



INDEPENDENT REVIEW OF THE UNDG SYSTEM-WIDE COST- SHARING AGREEMENT IN SUPPORT OF THE UN RESIDENT COORDINATOR SYSTEM

RECOMMENDATIONS

PREPARED FOR UNDG

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INTRODUCTION TO RECOMMENDATIONS

This document outlines recommendations for further developing the UNDG Cost-sharing Agreement in light of the findings contained in the document “Independent review of the UNDG system-wide cost-sharing agreement in support of the UN Resident Coordinator system, Key Findings”. The terms of reference for this review, specify two objectives: (1) to review the financing of the RC system and the implementation of the UNDG Cost-sharing Agreement, and (2) to generate proposals to further develop the Cost-sharing Agreement to meet the needs of the RC system in the context of supporting the implementation of the 2030 Agenda for Sustainable Development.

The review, and the recommendations, are organized into three topics: (1) the overall coordination budget, (2) the formulae for cost-sharing among UNDG entities and for allocating the funds, and (3) processes and reporting on the cost-sharing budget. The findings and recommendations are based on evidence from documents and past reports; analyses of data on budgets, spending, staffing, and activities; interviews with almost every UNDG member; interviews with Regional UNDG Chairs and two of the Regional UNDG Teams; and phone interviews with RCs and with UN Country Teams (conducted separately) in 14 countries.

Recommendations related to the changes in the formulae for allocation costs between UNDG members, and for allocating funding to countries, are linked together.

RECOMMENDATIONS ON OVERALL BUDGET

- A. Increase the level of financing for the ten coordination functions, ideally to the level of \$63-65 million recommended in 2012 which would allow monitoring and evaluation to be included in the “oversight of the UN country programming cycle” coordination function.** Ideally, financing of the full RC system should be increased to the level recommended in the MSI Report on RC System Funding Modalities in 2012, i.e., \$153-155 million, of which \$63-65 million is the cost-sharing portion. This increase in funds from the current funding level should be predominantly allocated to RCOs to provide resources – both staff and operating budget – for additional country-level coordination. The additional resources would permit RCOs to hire M&E staff members and could pay for monitoring and evaluation of UNDAFs (without the need for local UNCT cost-sharing).

Rationale: Several pieces of evidence indicate that the development coordination budget is insufficient for current or future needs: (1) the budget is well below the spending and estimated needs laid out in the MSI report on RC System Funding Modalities in 2012; (2) resources have declined since 2011 while functions have remained the same or increased; (3) many stakeholders indicated in interviews that they believe the RC system to be underfunded while none believe it to be sufficiently funded; (4) funding for development coordination is much lower than for

humanitarian coordination; and (5) delivering on Agenda 2030 will require even greater levels of coordination from the UN development system than in the past. M&E ought to be included in the coordination budget because it was identified as a critical coordination function in the MSI report on RC System Funding Modalities in 2012, and UNDAF evaluations are mandatory; the main reason that the UNDG Cost-Sharing Agreement did not include M&E was to reduce the overall costs, and many requests for local cost-sharing are for UNDAF evaluations. If funding is not increased, then the RC system will not be able to fully deliver on its mandate. RCOs will need to spend precious time on local fundraising for staff and activities rather than on the ten coordination functions, UNCT members will continue to have to contribute resources to local cost-sharing, and overall UN coordination at the country level will not be able to meet the increased demands of Agenda 2030. (See paragraphs 55-63 and paragraph 53 of the Findings Report).

- B. Seek new sources of funding—from donor countries or other sources—to complement the shared contributions and commitments from UNDG entities.** If the RC system remains underfunded by the UNDG, new sources of funding should be sought. It will be important that any such additional financing does not compromise the ability of the RC system and of the UN development system to provide effective and neutral support to developing country governments or to promote UN values and relevant international agreements and declarations.

Rationale: Our findings indicate that the RC system remains underfunded and therefore new sources of funding should be sought. If UN entities are not able to fully fund the RC system, external resources should be raised to top this up. If further funding is not secured, the RC system will have to make budget cuts at all levels, which will result in reduced capacity for coordination. (See paragraphs 55-63 of the Findings Report).

- C. If funding cannot be provided through UNDG cost-sharing or other sources, in accordance with Recommendations A or B, then acknowledge that local cost-sharing is necessary and justified, and consider implementing a guideline whereby country representatives of all UNCT entities are expected to participate.** It may be useful to establish a guideline for local cost-sharing for specific coordination activities – perhaps 25% shared equally by all UNCT members and 75% shared in proportion to prior-year expenditure of each entity in the country. This proposed 25%/75% breakdown may not be appropriate for every country and every situation, and establishing a hard-and-fast rule on country-level participation may add extra unnecessary administrative burdens.

