

Joint Informal Executive Board Presentation on Cost Recovery Progress

30 May 2012

Road Map

- January 2012 - Informal timetable presented for the joint review and analysis of the impact of new cost classifications and definitions on harmonized cost recovery rates within the context of the Integrated Budget and new Strategic Plans from 2014 onwards.
- 30 May 2012 – Joint EB Informal to review progress made to date and receive guidance from EB members.
- July 2012 – Joint EB Informal on Integrated Budget framework
- September 2012 - EB joint report containing:
 - a) cost recovery review and analysis;
 - b) mock Integrated Budget; and
 - c) steps taken and progress achieved towards the Integrated Budget.

Road Map Deliverables on Cost Recovery

More specifically, the joint review focuses on five deliverables:

1. Benchmarking exercise with international organizations for comparative purposes and best practices;
2. Overview of the three agencies' business models within the context of the Integrated Budget and new Strategic Plans from 2014 onwards;
3. Development of a harmonized conceptual framework for defining and attributing organizational costs
4. Role of cost recovery within the harmonized conceptual framework to include: applicability; rate structure; and donor incentives to improve the balance between regular resources and other resources; and
5. Assessment of the current harmonized cost recovery rate.

1. Benchmarking exercise

Initial Organizations chosen:

- **World Trade Organization & United States Government**
- **European Commission (EC)**
- **World Bank**
- **Other UN Agencies**

Key Take Aways from Bench-marking exercise:

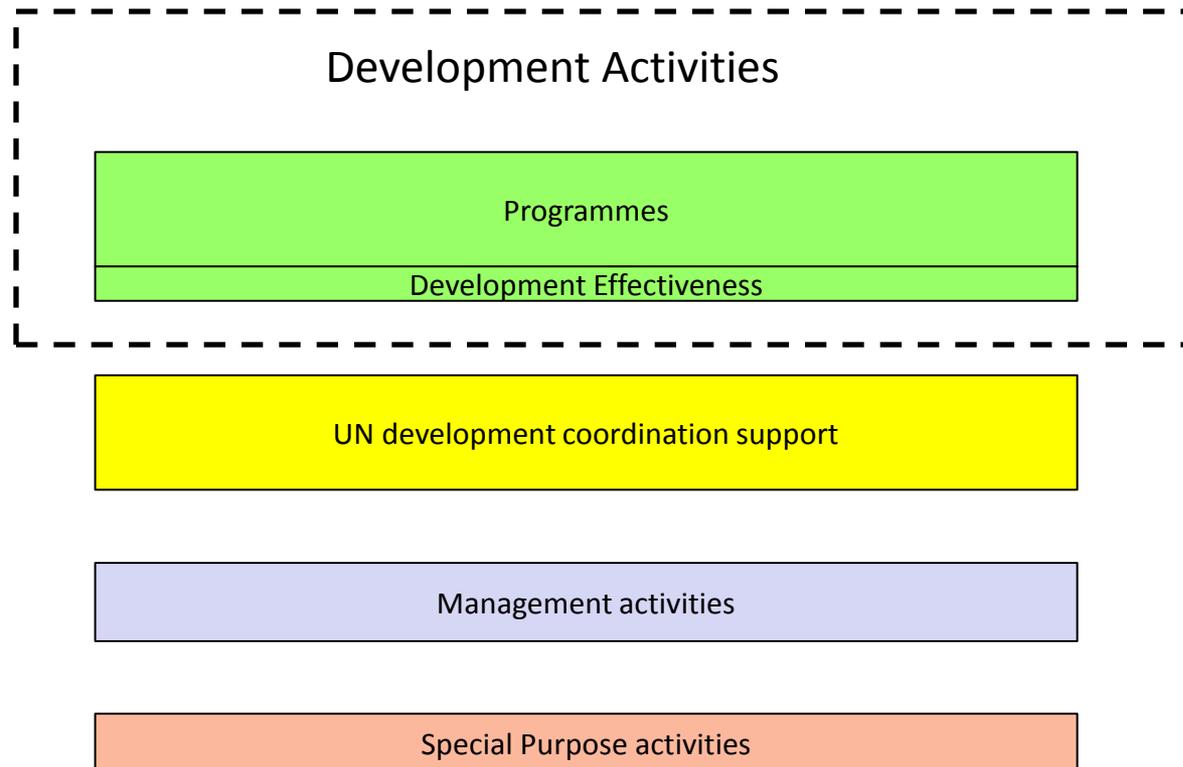
- Goal is equitable attribution of organizational costs
- Costs which could be regarded as administrative in nature can be charged as direct if clear criteria are met
- No distinction between indirect fixed and indirect variable

