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The UNICEF recovery policy

Summary

The present report has been prepared to review the current recovery policy for support costs for other resources programmes.

The Executive Director *recommends* that the Executive Board approve the draft recommendation contained in paragraph 32 of the present report.

* E/ICEF/2003/2.

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Abbreviations

ACABQ	Advisory Committee on Administrative and Budgetary Questions
AIDS	acquired immune deficiency syndrome
asst.	assistant
DFAM	Division of Financial and Administrative Management
DHR	Division of Human Resources
DPP	Division of Policy and Planning
emer	emergency
EMOPS	Office of Emergency Programmes
ex.	excluding
GRO	Regional Office for Europe, Geneva
HIV	human immunodeficiency virus
HQ	headquarters
incl.	including
ITD	Information Technology Division
JIU	Joint Inspection Unit
JPOs	Junior Professional Officers
MTSP	medium-term strategic plan
OR	other resources
PBA	programme budget allotment
PFO	Programme Funding Office
PSD	Private Sector Division
prog.	programme
RR	regular resources
UN	United Nations
vs.	versus

I. Introduction

1. The current recovery policy was approved by the Executive Board (E/ICEF/1998/6/Rev.1, decision 1998/21) as an interim policy on the basis of the UNICEF recommendation in the report on "The UNICEF recovery policy" (E/ICEF/1998/AB/L.6). In view of a study by the Joint Inspection Unit (JIU) of the United Nations system on "Support costs related to extrabudgetary activities in organizations of the United Nations system" (JIU/REP/2002/3), the review of the recovery policy by the UNICEF Executive Board was rescheduled for the first regular session of 2003.

2. UNICEF has studied the JIU report and taken into account its recommendations and analysis in finalizing the present report, which also addresses the recommendations made by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) in its report on the UNICEF recovery policy (E/ICEF/1998/AB/L.12).

II. Background: medium-term strategic plan for the period 2002-2005 and the UNICEF resource mobilization strategy

3. As approved by the Executive Board in its decision 2001/22 (E/ICEF/2001/6) on the medium-term strategic plan (MTSP) for the period 2002-2005 (E/ICEF/2001/13 and Corr.1), UNICEF will focus its efforts on achieving results towards the following five organizational priorities:

(a) Girls' education;

(b) Integrated early childhood development;

(c) Immunization "plus";

(d) Fighting HIV/AIDS;

(e) Improved protection of children from violence, exploitation, abuse and discrimination.

4. The plan has established medium-term targets in each of the areas and has also adopted the following five strategies:

(a) Programme excellence;

(b) Effective country programmes of cooperation;

(c) Partnerships for shared success;

(d) Influential information, communication and advocacy;

(e) Excellence in internal management and operations.

5. Resources, whether from regular resources or other resources, and whether for the programme or support budget, are essential elements for UNICEF to produce or leverage results for children in an effective and efficient manner. The biennial support budget for 2002-2003, intercountry programmes and country programmes of cooperation, whether funded from regular resources or other resources, have been formulated to fund the strategies and programme areas. This approach is in line with the first recommendation of the JIU report.

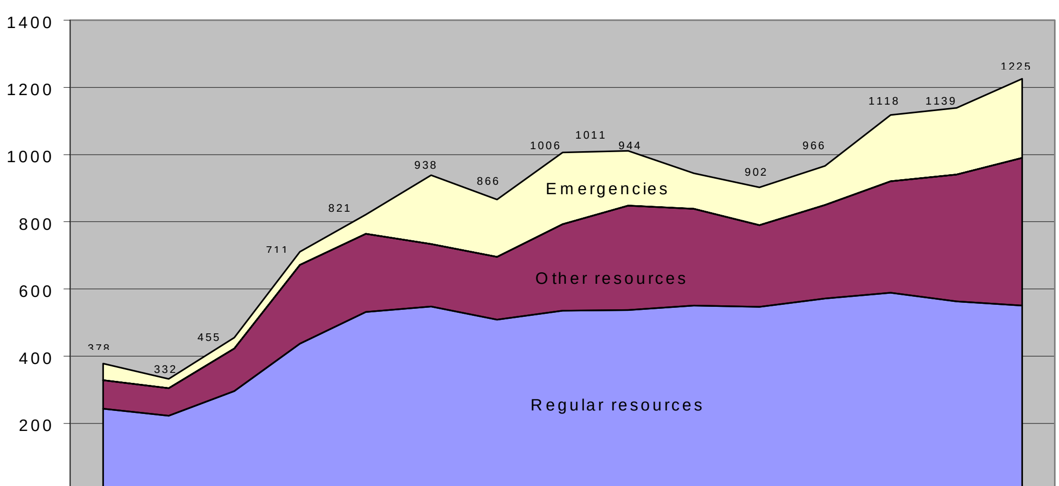
6. The resource mobilization strategy adopted by the Executive Board (E/ICEF/1999/5 and E/ICEF/1999/7/Rev.1, decision 1999/8) will continue to guide UNICEF fund-raising efforts. The objective of UNICEF fund-raising efforts remains to increase regular resources, making them more assured and predictable. Regular resources are a benchmark of commitment to children's rights. They allow UNICEF to perform its core functions of contributing to the creation of "a world fit for children" and reaching the United Nations Millennium Development Goals. With a strong regular resources income, UNICEF is better positioned to ensure that other resources are fully utilized to help expand the reach of country programmes.

