



---

**Executive Board of the United Nations  
Human Settlements Programme  
Second session of 2021**

Online, 15 and 16 November 2021

Item 4 of the provisional agenda\*

**Financial, budgetary and administrative matters,  
including the implementation of the resource mobilization  
strategy in accordance with the strategic plan**

**Cost-recovery policies and methodologies of the United Nations  
Human Settlements Programme**

**Report of the Executive Director**

**I. Principal elements of the UN-Habitat cost recovery policy**

1. The cost recovery policy of the United Nations Human Settlements Programme (UN-Habitat) is based on the Secretary-General's Bulletin on the establishment and management of trust funds (ST/SGB/188); the United Nations administrative instruction on programme support accounts (ST/AI/286); the United Nations Controller's memorandum on cost recovery: programme support costs, dated 8 June 2012; General Assembly resolution A/RES/67/226; and the Secretary-General's bulletins on the financial regulations and rules of the United Nations (ST/SGB/2013/4 and ST/SGB/2013/4/Amend.1) and the supplements thereto (ST/SGB/2015/4 and ST/SGB/2015/4/Amend.1).

2. Cost recovery refers to the requirement for an organization to recover from earmarked resources the indirect costs embedded in its structure so that there is no undue burden on regular resources (also known as "non-earmarked", "unrestricted" or "core" resources). UN-Habitat regular resources are defined as the funding provided by Member States through the regular budget and the Foundation non-earmarked fund.

3. The objective of cost recovery is to achieve a balance between regular and earmarked resources in meeting the organizational costs that relate to management and programme support activities. UN-Habitat avoids using regular resources to subsidize activities arising from the implementation of earmarked resources, ensuring that all direct costs associated with the implementation of programme activities are included in programmes from the outset and that indirect costs are charged to projects funded from earmarked resources on the basis of the cost recovery rates established by the Secretariat of the United Nations or, where appropriate, that an exception is obtained from the Office of the United Nations Controller.

4. All identifiable costs related to the implementation of projects funded from earmarked resources must be fully budgeted in donor contribution agreements and subsequent workplans as direct costs of those projects.

---

\* HSP/EB.2021/12.

5. In projects funded by earmarked resources, estimated indirect costs, calculated using the programme support cost rate set by the Secretariat, must be fully budgeted in donor contribution agreements and subsequent workplans.

## **II. Overview of direct and indirect costs**

### **A. Direct costs**

6. Direct costs are broadly defined as all costs that are incurred by, and can be traced in full to, the activities and earmarked projects undertaken by an organization in fulfilment of its mandate. They include the following:

- (a) Project staff and other personnel costs, including administrative personnel dedicated to one or multiple projects, and extending to consultants and contracted service staff. Such costs include all non-recurring personnel costs related to specific project personnel;
- (b) Common service costs, including information and communications technology, host country services, local transport (depending on the duty station), security and medical services;
- (c) Equipment, whether purchased or leased, and related supply and maintenance costs;
- (d) Contractual services, including project evaluation, legal, publications, editing, translation and workshops;
- (e) Subgrants to implementing partners through cooperation agreements or fellowships;
- (f) Travel.

### **B. Indirect costs**

7. Indirect costs are broadly defined as costs incurred by the organization as a function of and in support of its activities that cannot be traced unequivocally to specific activities or projects. For UN-Habitat indirect costs include the following:

- (a) Cost of administrative personnel in the areas of finance, human resources, information and communications technology, logistics, regional project management and organizational management. The associated common service costs, equipment and supplies for those personnel are also provided for through programme support cost revenue;
- (b) Baseline requirements for managing donor contribution agreements and associated cooperation agreements in the areas of ethics, evaluation, law, resource mobilization and programme management. The associated common service costs, equipment and supplies for related personnel are also provided through programme support cost revenue;
- (c) Allocation of costs for United Nations Secretariat corporate initiatives, including International Public Sector Accounting Standards and Umoja, the enterprise resource planning system;
- (d) Allocation of funding for core services provided by the United Nations Office at Nairobi to UN-Habitat in the areas of accounting and treasury, human resources (payroll), procurement and travel to support UN-Habitat projects;
- (e) Allocation of costs for additional oversight charges for the review of earmarked projects by the Board of Auditors and the Office of Internal Oversight Services.

