Policy Title	Cost Recovery Policy
Previous title (if any)	This policy replaces the Cost Recovery Policy (2014).
Policy objective	The objective of this policy is to ensure basic costs are covered by all donors proportionally in order to ensure that UNFPA's budget is fully and sustainably financed.
Target audience	Budget holders, programme, technical and operations staff, and all UNFPA personnel responsible for programme and resource management
Risk control matrix	Control activities that are part of the process are detailed in the Risk Control Matrix
Checklist	N/A
Effective date	1 January 2022
Revision History	Issued: February 2014 Revision 1: September 2014 Revision 2: 1 January 2022
Mandatory review date	January 2026
Policy owner unit	Resource Planning and Budgeting Branch (RPBB) of the Division for Management Services (DMS)
Approval	Link to signed approval template

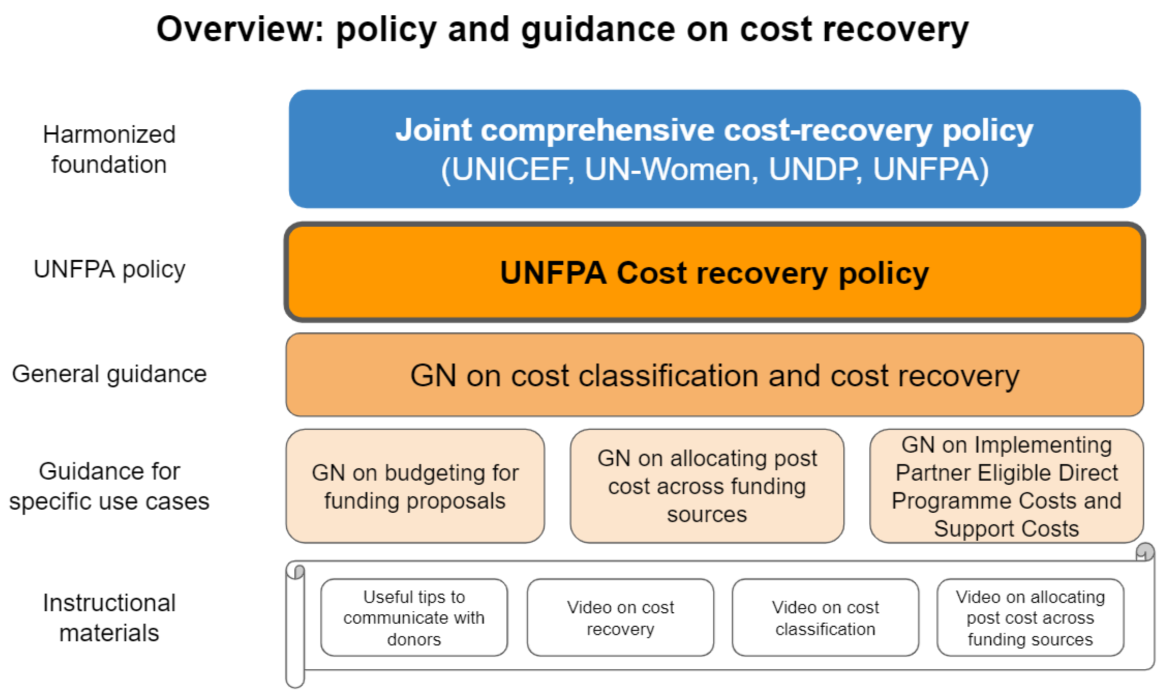
I. Purpose

1. Cost recovery ensures that the basic costs of running the organization are fully and proportionally funded from regular resources and other resources. Stable and flexible funding is critical for ensuring the sustainability of UNFPA's work towards the three transformative results and the broader 2030 Agenda. Cost recovery aims at minimizing cross-subsidization between regular resources and other resources, maximizing the allocation of regular resources to programmatic activities, and promoting efficiency, transparency and competitiveness within the overall development cooperation context.

2. The present policy implements Executive Board decisions 2019/21 and 2020/12, which approved the joint comprehensive proposal on the cost-recovery policy (DP/FPA-ICEF-UNW/2020/1), harmonized between UNDP, UN-Women, UNICEF and UNFPA. Harmonization encompasses three dimensions: (a) cost classification, (b) cost-recovery rates and (c) cost-recovery methodology.