7. The second objective of the resource mobilization strategy is to "explore thematic, multi-country approaches based on the MTSP priorities in addition to the traditional other resources contribution". Other resources thematic funds, reflecting the five organizational priorities, will be established to accept contributions which have no further earmarking for allocating to priority countries in that theme. Under these thematic funds, donors will not receive separate donor reports; one consolidated report will be provided to all donors contributing to a specific fund.

8. For emergency situations, donors are also encouraged to provide less earmarked funding and accept one consolidated report for all donors. Early indication and commitment of funds, based on consolidated appeals from the Office for the Coordination of Humanitarian Affairs, are also encouraged. These concepts were already approved by the Executive Board in its decision 1999/8.

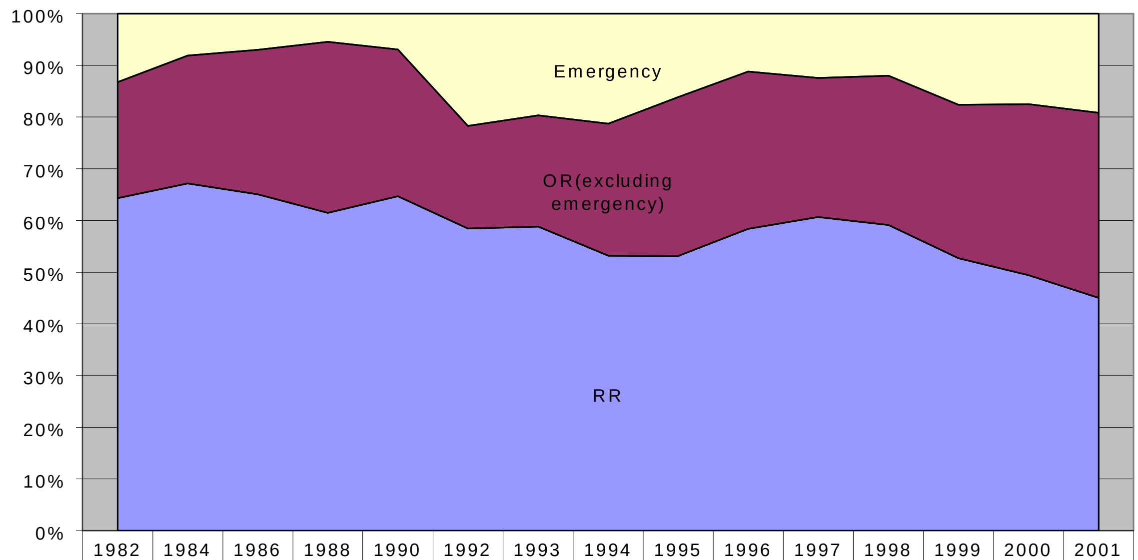
9. Figures A and B below show the income trend from 1982-2001. As indicated in the figures, there has been a gradual decline in regular resources income in both amounts and percentage of total income since 1999. Despite the increase in the currency of the pledge of most government contributions, regular resources income in United States dollars has declined since 1999 due to the strengthening of the United States dollar vis-à-vis most other currencies. This also affects private sector sources.

Figure A
UNICEF income, 1982-2001
(In millions of United States dollars)



	1982	1984	1986	1988	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Emergencies	50	27	32	39	57	204	170	214	163	106	112	116	197	199	235
Other resources	85	82	127	235	233	186	187	257	311	287	243	279	332	377	439
Regular resources	243	223	296	437	531	548	509	535	537	551	547	571	589	563	551

Figure B
Percentage of distribution of UNICEF income, 1982-2001



	1982	1984	1986	1988	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Emergency	13%	8%	7%	5%	7%	22%	20%	21%	16%	11%	12%	12%	18%	17%	19%
OR(ex.emer)	22%	25%	28%	33%	28%	20%	22%	26%	31%	30%	27%	29%	30%	33%	36%
RR	64%	67%	65%	61%	65%	58%	59%	53%	53%	58%	61%	59%	53%	49%	45%

10. Table 1 below shows the income from Governments and the private sector. Government and private sector contributions have contributed more to other resources than regular resources in 2000-2001. Other income comprises interest income, liquidation of prior years' outstanding budgetary obligations, adjustment, gains and loss on foreign exchange, etc. These items fluctuate from year to year.