Rationale: The recommended cost-sharing level of \$63-65 million in the MSI Report on RC System Funding Modalities was designed to eliminate the need for local cost-sharing. Instead, the UNDG cost-sharing now provides less funding than was available prior to the cost-sharing arrangement (\$43-45 million in 2011). Unless UNDG members increase their contributions or are able to source other funds, then local cost-sharing is a reasonable expectation to ensure that the ten coordination functions, together with M&E / UNDAF evaluations, are delivered. If local cost-sharing is discouraged, or forbidden, and additional funding is not sourced, the RC system would face further budget cuts, and it may become difficult or impossible for some countries to pay for independent UNDAF evaluations. (See paragraphs 55-63 and paragraph 53 of the Findings Report).

- D. Conduct a review of the activities involved in “general UNCT oversight and coordination” and of all current reporting requirements, and identify activities that can be eliminated or reduced.** Any time freed up should be dedicated—at country, regional, or global levels—to (i) strategic analysis and planning and (ii) joint resource mobilization and fund management. The review will also serve to identify those general oversight and coordination activities which are valuable and necessary, and thus increase the appreciation of vital but unglamorous aspects of coordination work. Note that one consequence of this recommendation is that there should not be additional requests to RCOs to track time allocations across the ten coordination functions every year – given that it would create an extra reporting burden, and that there the allocation of effort across the functions was not very different in 2017 compared to 2011.

Rationale: Strategic analysis and planning and joint resource mobilization are the most important coordination functions; they receive less attention than their importance would suggest they should, while general oversight and coordination consume more time relative to their perceived importance. It is unclear exactly which activities take up the most time within the general oversight and coordination function, or which could be streamlined or deprioritized, and this should be further explored. It is possible that general UNCT oversight and coordination is merely perceived to be of less importance, because this function includes less glamorous activities; if this is the case, then a review may highlight the importance of these activities and increase appreciation among UNDG members for them. (See paragraphs 51-52 of the Findings Report).

- E. Consider the possibility of tracking and reporting on in-kind contributions by UNDG member entities, but only implement such reporting if it does not increase “general coordination” costs significantly (per recommendation D).** If in-kind coordination costs are tracked, make sure to distinguish between (i) contributions to the ten coordination functions, (ii) contributions to other aspects of central coordination, and (iii) participation by entities in joint activities. It is not recommended that the amounts charged to UNDG entities for the cost-sharing should be adjusted to account for in-kind contributions.

Rationale: Many UNDG members provide valuable contributions to the work of the United Nations, as a coordinated system, at the country level. Some agency contributions are examples of central coordination activities, which are valuable contributions but are not substitutes for the ten coordination functions. In a few cases, agencies have provided highly valuable in-kind contributions to the development coordination system. However, most RCOs indicated that there were very few significant in-kind contributions from UNCT members, and that some contributions were more useful than others. These contributions are still an important part of the overall resourcing picture of the RC system, but the collection of this data should be carefully weighed-up against the value of receiving this reporting and adding further reporting requirements to RCOs. (See paragraphs 40-44 of the Findings Report).

RECOMMENDATIONS ON FORMULAE FOR COST-SHARING AND ALLOCATIONS

F. Revise the cost-sharing formula to address the major concerns raised by UNDG members, while allowing for some natural growth commensurate with growth in the system overall.

The proposed formula would determine the amount to be paid by each entity as the sum of:

- Base Fee = \$100K if Expenditure <\$100M or Number of UNDAFs <=10 (and this is a flat fee with no System Load or Agency Size components) or \$175K if Expenditure = \$100M–\$500M or \$350K if Expenditure >\$500M
- Country-Level System Load = Cost per UNDAF X Number of UNDAFs
- Agency Size = (Cost per Staff Member X Number of Staff) + (Cost per Expenditure Dollar X Total Expenditure)

To produce the same amounts for most UNDG entities as those actually charged in 2017, the parameter values should be:

- Cost per UNDAF = \$9,774
- Cost per Staff Member = \$225.15
- Cost per Expenditure Dollar = \$0.00042

An agency's new allocation would be calculated by multiplying the number of UNDAFs that the agency has been present in by the cost per UNDAF parameter, multiplying its number of staff by the cost per staff member parameter, multiplying the total expenditure dollars by the cost per expenditure dollar parameter, and adding each of these three components to the base fee.

Humanitarian staff and expenditures are excluded when calculating the Agency Size component; humanitarian expenditures are included when calculating the Base Fee component.