3. The cost recovery policy is guided by General Assembly resolution 75/223 on the quadrennial comprehensive policy review of the United Nations Development System, which reaffirms "the principle of full cost recovery, proportionally from core and non-core resources, thereby avoiding the use of core or regular resources to subsidize activities financed by non-core or extrabudgetary resources". The resolution also specifically notes "the good practice established through the common cost recovery policy" of UNDP, UNFPA, UNICEF and UN-Women.

4. The present policy is part of a broader suite of documents and guidance notes (GN) on cost recovery. The below figure illustrates the relationship between these documents and contains links to each.



II. Policy

5. This policy outlines UNFPA's approach to cost recovery and establishes the following principles, each of which is further elaborated in the sections below:

   A) Cost recovery is based on the approved harmonized cost classification. Budget holders[1] must be familiar with and apply this cost classification.

   B) Both costs directly linked and traceable to a programme (direct costs), as well as costs not directly linked and traceable to a programme (indirect costs) must be fully recovered to ensure the financial sustainability of the organization. Therefore, budget holders must ensure that non-core funding agreements comprise all direct costs as well as indirect cost recovery at the applicable rate.

[1] As per the Resource Management policy, budget holders are "responsible for the management of resources entrusted to them" and comprise "Headquarters division directors, heads of headquarters branches/offices, regional/subregional directors and representatives".

C) The approved standard harmonized indirect cost recovery rate is 8 per cent. Differentiated rates apply, as in Table 1 below.

D) Budget holders are accountable for ensuring all costs are fully recovered.

II.A Cost classification

6. Cost classification categories are the foundation for cost recovery. They are defined as follows:

(a) **Development activities[2]:** costs associated with programmes and development effectiveness activities which contribute to and are essential for the realization of effective development results, as follows:

(i) **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;

(ii) **Development effectiveness activities**: 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/global programme documents;

(b) **United Nations development coordination activities:** associated costs supporting the coordination of development activities of the United Nations system;

(c) **Management activities:** 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, information technology, finance, administration, security and human resources. Management costs are classified as recurrent or non-recurrent;

(d) **Independent oversight and assurance activities:** associated costs supporting the independent audit and investigations and corporate evaluation functions;

[2] Note that "Development activities" for the purposes of cost classification comprise both development and humanitarian activities.

(e) **Special-purpose activities:** associated costs of: (i) capital investments; and (ii) services for other United Nations organizations.

7. Additional details on the cost classification of UNFPA's units, posts and activities are provided in the Guidance Note on cost classification and cost recovery.

8. Annex I describes the approved harmonized methodology UNFPA, UNDP, UNICEF and UN Women use to calculate the indirect cost recovery rate on the basis of the above cost categories, for background information.

II.B Direct and indirect costs

9. All costs incurred are categorized as direct (directly linked and traceable to a programme) or as indirect (not directly linked or traceable to a programme). The Guidance Note on cost classification and cost recovery provides further explanation on the distinction between direct and indirect costs. Both direct and indirect costs must be fully recovered to ensure the financial sustainability of the organization. This is done by ensuring that all non-core funding agreements contain all direct costs, as well as the applicable indirect cost recovery rate.

10. **Direct costs are the costs directly related to specific programmes, incurred either by UNFPA or by its partners.** Examples of direct cost include the cost of programme, technical and operations personnel involved in the programme delivery, the cost of supplies including procurement and logistics, the operational costs required to deliver the programme, and the support cost of UNFPA's partners. Further explanation is contained in the Guidance Note on cost classification and cost recovery and the Guidance Note on Implementing Partner Eligible Direct Programme Costs and Support Costs.

    Direct costs are recovered from the funding source of the programme (regular resources or other resources). Budget holders must ensure **all** identifiable direct costs associated with a programme, whether incurred by UNFPA or implementing partners, be included and budgeted for in all proposals for donor funding. When direct costs are not fully included and budgeted for, this can lead to cross-subsidization of non-core projects with core resources, which is harmful to the organization's long-run financial sustainability. Budget holders and other personnel involved in preparing funding agreements must refer to the Guidance Note on Budgeting for Funding Proposals which contains a list of examples of inputs. Subsequent workplans must likewise include all direct costs.