Table 1
Income by sources
(In millions of United States dollars)

	1996-1997 (actual)			1998-1999 (actual)			2000-2001 (actual)		
	RR	OR a/	Total	RR	OR a/	Total	RR	OR a/	Total
Income (In millions of US$)									
Government	721	479	1 200	688	602	1 290	694	862	1 556
Private sector	311	273	584	389	312	701	329	394	723
Other income	61	-2	59	83	10	93	91	-6	85
Total	1 093	750	1 843	1 160	924	2 084	1 114	1 250	2 364
Percentage of RR/OR by sources									
Government	60%	40%	100%	53%	47%	100%	45%	55%	100%
Private sector	53%	47%	100%	55%	45%	100%	46%	54%	100%
Other income	103%	-3%	100%	89%	11%	100%	107%	-7%	100%
Total	59%	41%	100%	56%	44%	100%	47%	53%	100%

[a] Includes emergency.

III. Formulation of the support cost recovery policy

A. Full cost recovery or incremental cost recovery

11. A small number of United Nations system organizations are required to recover the full costs associated with supporting all activities.[1] Many of these organizations do not have a regular resources base. The most significant disadvantages of a full cost recovery pertain to the unpredictability of extrabudgetary contributions (other resources in UNICEF terms) and the implications of this unpredictability for an organization's financial structure and core (regular resources) programme.[2]

12. Incremental cost recovery entails the determination — and recovery — of that increment of an organization's support costs that occurs as a result of extrabudgetary activities. An incremental approach to the determination and recovery of support costs assumes that core functions, or fixed costs, should not be financed from other resources as these are unreliable and unpredictable.[3] Most support cost policies in the United Nations system attempt to recover the incremental increase in support costs attributable to extrabudgetary funds (other resources). The 1998 recovery paper and previous recovery policy were based on the incremental recovery principle. Table 2 below shows the support costs proportion in regular resources and other resources expenditure for the last three bienniums, reflecting the current and previous recovery policy. The present report continues with the same incremental cost recovery principle, but takes into account the recommendations of JIU and ACABQ in determining the methodology.

Table 2
Expenditure by sources
(In millions of United States dollars)

	1996-1997 (actual)			1998-1999 (actual)			2000-2001 (actual)		
	RR	OR [a]	Total	RR	OR [a]	Total	RR	OR [a]	Total
~~Expenditure~~									
Programme minus recovery	585	755	1 340	595	836	1 431	740	1 104	1 844
Support	464	27	491	465	31	496	438	53	491
Total	1 049	782	1 831	1 060	867	1 927	1 178	1 157	2 335
~~RR/OR distribution~~									
Programme	44%	56%	100%	42%	58%	100%	40%	60%	100%
Support	95%	5%	100%	94%	6%	100%	89%	11%	100%
Total	57%	43%	100%	55%	45%	100%	50%	50%	100%
~~Programme vs. support~~									
Programme	56%	97%	73%	56%	96%	74%	63%	95%	79%
Support	44%	3%	27%	44%	4%	26%	37%	5%	21%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

[a] Includes emergency.

B. Defining support costs

13. The JIU report defines fixed costs as costs that do not increase with the volume of activities and variable costs as those that do.[4] Within fixed and variable costs, distinctions are also made between direct and indirect costs. The recovery methodology attempts to calculate the "external" variable direct costs and the variable indirect costs associated with supporting extrabudgetary activities (other resources). It also seeks to define what share of the costs must be borne from extrabudgetary sources.[5] The JIU report also acknowledges that the process of defining incremental costs entails "a significant element of subjective judgement" and recommends a two-step approach. The first step is to "examine cost structures with a view to eliminating obvious fixed costs and variable direct costs. The remaining offices could then be surveyed using a questionnaire."[6] The present report follows a similar approach. The methodology is described below.

Step I	Define and exclude from calculation obvious fixed costs (see paragraphs 15-18 below) and variable direct costs (see paragraph 14 below). The variable direct costs would be included as part of programme costs.
Step II	Determine the proportion of variable costs for regular resources and other resources programmes.
Step III	Calculate the portion of support costs for regular resources and other resources programmes separately using the proportion in step II above.

