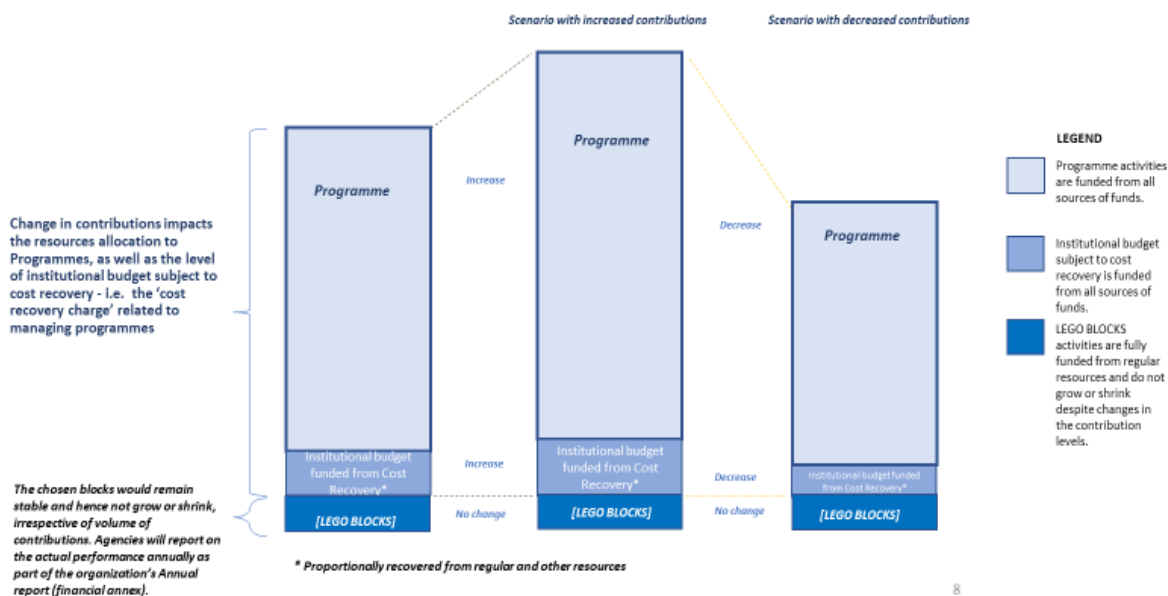
Block	Description
<b>Block 1:</b> Executive leadership, country office leadership, independent assurance	Executive Office, Ethics and Ombudsman
	Independent corporate oversight and assurance * Internal and external audit and investigation * Evaluation
	Posts of Representative and Deputy Representative (or national equivalent)
	Support to United Nations development coordination

<b>Block 2:</b> Directing advocacy, resource stewardship and technical leadership	Leadership of management functions at headquarters and regional office levels: fiduciary, information technology, human resources, partnerships and security management functions
	Leadership of development effectiveness functions at headquarters and regional office levels: technical leadership, programmatic policy and support for norm-setting functions
<b>Block 3:</b> Integrating professional standards, norms and quality assurance	Remaining development effectiveness functions: * Integration of professional standards and quality assurance * Programme-policy advisory functions

22. Changes in contribution levels impact the resources that can be allocated to programme activities, as well as the extent to which indirect cost-recovery fees levied fully fund the institutional budget. Upon joint endorsement by the Executive Boards, the most essential organizational activities do not change and are not subject to fluctuations in contribution levels. This is illustrated in figure 2 below, which demonstrates that if regular resources would increase, the allocation of regular resources to programmatic activities increases, whereas if regular resources decrease, regular resources allocations to programmatic activities would decrease, with the building blocks remaining protected, providing a level of predictability and stability.

**Figure 2. Financial implications of the cost-recovery model (regular and other resources)**

### Financial implication of the cost recovery model [regular + other resources]





23. In summary, table 4 below shows the comparison of the estimated financial impact of the current policy and the second proposal (Options A and B) for each agency. See annexes 2A to 2D for the detailed financial evidence for each agency, including the underlying assumptions about size and business model which drive the differences between Options A and B for each agency. Tables 4A and 4B show the comparative notional indirect cost-recovery rates as LEGO blocks are 'built' to combine protected functions funded by regular resources. As expected, the fewer the number of blocks that are protected, the higher the full indirect cost-recovery rate would need to be to compensate.