Hypothetical example: UNDG Member with expenditure of \$800 million (including \$200 million on humanitarian activities) and staff of 1,150 (including 150 assumed to be dedicated to humanitarian work) in 2017; the entity participated in 80 UNDAFs. The proposed formula would calculate this agency's share as follows:

- Base Fee: \$350K (because total expenditures of \$800M are greater than \$500M)
- Country-Level System Load: $80 \times 9,774 = \$782K$
- Expenditures:
 - Expenditures: $\$600M \times 0.00042 = \$252K$
 - Staff: $1000 \times 225.15 = \$225K$

Hence, the total contribution for this hypothetical agency would be \$1.609 million for one year.

Rationale: This proposed formula leads to three significant benefits:

- (1) The formula clearly links to the load each entity places on the system, and the value it derives.*
- (2) Entity allocations only change if the entity changes in size, or changes its load on the system – or if UNDG agrees to change the functions or the overall amount to be invested. Whereas the existing formula is linked to a total budget that was then divided amongst UNDG members, this proposed formula would ensure that entities see changes if, and only*

if, they change in size or they change their load on the system (by participating in more UNDAFs). The formula effectively de-links each agency's contribution from each other, and from a total budget.

- (3) *Coordination funding is naturally tied to the size of the UN development system. The proposal also allows for some natural growth in the coordination system. As agencies' budgets, expenditures, and systems expand, their contribution will increase. The corollary is true, as well: if agencies decrease in staff size, expenditures, or system load, their contribution will decrease.*

(See paragraphs 72-77 of the Findings Report).

- G. If UNDG determines that there should be increases or decreases in the budget, beyond those created through natural changes in the size of the UN development system, it can do so by adjusting the base fee and the 'cost-per' parameters either up or down.**

If UNDG increases the funding for the ten coordination functions to \$63-65 million (per Recommendation A), and were to provide the funding entirely through UNDG cost-sharing, and wanted to maintain the current balance between the three components of the formula, it could do so by multiplying all of the base fee amounts (except the minimum flat fee of \$100K) and each of 'cost-per' parameters by approximately 1.7; with some rounding, the new parameters could be set to the following:

- Base Fee = \$100K if Expenditure <\$100M or Number of UNDAFs <=10 (flat fee with no System Load or Agency Size components) or \$300K if Expenditure = \$100M–\$500M or \$600K if Expenditure >\$500M
- Cost per UNDAF = \$16,615
- Cost per Staff Member = \$382.75
- Cost per Expenditure Dollar = \$0.0007093

Rationale: This recommendation gives UNDG the control to make decisions to expand or contract the cost-sharing budget – for example, because it wishes to add or remove coordination functions – by raising or lowering the parameters. At the same time, Recommendation F allows for natural growth (or shrinkage) in the cost-sharing budget with growth or shrinkage of the size of the UN development system. (See paragraphs 72-73 of the Findings Report).

- H. Calculate allocations using the agreed parameters and CEB data for expenditure and staff; calculate allocations for the two years of each biennium at the start of the year before the biennium to ensure predictability for UNDG members.** For example, allocations for the biennium 2020-21 should be calculated by early 2019. The calculations will have to use CEB data from the third year prior to the biennium in question: for example, the allocations for 2020-21 would use CEB data for 2017, because this would be the latest CEB data available, having been compiled during 2018.

Rationale: Calculations need to be based on a commonly agreed source of data, and CEB is the most logical source. UNDG members need to know the amounts they will be charged over the course of each biennium, and each UNDG member needs to know the amount in sufficient time to

include it in their biennial budgets, which requires doing the calculations at the start of the year prior to the biennium because some UNDG members have budget cycles that start early in the prior year. (See paragraphs 72-73 of the Findings Report).

- I. Make adjustments to how the Secretariat is treated in the formula for cost-sharing: (1) exclude OHRLLS, OSAA, and SRSG/CAAC as they are small HQ offices; (2) apply base fees to all UN Secretariat entities (except OHRLLS, OSAA, SRSG/CAAC).**

Rationale: For the UN Secretariat, it seems reasonable to exclude the Secretariat entities which are small HQ-based offices that place limited demands at country level – namely OHRLLS, OSAA, and SRSG/CAAC. (It may be worth considering having these entities as observers at, rather than full members of, UNDG, which would further justify exempting them from participating in the UNDG Cost-Sharing Agreement.) It does not seem reasonable to apply only one base fee to cover all the different Secretariat entities, since each is a member of UNDG separately and each participates separately in UNDAFs and UNCTs at country level. (See paragraph 77 of the Findings Report).