14. In the first step to identify variable direct costs, UNICEF has reviewed the supply procurement costs. In the current recovery policy, Supply Division costs were included in the general recovery rate for all other resources programmes regardless of the size of the supply component of the other resources programmes. One option would be to treat the costs of Supply Division as direct costs that will be charged to individual programmes on the basis of the supply procurement carried out by Supply Division. However, in view of its complexities, it is proposed to continue to include Supply Division in the general recovery rate and to further review this at the time of the preparation of the next biennium budget.

15. For the country offices, fixed costs are defined as the minimum core presence in the country offices with an approved regular resources programme. This study establishes the fixed costs at $975,000 for each office for the biennium, which comprises one representative, one international Professional, two national Professionals and three General Service staff, plus $100,000 for annual general operating costs and travel. Other staff costs such as termination and after service insurance are considered fixed costs. Using 2000-2001 actual support expenditure, the remainder of the support budget for each country office is distributed into separate portions that support regular resources and other resources programmes using the actual regular resources and other resources expenditure of the country in 2000-2001 in response to ACABQ comments.[7] Total cumulative programme expenditure for all country offices has a 44/56 split for regular resources/other resources breakdown. Regional offices carry out programme support and oversight functions for the regions. Fixed costs will cover the regional director's office, communications, operations, planning, monitoring and evaluation, human resources, information technology officers, their support staff and related costs. The same

percentage breakdown as for the country offices has been used for the variable regular resources and other resources support costs.

16. Several divisions/offices at headquarters dealing with executive management, inter-agency coordination, support to the Executive Board, advocacy, evaluation and the statutory audit function have been considered as fixed costs, such as the Office of the Executive Director, the Office of the Secretary of the Executive Board, the Office of United Nations Affairs and External Relations, the Division of Communication, the Evaluation Office and the Office of Internal Audit. The cost paid for United Nations bodies such as JIU, the International Civil Service Commission and the Board of Auditors would also be considered as fixed costs.

17. In all divisions, the director's office, which deals with policy, planning and overall management in its respective functional area, would be considered as fixed costs. Except for the functions specifically mentioned, most headquarters offices follow the same work process for regular resources and other resources. In the daily work process, staff do not distinguish between regular resources or other resources, hence, a time-survey study is not recommended except in the specific cases mentioned. It was felt that using a 44/56 split for regular resources/other resources breakdown as the total country programme expenditure proportion would provide an approximate estimation. Taking into consideration the Advisory Committee's comments,[8] the definitions of fixed and variable costs for other divisions are expanded in annex I.

18. Based on the definition of fixed and variable costs described in annex I, annex II shows the distribution of 2000-2001 support expenditure into costs considered as "fixed costs" and "variable costs". The latter is further broken down into costs supporting regular resources and other resources programmes based on the percentage defined in accordance with the above description. Those units which support solely the other resources process are fully allocated to other resources. The rate of support costs for other resources (i.e. total support costs for other resources divided by total other resources programme expenditure) is calculated at 12 per cent, as indicated in annex II.

C. Interest income

19. UNICEF financial regulation 11.4 stipulates that interest shall be recorded as miscellaneous income in regular resources. In the 1998 recovery paper and in prior policy, interest income on other resources cash balances has been used to reduce the recovery costs. In the 1998 calculation, the recovery rate was reduced from 9 to 5 per cent after the reduction of estimated interest income of $32 million.

20. The use of interest earned on other resources cash-on-hand to offset recovery costs has been raised by ACABQ and the Executive Board. ACABQ has pointed out that in light of potential fluctuations in the pattern of receipts and disbursements of other resources, as well as fluctuations in exchange rates and interest rates, it would not be prudent, as a matter of policy, to rely on interest income to cover shortfalls in support costs recovery.[9] The JIU report, in its recommendation 4, has indicated that for resources contributing to multi-donor activities where separate donor-specific accounting is not possible, the organizations may wish to consider retaining interest earned on other resources to reduce extrabudgetary support costs with appropriate reporting on the relationship between such interest income and support cost rates.