11. **Indirect costs are associated with the organizational structure and services necessary to support implementation of development programmes (the costs of running the organization).** Examples of indirect costs include corporate executive management, corporate management services, corporate resource mobilization, institutional legal support and corporate human resources management.

12. **Indirect costs are recovered through the application of indirect cost-recovery rates as a percentage fee on direct costs, as outlined in section II.C of this policy.** These indirect cost-recovery fees are not "additional" revenue, but simply recover the designated costs already contained in the institutional budget. Budget holders must therefore ensure that all funding proposals include the correct indirect cost recovery rate as defined in Table 1 below, and have the correct amount budgeted for in the proposal.

II.C Indirect cost recovery rates

13. The standard harmonized indirect cost recovery rate to be budgeted for and charged in all non-core funding agreements is 8 per cent. In addition, differentiated rates apply as per Table 1. For help with calculating indirect costs, offices should consult the guidance on calculating indirect cost in the resource mobilization community. Note that agreements signed prior to 1 January 2022 using the cost recovery rates applicable at the time will be honored. New agreements and revisions of existing agreements that result in additional/new contributions signed after 1 January 2022 must comply with the rates below.

Table 1: Contribution type and indirect cost recovery rates

Type of Contribution	Rate
Non-Thematic Contributions - Earmarked contributions from a single donor to a global, regional or country programme	8 per cent
Thematic Contributions - Thematic Trust Funds	7 per cent
Various umbrella agreements (formal existing inter-institutional agreements)[3]	Based on umbrella agreement
Programme government cost-sharing contributions - Governments contributing to their own country programme	5 per cent
South-South contributions[4]	5 per cent

Note: The 1% UN coordination levy is not part of UNFPA cost recovery, see section IV.

14. In exceptional circumstances and on a case-by-case basis, the Executive Director of UNFPA may consider granting a waiver of the indirect cost-recovery rates (see UNFPA's Financial Rules and Regulations, Rule 105.1).

15. Waivers to the Executive Board-approved indirect cost recovery rates are discouraged and should be kept to a minimum. The prospective budget holder must request a waiver from the Executive Director through the Resource Mobilization Branch (RMB) according to the process outlined in the UNFPA Co-financing Procedures. The RMB will carefully review all waiver requests and will advise the Executive Director to allow waivers only in exceptional cases, where the programme funding would otherwise be at risk, negatively impacting the agency's ability to help programme countries to achieve results.

[3] Umbrella agreement refers to broader agreements reached jointly with one or more UN agencies vis-a-vis one or more bilateral or multilateral donors. Specific rates will apply for specific umbrella arrangements and may be revised under individual umbrella arrangements. Examples of current rates for such agreements include: Central Emergency Response Fund (CERF) - 7%; United Nations Fund for Human Security (UNTFHS) - 7%; Joint Programmes using pass-through funds management - 7%; agreements with the European Commission under the Financial and Administrative Framework Agreement (FAFA) - 7%. In the framework of the wider institutional agreements, these rates may periodically be updated. Thus the prevailing and most recent agreement should be the reference point.

[4] According to The Framework of Operational Guidelines on United Nations Support to South-South and Triangular Cooperation (SSC/17/3 dated 12 April 2012), South-South cooperation for development is a process whereby two or more developing countries pursue their individual and/or shared national capacity development objectives through exchanges of knowledge, skills, resources and technical know-how, and through regional and inter-regional collective actions, including partnerships involving Governments, regional organizations, civil society, academia and the private sector, for their individual and/or mutual benefit within and across regions.

16. The Division of Communications and Strategic Partnerships (DCS), together with DMS, ensures that all waivers are reported transparently to the Executive Board on an annual basis, as part of the annual report of the Executive Director. The reporting includes information on the programme, indirect cost-recovery rate applied, funding partner and financial impact of the reduced cost-recovery rate as well as a brief justification for granting the waiver.