## **III. Programme support cost rates**

8. According to the United Nations Controller's memorandum on cost recovery of programme support costs, the standard programme support cost rate established by the United Nations Secretariat is 13 per cent on all voluntary contributions where the United Nations retains primary and overarching programmatic responsibility and is the first or primary recipient of those funds. As the Controller notes in paragraph 9 (i), that rate is endorsed by the General Assembly and is critically important to the financing of programme support functions in numerous United Nations offices and programmes.

9. UN-Habitat has confirmed that the United Nations standard programme support cost rate of 13 per cent will apply to contribution agreements with the German Federal Ministry of Economic Cooperation and Development. In addition, UN-Habitat is in consultation with other Member States to negotiate similar agreements.

10. The following rates are considered standard, based on specific inter-agency arrangements:

(a) A rate of 7 per cent on all voluntary contributions in support of inter-agency and “Delivering As One” programmes and collaboration with other multilateral institutions where valid inter-agency arrangements apply.<sup>1</sup> That includes the following:

- (i) United Nations Development Group (UNDG) for pass-through, pooled and parallel-funding arrangements;
- (ii) UNDG donor trust funds;
- (iii) UNDP multi-partner trust funds (including the United Nations Road Safety Trust Fund);
- (iv) Financial and Administrative Framework Agreement between the European Community and the United Nations;
- (v) United Nations trust fund for human security;

(b) A rate of 3 per cent may be applied on voluntary contributions for projects implemented by other United Nations entities, non-governmental organizations or government services (so-called “pass-through” arrangements). That rate may be applied when UN-Habitat’s substantive responsibilities are restricted to project formulation, monitoring and evaluation, and its administrative responsibilities are restricted to the acceptance and disbursement of funds, and the recording of expenditures.

11. A rate of 8.5 per cent for Adaptation Fund project cycle management fees.

12. UN-Habitat is required to request approval from the United Nations Controller if it wishes to levy programme support cost rates below the standard 13 per cent rate if they are not covered by a signed inter-agency agreement.

#### IV. UN-Habitat five-year programme support review

13. Programme support revenues are used to support the additional administrative and programmatic activities generated by UN-Habitat’s active projects. On average over the past five years, the Programme’s portfolio of active projects has stood at 250 per year.

14. Table 1 provides an overview of programme support revenue and expenditures for the period 2017–2021\*

Table 1

##### Revenue and expenses for the programme support fund for the period 2017–2021

(Thousands of United States dollars)

<i>Description</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
Total revenue	9 975.0	11 543.0	10 400.0	12 709.0	10 468.4
Total expenses	10 277.0	12 514.0	12 700.0	13 304.0	11 854.0

\* 2021 figures are as at 31 July 2021.

15. Table 2 provides an overview of programme support revenue as a percentage of earmarked fund revenue for the period 2016–2021\*

<sup>1</sup> United Nations Controller’s memorandum on cost recovery: programme support costs, 8 June 2012, para. 9 (ii).

Table 2  
**Programme support revenue as a percentage of earmarked fund revenue for the period 2017–2021**  
 (Thousands of United States dollars)

	2017	2018	2019	2020	2021*
<b>Programme support cost revenue</b>	<b>10.0</b>	<b>11.5</b>	<b>10.4</b>	<b>12.7</b>	<b>6.1</b>
Foundation earmarked	35.1	47.5	29.2	56.8	28.8
Technical cooperation	116.7	112.8	121.8	116.0	58.8
<b>Total, earmarked funds</b>	<b>151.8</b>	<b>160.3</b>	<b>151.0</b>	<b>172.8</b>	<b>87.6</b>
<b>Programme support cost revenue as a percentage of earmarked funds</b>	<b>6.6</b>	<b>7.2</b>	<b>6.9</b>	<b>7.3</b>	<b>7.0</b>

\* 2021 figures are as at 31 July 2021.

## V. Annual programme support budget

16. The Executive Director proposes the budget of the annual programme support cost fund as a segment of the annual work programme and budget to the UN-Habitat Executive Board to provide an overview of the annual requirement to support the additional efforts required in managing the trust funds and projects funded from extrabudgetary resources.

17. The Executive Director will authorize changes in the allocation of programme support cost fund revenue as extrabudgetary resource revenue as operational requirements evolve during a given financial period. The revenue and expenditures of the UN-Habitat programme support cost fund are reported to the Executive Board as part the financial status update provided to the Board at each of its sessions.

18. The UN-Habitat programme support cost fund maintains the required 20 per cent operational reserve as required under ST/AI/286. In addition, UN-Habitat maintains a position that the annual budget proposal should not exceed the net assets of the fund as at 31 December of the financial year that precedes the submission of the draft budget for the next financial period.