210e Session du Conseil exécutif – Réunion d’information
Cost recovery policy review – Document 210 EX/33
BUREAU of FINANCIAL MANAGEMENT

Mrs. Magdolna Bona, CFO – January 2021
UN organization cost recovery mechanisms

General principle within the UN system: principle of full cost recovery as outlined by the QCPR

“full cost recovery and proportionality, from core and non-core resources, thereby avoiding the use of core or regular resources to subsidize activities financed by non-core or extra-budgetary resources”.

- system-wide approach on cost definitions and classifications by 2021
- number of agencies recover similar types of costs (e.g., UNICEF, UNDP, WHO, WFP, UNHCR, FAO, UNFPA, UNWOMEN etc.)
- Some have already adopted the principle of full cost recovery (UNICEF, UNDP, UNFPA, UNWOMEN)
- EB emphasized the importance of the application of full cost recovery (200EX/ Decision 5.III.F)
- and IOS recommended, *inter alia*, that UNESCO ensures full cost recovery (IOS audit report on cost recovery – April 2020)
New proposals related to the Cost Recovery Policy

- **Introduction of POC (Post Occupancy Charge)**
  For recovery of support costs related to voluntary contribution projects which are currently not recovered through the PSC rates

- **Revision of the proportion of funding the Management Cost Account** (ratio between Regular Budget and Voluntary Contribution)
  Current RP 63% / VC 37% → proposed to RP 56% / VC 44%
Calculation method for the Post Occupancy Charge

Around 9%,
Post Occupancy Charge (POC)

- Charge to be applied to standard costs of personnel costed under project budgets for all voluntary contribution funded activities
- Expected to generate around $8M for the biennium (part of which goes to CSI) for the biennium, and around 2% of the total VC project expenditure

Further consultations with Category 1 and UNESCO Brasilia Office
POC recovery and its use will be reported in the periodical Financial Management Reports

Ref: Q2;3;4;6;10;12

Based on actual expenditures in 2018/2019/2020
Voluntary Contributions – Budget structure

Direct charges, including staff costs and staff cost recovery

**PSC 8%** = Management Cost (Direction, HRM, BFM, BSP, KMI), applied to the total project costs

Around 9% **POC** applied only the staff cost component, representing around 2% of total project expenditure (Charges depends on the personnel components included in the projects)

**No added complexity in VC budgets, only standard costs change.**

1% “levy” UN Secretariat new RC system (directly to be paid to the UN common system)
What mechanism to be put in place to strengthen Field Office?

Similar to the practice under the old "FITOCA" modality a percentage (TBD) of the POC is intended to be distributed to the FOs for their use (as also indicated in IOS report).

However, the most significant portion of the POC will be used to fund the costs incurred for utilities, maintenance, security, etc.
Proposed change to the RP/VC funding ratio for the Management Cost Account (MCA)

- Initial proportion adjusted for expected PSC derogations

**Total MCA budget $80M**

40 C/5 proportion of MCA funding*

- **RP 63%**
- **VC 37%**

Update based on UNESCO's overall funding structure (2018-2019 - 2020 expenditure)

**41 C/5 proposed proportion of MCA funding**

- **RP 56%**
- **VC 44%**

On an unchanged MCA budget, the new ratio would result in $6M less under RP

Note: EB endorsed the principle of proportionality for calculating management cost (200EX decision/ 5 III F)

Ref: Q13