- J. Use the recommendations in this report to inform the “refined proposal on the cost-sharing arrangement” which Member States have requested from the Secretary-General.** Among the recommendations which may address concerns expressed in the past are:

- (1) Recommendation N calls for the Annual UNDG Results Report to include more data on how funds are spent each year. It is not desirable to have specific posts or expenditures approved in advance, because it is essential to give RCs the flexibility to spend their limited budgets for coordination in the most useful ways based on each country’s need and context.*
- (2) Recommendation F proposes a revised formula which more clearly connects cost-share allocations with the “load” placed by each entity on the coordination system, at global level (through the base fee) and at country level (through the number of UNDAFs it participates in), and on the share of benefits that each entity derives from coordination, assuming that these are roughly proportional to agency size (as measured by expenditures and staff count). Given that the vast majority of coordination activities are not divisible into services attributable to specific “customers”, and hence a pay-per-use model is not appropriate, the proposed formula achieves the closest possible linkage between charges to entities and the costs to serve them and the benefits they get.*
- (3) The proposed formula in Recommendation F, as well as Recommendation H, avoid unpredictable changes in allocations to entities. The total cost-sharing budget is no longer affected by changes in UNDP pro forma costs for staff in various countries, as a present. The amount payable by each entity will only change based on its own staff count, expenditure, or number of UNDAFs; the amount will not depend on the cost-sharing allocations to other UNDG entities.*
- (4) Recommendation I excludes three Secretariat entities which purely work at HQ level and place few if any demands on the RC system – namely OHRLLS, OSAA, and SRSG/CAAC – from having to contribute to the UNDG cost-sharing.*

Rationale: These points address concerns raised by Member States and others in discussions about the Secretariat’s contribution. (See paragraphs 73 and 77 of the Findings Report).

- K. Consider actions to limit services to or participation by UNDG member entities that fail to pay their share of the cost-sharing budget.** For example, RCOs might not support missions from such entities, or they might not be represented on the UNDG Advisory Group.

Rationale: Entities not paying their share of the cost-sharing should not be able to avail of the same benefits from the RC system and voice in shaping the RC system.

- L. Develop new mechanisms to enhance the coordination of the UN’s development and humanitarian work – and review the cost-sharing if the RC system needs to play additional roles.** One option to fund enhanced activities by the RC system on humanitarian-development coordination would be to include humanitarian expenditures and staff, in full or with a discount applied, when calculating the “agency size” component of the cost-sharing formula.

Rationale: There is currently no clear owner of the humanitarian-development coordination function, which is becoming increasingly important following the World Humanitarian Summit in 2016. Not adding this function – somewhere in the overall UN System – will likely lead to missed opportunities for ensuring coherence between humanitarian and development activities. (See paragraph 76 of the Findings Report).

- M. Establish funding levels for each country that are no longer tied to pro forma costs for certain staff positions, staying close to the same amounts that were allocated to each country in 2017 (unless new funds for coordination are raised), and create a small reserve of funds which can be allocated when countries have particular needs.** The funding levels for each country could be reviewed by UN DOCO each year, and tweaked to take changes in staff costs into account (but without tying allocations to pro forma costs). The amounts allocated to countries should leave a small remainder of funds to put into a reserve which could be used, for example, to (1) top up funds in RCOs which may lose a staff member because pro forma costs have risen beyond their allocation, and the UNCT has been unable or unwilling to share the costs of that staff, (2) add resources to a country that falls into crisis during the year, (3) try to maintain levels of funding per country if situations were to arise where the total budget in a future year is insufficient, and (4) supplement funds of multi-country offices.

Rationale: Currently, country allocations are based on the pro forma costs for specific staff levels across specific country typologies. Allocating funds to countries by considering staff costs—but without tying these costs to pro forma costs—will remove the annual growth of the overall budget that agencies have been expected to shoulder. Untying allocations from pro forma costs will therefore require changes in allocations based on whether the cost-sharing formula increases or decreases. (See paragraphs 72-73 of the Findings Report).

RECOMMENDATIONS ON PROCESSES AND REPORTING

- N. Review the content of the UNDG Results Report, with a view to (i) decreasing the length of the report and the work required to complete it, (ii) adding more facts and data about how funds are spent, and (iii) increasing the focus on results and impact of coordination.** The report should provide a breakdown of staff and non-staff expenditures across major cost categories and the three levels of the system (i.e., the global, regional, and country level). In the qualitative components of the report, greater focus should be placed on lessons learned with respect to coordination across RCOs and UNCTs, which would increase the value of the report at the country level. The qualitative review of each coordination function could be shortened.

Rationale: UNDG member entities and Member States in the Fifth Committee would like to have clearer information on coordination spending at the global, regional, and country levels, while other parts of the report could be reduced in length. (See paragraphs 73 and 83-85 of the Findings Report).

- O. Disseminate the UNDG Results Report more deliberately at the country level—for example, by hosting an annual videoconference for each region with all RCs, RCOs, and UNCT members.** One place where this could be done is by including this as a standing agenda item at annual regional meetings amongst RCs.

Rationale: UNDG members mostly appreciate the Annual UNDG Results Report, but it is not well known at the country level. (See paragraphs 83-85 of the Findings Report).