**Table 4. Estimated financial impact of notional indirect cost-recovery rates, 2018-2019 or 2018-2021 (Percentage and in millions of United States dollars for protected levels, by agency)**

	UNDP	UNICEF	UNFPA	UN-Women
<b>Current model</b>	<b>5.9%</b>	<b>6.6%</b>	<b>11.3%</b>	<b>9.4%</b>
<b>Total Modular 'LEGO' A</b>	<b>5.8%</b>	<b>6.6%</b>	<b>8.9%</b>	<b>8.6%</b>
<b>Total Modular 'LEGO' B</b>	<b>7.0%</b>	<b>7.1%</b>	<b>9.5%</b>	<b>9.5%</b>

**Table 4A - Modular LEGO A**

	UNDP	UNICEF	UNFPA	UN-Women
<b>Block 1</b>	<b>7.4%</b>	<b>9.1%</b>	<b>13.3%</b>	<b>16.7%</b>
<b>Block 1+2</b>	<b>6.8%</b>	<b>8.7%</b>	<b>10.6%</b>	<b>12.5%</b>
<b>Block 1+2+3</b>	<b>5.8%</b>	<b>6.6%</b>	<b>8.9%</b>	<b>8.6%</b>

**Table 4B - Modular LEGO B**

	UNDP	UNICEF	UNFPA	UN-Women
<b>Block 1</b>	<b>8.0%</b>	<b>9.4%</b>	<b>13.8%</b>	<b>17%</b>
<b>Block 1+2</b>	<b>7.5%</b>	<b>9.0%</b>	<b>11.1%</b>	<b>12.8%</b>
<b>Block 1+2+3</b>	<b>7.0%</b>	<b>7.1%</b>	<b>9.5%</b>	<b>9.5%</b>

### Summary of level of protected core functions by agency

	UNDP	UNICEF	UNFPA	UN-Women
<b>Current model</b>	<b>\$367</b>	<b>\$815</b>	<b>\$345</b>	<b>\$126</b>

<b>Modular 'LEGO' A</b>				
BLOCK 1	\$366	\$447	\$289	\$76
BLOCK 2	\$69	\$89	\$77	\$28
BLOCK 3	\$98	\$439	\$49	\$28
<b>Total</b>	<b>\$533</b>	<b>\$975</b>	<b>\$415</b>	<b>\$132</b>

<b>Modular 'LEGO' B</b>				
BLOCK 1	\$308	\$392	\$274	\$74
BLOCK 2	\$52	\$89	\$77	\$28
BLOCK 3	\$53	\$377	\$46	\$23
<b>Total</b>	<b>\$413</b>	<b>\$858</b>	<b>\$398</b>	<b>\$125</b>

### Pros and cons of the second proposal

24. The second proposal provides a more granular articulation of the use of regular resources for the specific functions in each agency. The chosen blocks would remain stable and not grow or shrink based on changes in the level of voluntary contributions. Under Option A, the model retains the harmonized methodology. The level of protection of functions to be funded from regular resources is irrespective of the relative volume of regular and other resources funding of the agency and of differences in size and business models of each agency, as the functions it aims to protect are equally critical for each organization. However, Option A does not result in higher levels of regular resources being made available for programme functions vs. the current policy.

25. In the case of Option B, while it reflects the application of the modular LEGO building block approach, it differs from Option A in that it embeds the differences in size and business models of each agency. Option B retains the transparency of the modular approach while also acknowledging that one size does not fit all. This inevitably results in a lesser degree of harmonization. However, Option B would support channeling a higher level of regular resources to programme activities and has a lower estimated level of cross subsidization between regular and other resources than either the current policy or Option A, assuming the notional cost-recovery rate is applied for each agency (i.e., not the standard cost-recovery rate of 8 per cent). It should be noted that no harmonized rate is derived under the second proposal.

26. Given that Options A and B would be a departure from the current policy that has been applied since 2014, it is worth considering whether it is timely to implement such a change

when, as previously discussed, substantial reforms of the United Nations development system are underway.

27. For the four agencies combined, the net subsidy (compared to the standard cost-recovery rate) from other to regular resources is \$69 million vs. \$129 million under the current model or \$147 million under Option A. See the financial evidence in annex 3, tables 2A and 2B, for the annualized subsidy between regular and other resources for each proposal.

## V. Strategic issues

28. A continuously declining share of regular resources – relative to total resources – negatively impacts forward-looking strategic choices and investments. The ability to deliver on development results and the individual agency’s institutional capacity for quality assurance and accountability is also negatively impacted.