II.D Accountability for cost recovery

17. Prospective budget holders negotiating agreements are accountable for ensuring that UNFPA recovers all direct and indirect costs. They must ensure all funding proposals include all direct costs, and all non-core donor agreements reflect the applicable rate of indirect cost recovery. They must also ensure operations personnel review funding proposals prior to submission to potential donors.

18. Operations personnel are accountable for reviewing and providing quality assurance for budgets and operational aspects of proposals being developed.

19. As per the co-financing policy, regional resource mobilization and partnerships advisors as well as the Resource Mobilization Branch (RMB) provide oversight, with the support of the Division of Management Services (DMS).

20. When in doubt about the applicable rate or other elements of a funding proposal, units in the field should get support from their Regional Resource Mobilization and Partnerships Advisor. Headquarter units should get support from RMB for agreements with public donors and from the Strategic Partnerships Branch (SPB) for agreements with non-public sector donors.

III. Procedures

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IV. Other

21. The UN Coordination Levy (1%) is not part of the UNFPA budget and thus it is not part of our cost recovery. Budget holders should not commingle UNFPA costs (both direct and indirect) with the coordination levy (which is **an additional charge** that funds the cost of the Resident Coordinator System, and not a UNFPA cost). Nevertheless, budget holders must ensure that **all agreements subject to the levy contain that additional element. Note that the levy should be stated only in the actual body of the agreement, not in the UNFPA budget underlying the funding proposal.** More information on the Coordination Levy can be found in the Resource

Mobilization Community, the Guidance on the Implementation of the UN coordination levy (1%) and in the Guidance Note on Budgeting for Funding Proposals.

V. Process Overview Flowchart

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VI. Risk Control Matrix

The Risk Control Matrix for the cost recovery policy is available here.

Annex I

Cost recovery methodology

1. Cost recovery refers to the requirement of the organization to ensure that regular resources are not subsidizing the implementation of programmes funded from other resources. The cost-recovery methodology recognizes that certain functions that are integral to the existence and advancement of the mandate of an organization must be carried out regardless of the volume of programme implementation. Therefore, funding for these functions must be assured from regular resources. The methodology ensures more equitable funding of organizational costs based on the fundamental principle that organizational costs that are eligible for cost recovery should be proportionally funded from regular resources and other resources.

2. Costs that are considered eligible for indirect cost recovery are those that are indirectly linked to the delivery of development results. Costs directly linked to the delivery of development results will be directly funded from regular resources or other resources, depending on where the cost originates.

3. The current indirect cost-recovery methodology starts by identifying the following functions as integral to the mandate of the organization which as such are to be covered solely from regular resources as part of the organizations’ institutional budget.

   (a) Development effectiveness activities;

   (b) United Nations development coordination;

   (c) Critical cross-cutting management functions;

   (d) Critical cross-cutting independent oversight and assurance functions;

   (e) Non-comparable special-purpose activities.

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

5. The harmonized methodology to calculate the indirect cost-recovery rate is as follows:

(a) Calculate the proportionate percentage share of regular resources and other resources per the planned use of resources in the organizations' integrated budgets;

(b) On the basis of the institutional budget, calculate the sum of the institutional budget costs that are to be funded from regular resources only and the balance to be funded proportionally from regular and other resources, and remove costs related to the mandate of the organization to be solely funded from regular resources.

(c) Take the balance of the institutional budget amount calculated in step (b) to be recovered from regular and other resources and apply the percentages calculated in step (a);

(d) Take the amount to be recovered from other resources in step (c) and calculate it as a percentage of total planned other resources;

(e) The amount in step (d) equals the notional cost-recovery rate to be recovered from other resources.

6. Note that due to their different mandates, structures and economies of scale, the calculation of a single notional cost recovery rate for multiple agencies is mathematically impossible. In principle, net the effect of differentiated rates and waivers, where the harmonized standard rate is lower than the notional cost recovery rate, the shortfall would be funded from regular (core) resources. Similarly, where the harmonized standard rate is higher than the notional cost recovery rate, the difference is funded from other (non-core) resources. Nevertheless, harmonized rates for comparable activities are beneficial for United Nations coherence, the simplification of negotiations and the reduction of transaction costs.