



Briefing by

**David Morrison
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to the

**UNDP/UNFPA Executive Board on
UNCDF Approach to Cost Recovery**

Thursday, 10 September 2009

CHECK AGAINST DELIVERY

Mr, President

Distinguished Delegates

Ladies and Gentlemen

My task this afternoon is to brief you on the UNCDF approach to cost recovery, in anticipation of the formal report on the implementation of UNCDF's cost recovery policy that will be presented at the first regular session of the Executive Board in 2010.

Presentation of the formal report - requested by the Board in its decision 2008/21 - was postponed to coincide with the UNDP presentation of its 2010-2011 Biennial Support Budget, which, as you know from the background paper and the ongoing discussions, aims at increased accountability and transparency in the way costs are classified.



Let me begin by saying that cost recovery income in UNCDF is generated from two sources: (i) donor contributions to other resources (non-core funds); (ii) technical advisory services to UN organizations and other institutions.

Since January 2008, when the UNCDF cost recovery policy was adopted by the Executive Board, UNCDF has applied the general management support rate of 7% used by UNDP and other United Nations organizations, in all agreements for contributions to other resources. Technical advisory services are being charged at full cost.

The actual average general management support rate for contributions received to UNCDF other resources in 2006-07 stood at 6.7% - on contributions to other resources of 21 million dollars. In 2008, the general management support rate stood at 7%, on contributions of 26.6 million dollars. So, as you can see, UNCDF is already well on track in implementing the cost recovery policy adopted by the Executive Board in January 2008.

In terms of the use of this extra-budgetary income, in the recent past the income has been used to fund a strengthening of UNCDF's country level presence, additional operational support at our three regional offices in Africa and Asia, and additional management support at Headquarters. All of this has been in keeping with UNCDF's expansion during the past four years from 20 – 40 least developed countries. The extra-budgetary income also partly covers the reimbursable services obtained from UNDP here at headquarters for such things as corporate legal services, information technology support and the like.

As we move forward, three principles are guiding our approach to cost recovery:



- First principle: Alignment with UNDP cost recovery and harmonization with UNDG cost principles;
- Second principle: Proportional burden sharing of management costs from regular and extra-budgetary resources;
- Third principle: Strategic allocation of extra-budgetary resources to ensure effective programme delivery.

At the same time, and on the related issue of cost classification, let me say that we at UNCDF are following the evolving discussions closely, because in our view the current classification of costs, and the way they are funded at UNCDF, is sub-optimal for us as a growing organization.

Historically, UNCDF's administrative costs were borne by (i) a Biennial Support Budget that was subject to Board approval; and (ii) a Programme Support Budget (PSB) funded from a charge against UNCDF regular resources that began at 3% of country programme allocations and is now 5%. While formal Board authority to levy this charge cannot be established, the practice has evidently existed at UNCDF since the early 1990s, with the PSB being used to fund both country and regional-level programme support costs.

This overall situation changed somewhat in 2006 when UNCDF began to receive an allocation for support costs out of the UNDP Biennial Support Budget. While very welcome, this allocation came with no mechanism for adjustment to accommodate UNCDF's subsequent growth, meaning that while UNCDF has more than doubled in size financially in the past four years, its BSB allocation for support costs has remained fixed.

As a result, UNCDF has had to charge its necessarily increasing support costs to the PSB, which is to say, to regular resources. While this use of regular resources had been communicated on various occasions to the Board, as UNCDF support costs are no longer taken up separately, its use of regular resources for support functions is no longer automatically made subject to prior Board approval.



The current UNDP exercise on cost classification may go a long way to addressing this issue. In addition, as part UNCDF *Project 2010*, the process of operational strengthening that I introduced to you at the Annual Session some months ago, UNCDF, together with UNDP, is committed to:

- First, reviewing the “base structure” that UNCDF needs to carry out the essential functions of the organization and ensuring that the costs, if not fully covered by the UNDP BSB allocation, are addressed in a transparent way approved by the Board;
- Second, designing a coherent and transparent cost classification regime according to harmonized UN system principles that will distinguish base structure costs, costs related to programme support and costs directly related to programme execution;
- Third, re-doubling efforts to secure regular and other resources;
- Fourth, constraining overall operating expenses, including through increased cost-consciousness and partnerships.

The intended outcomes of this process are:

- A new financial model that will allow UNCDF to meet increasing demand for its services in microfinance and local development, in ways that allow it to grow stronger and more effective as it attracts the new resources;
- An increased and predictable volume of programme resources that will allow UNCDF to deploy resources to opportunities in ways that maximize the amount of follow-on investments for the benefit of the least developed countries.

This is the approach that UNCDF will follow in reporting on the implementation of its cost recovery policy, the impact of the applied rates



on regular and other resources, as well as the use and allocation of indirect costs recovered, for consideration at the 1st regular session 2010.

Now, there are many other things that I'd like to speak to you about, including some recent successes we've had with our global microfinance work, as well as continued success in the development of our non-core funding streams.

But I'm well aware that our time is limited this afternoon, especially in view of the next agenda item relating to UNOPS. So in the interests of time I will end here by thanking you for inviting me to address you this afternoon, and by inviting any questions you might have.

Reference Executive Board Documents:



1. EB Decision 2008/21 requesting UNCDF management to report on the implementation of the cost recovery policy at the second regular session 2009
2. DP/2008/12 (section IV) – UNCDF partnership framework with UNDP, programming and funding arrangements, and cost recovery policy
3. DP/2008/33 (section III-D) – Results-oriented annual report of the United Nations Capital Development Fund
4. DP/2009/3 Cost Classification in UNDP