29. The calculation of a single indirect cost-recovery rate across multiple United Nations organizations is not possible because of differences in economies of scale, mandates, business models and structures. However, this does not necessarily preclude the establishment of a harmonized standard rate, if it is understood that where the harmonized standard rate is lower than the notional indirect cost-recovery rate, the shortfall would be funded from regular resources (or, in the case of UN-Women, also from assessed contributions). It will also hold true that, where the harmonized standard rate is higher than the notional indirect cost-recovery rate, the difference would be funded from other resources.

30. While a notional indirect cost-recovery rate is established based on plan and budget estimates, actual performance will differ; there is a high likelihood that the actual income during the budget period and the actual costs will differ to a degree from the planned ones.

31. Full cost recovery is not achieved to date for many reasons including:

- (a) As noted above, some funding and national government implementing partners are unwilling to include eligible direct costs in programmes, which results in cross-subsidization of non-core activities with regular resources;
- (b) Some funding and national government implementing partners are unwilling to pay standard cost-recovery rates;
- (c) The respective Executive Boards (UNDP/UNFPA decision 2013/9, UNICEF decision 2013/5 and UN-Women decision 2013/2) also endorsed: (i) differentiated rates lower than 8 per cent for thematic contributions; and (ii) pre-existing preferential rates for government cost sharing, South-South contributions and private sector contributions. Moreover, long-term institutional agreements, including with United Nations partners, lock an individual agency into lower cost-recovery rates than the standard rate. The cumulative effect of the differentiated rates affects the overall effective indirect cost-recovery rate.

The above challenges are inherent in any indirect cost-recovery methodology and would remain, regardless of the option chosen by the Executive Board.

32. The Secretary-General’s reform initiative of the United Nations development system is ongoing. Until this initiative is finalized, it is difficult to foresee what will be the implications on costs and the resulting cost recovery. Against this backdrop, for UNDP, as noted in annex 2A, the green ‘lego block’ under option B covers the financial equivalent of the fully loaded costs of ‘Resident Representative positions’ in all low-income countries and middle-income countries, as well as a pool of regular resources for ‘operations leadership’.

33. The delivery of development results frequently involves crisis and other humanitarian situations which lead to nonstandard cost-recovery rates. The exigencies of such a situation can result in additional challenges to recover indirect costs from partners.

34. While the intent of the harmonization of cost-recovery policies is to ensure common treatment among agencies, new approaches to delivering development results may be better served by different types of pricing models than one in which the recovery is based on a percentage of delivery.

35. The current cost classification model has been in use since 2010 following the respective Executive Boards' approval of the following decisions: UNDP/UNFPA decisions 2009/22 and 2010/32; UNICEF decision 2010/20; and UN-Women decision 2011/1. Given the passage of time and the changes in the agencies' business models, it would be prudent to consider a review of the classification of costs to ensure there continues to be basis for reasonable comparison of estimates among organizations and changes over time within the same organization, as well as alignment with the strategic plans.

## **VI. Summary**

36. The indirect cost-recovery proposals in this report all align with the overarching principles discussed above, yet each has its own pros and cons. The agencies have presented actual and estimated financial evidence for each proposal, as requested. Estimated financial evidence is based on Executive Board-approved budgets. It should be emphasized that full recovery of direct costs from programmes/projects forms a necessary and important component of total cost recovery, regardless of which proposal for recovery of indirect costs is approved.

## Glossary

### Cost classification categories:

The cost-classification categories and definitions approved in UNDP/UNFPA Executive Board decision 2010/32 and UNICEF Executive Board decision 2010/20 are:

**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.

**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 non-recurrent.

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

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

**Critical cross-cutting management functions** (as defined in DP/FPA/2013/1 – E/ICEF/2013/8, paragraphs 15 and 16)

“The concept of critical cross-cutting functions is akin to the concepts of ‘fixed indirect costs’ and ‘base structure’ used in previous models of cost recovery. Specifically, a level of core resources would be available to ensure a provision of resources to support the mandate, integrity and resource mobilization platform. In other words, the cost recovery methodology takes into account that certain functions that 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.

The main difference between cross-cutting critical functions in the present model, as opposed to fixed indirect costs or base structure in previous ones, is in their scope, as the notion of critical cross cutting functions is much more limited than similar notions in previous models. In addition, while the previous model included in its fixed indirect cost a portion of costs now classified as development effectiveness, the newly proposed model excludes development effectiveness from the calculation of the cost recovery rate.”

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

**Notional indirect cost-recovery rate:** the rate as calculated by application of a specific methodology

**Standard indirect cost-recovery rate:** the rate approved by the Executive Board as the percentage fee to be applied to direct costs, based on the funding source.

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