2. Comparative Business Model overview

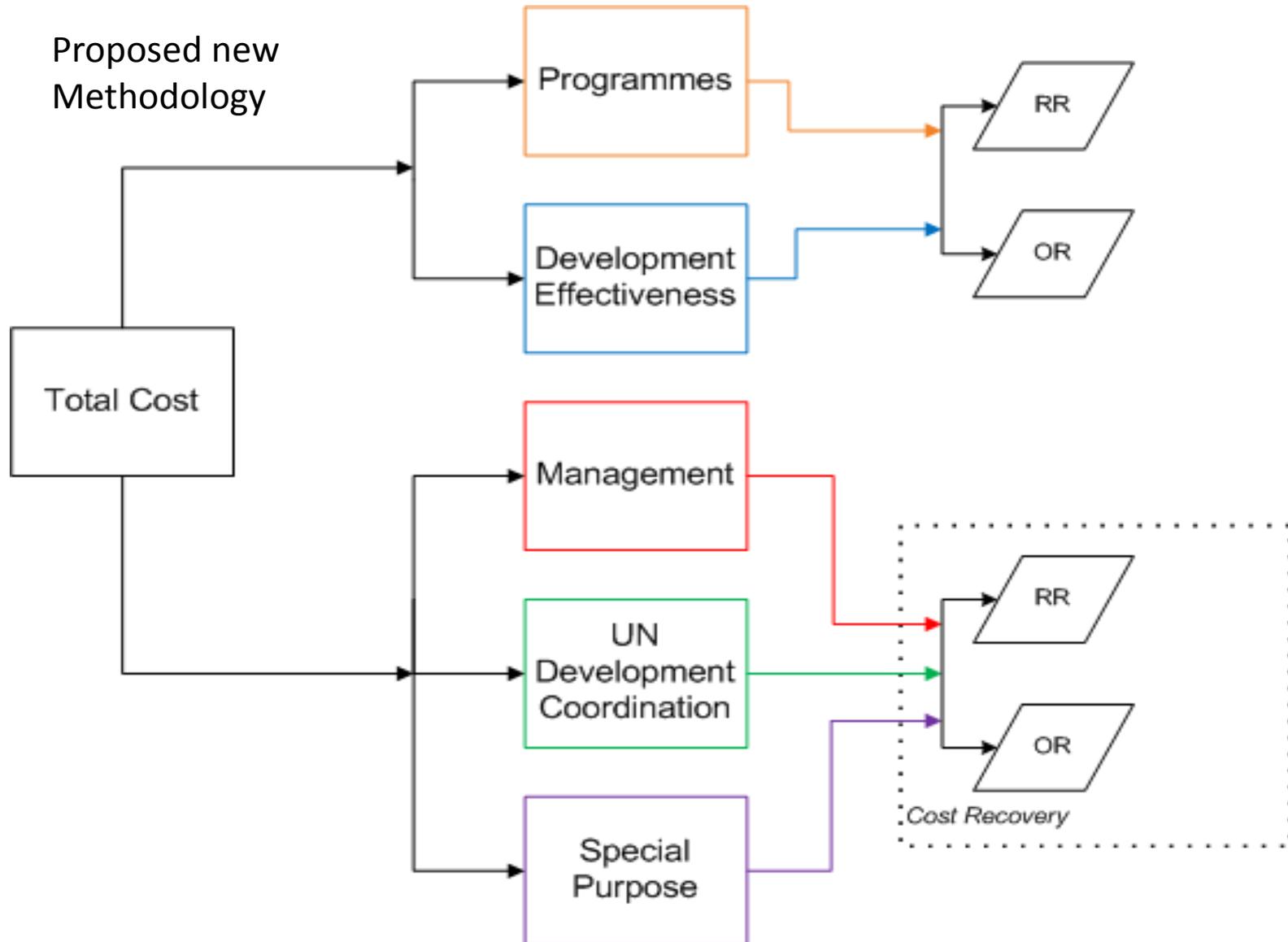
- Different sizes
- Different mandates
- Leads to different business models
- Implications for harmonized cost recovery rates
- Impact in subsequent slides

3. Harmonized conceptual framework for defining and attributing organizational costs

Classification of activities and associated costs approved by EB Decision 2010/32



3. Harmonized conceptual framework for defining and attributing organizational costs (cont'd)



Key points of proposed harmonized conceptual framework

- Basis: Harmonized Cost Classifications as approved by the EB
- Approach: Increased simplicity, transparency, and comparability
- Impact: No longer requires fixed indirect costs to be fully Regular Resource (RR) funded
- Funding: Enhanced complimentary role of regular resources (RR) and other resources (OR) to meet management, UNDC, & Special Purpose mandates and functions is critical

4. Role of cost recovery within the harmonized conceptual framework

- Cost recovery will be applied on a level of proportionality based on total resources (RR and OR shares thereof), and including for capital budgets under Special Purpose
- Continuation of harmonized cost recovery rate implies variability in the role core resources will play for the three organizations.
- Possible options to improve incentives for donors in choosing to provide RR or OR contributions:
 1. Higher CR rates for highly complex development situations with attendant risks.
 2. Higher CR rates on small volume contributions
 3. Discounts for programme country contributions

5. Assessment of the current harmonized cost recovery rate

If proposed harmonized conceptual framework is agreed by EB, the current OR cost recovery rate will change.

Detailed underlying financial analysis currently a work-in-progress.

Next Steps

- 30 May 2012 – Guidance obtained from EB members from today's session on cost recovery
- July 2012 – Joint EB Informal on Integrated Budget framework
- September 2012 - EB joint report containing:
 - a) cost recovery review and analysis;
 - b) mock Integrated Budget; and
 - c) steps taken and progress achieved towards the Integrated Budget.