21. UNICEF has looked into the workload implication of calculating the interest earned on each contribution. In 2000-2001, close to 3,000 new contributions were recorded separately in the financial system. As indicated in table 3 below, 80 per cent, i.e. 2,300 records, have a money value of less than $500,000 (20 per cent are less than $50,000, 13 per cent between $50,000 to $100,000, and 47 per cent between $100,000 and $500,000). The administrative burden of calculating interest for these individual contributions will not be cost effective. Moreover, for large contributions, funds are received in tranches and expenditures are made unevenly over a period of time. To calculate interest for large contributions distributed to several programme countries will also require costly administrative arrangements. The actual interest earned on other resources cash balances in 2000-2001 is estimated to be $39 million. In view of falling interest rates, a prudent estimate of $28 million is made for interest income on other resources cash balances for the future. This represents 2.5 per cent of overall other resources programme expenditure.

22. In view of the above, it is proposed to implement the ACABQ recommendation in paragraph 20 of its report that "a recovery rate be calculated which would be sufficient to cover the support costs to be incurred … The interest earned on the other resources cash balances would continue to be credited to regular resources".

Table 3
Statistics of other resources contributions

Years: 2000 and 2001				
Amounts of contribution	**Total value of contribution (In millions of United States dollars)**	**Percentage**	**Number of contributions**	**Percentage**
10,000,000 and over	169.7 a/	13%	7 a/	0%
5,000,000 - 9,999,999	157.9	12%	22	1%
2,000,000 - 4,999,999	160.5	13%	56	2%
1,000,000 - 1,999,999	197.6	15%	141	5%
500,000 - 999,999	237.4	19%	352	12%
100,000 - 499,999	319.9	25%	1 359	47%
50,000 - 99,999	26.6	2%	369	13%
0 - 49,999	12.1	1%	561	20%
Total	1 281.8	100%	2 867	100%

[a] Comprising four contributions totalling $121 million which further allocate into many countries and two contributions totalling $33 million which combine many donor contributions into one and one contribution of $16 million for one country.

D. Application of recovery rate

23. Recommendation 9 of the JIU report has indicated that the support cost rate should be differentiated to take into account the cost of support as influenced by type of activity, conditionality and the volume of resources. For the present report, the rates reviewed pertain only to support costs for other resources programmes, not to activities such as those involving only administrative or treasury services. UNICEF also looked at the effect on the support cost for small and large volume contributions and different administrative requirements for other resources contributions.

24. As shown in the summary table 4 below on the basis of annex II, the cost of supporting other resources programmes amounts to a total of 12 per cent — 6 per cent for field office support and 6 per cent for headquarters support. This is 3 per cent higher than the comparable 9 per cent in the 1998 report. It should be noted that the higher recovery rate is due to the change in classification of fixed and variable costs as well as an increasing proportion of other resources. A recovery rate of 12 per cent would pay for UNICEF programme support and management capacity, and administrative costs to handle each contribution.

Table 4
Cost of supporting other resources programmes
(In millions of United States dollars)

	1998 recovery paper a/			The present report (summarized from annex II)		
	Total support budget	Support for OR	Recovery rate b/	Total support budget	Support for OR	Recovery rate b/
Headquarters	243	25	3%	225	66	6%
Field offices	270	47	6%	266	66	6%
Subtotal	513	72	9%	491	132	12%
Interest income		(32)	(4%)			
Subtotal, Support cost for OR programmes		40	5%			
Total, Programme budget and programme budget for OR	1,386	757		1,844	1,104	
Total, Budget	1,899			2,335		
Percentage of support budget/total budget	27%			21%		

[a] Calculation as per 1998 recovery paper (E/ICEF/1998/AB/L.6) using 1998-1999 budgeted figures.
[b] Support for other resources as a percentage of total other resources programme expenditure.

25. A time-survey study was done to calculate the administrative handling costs incurred for the standard process for a sample of other resources contributions. The standard process entails finalizing agreements, follow-up of receivables, budget authorization and carryover, managing individual programme budget allotments, progress and utilization reports by field offices, financial reports by headquarters, contribution closing and final settlements. Annex III indicates estimated costs for five different cases for different reporting requirements. The handling costs average $8,000 per contribution; annex III also indicates this cost as a percentage of

contributions of varying size for each case. As a measure to reduce the administrative burden of managing small contributions, UNICEF will attempt to pool resources, particularly for contributions below $50,000, into thematic thrusts. For small contributions that are not available for pooled funding, only limited administrative services will be provided.

26. Out of the total $132 million support costs for other resources programmes (or 12 per cent of other resources), as shown in table 4, the totality of the administrative handling costs for the close to 3,000 contributions for the biennium amounts to $24 million, or 2 per cent of the other resources programme budget. As can be seen in the annex III calculation, the larger the contribution, the handling costs, as a percentage of the value of the contributions, become insignificant, thus justifying a lower rate, estimated to be 1 or 2 per cent, than small value contribution. On the other hand, a minimum floor of $1,000 is also proposed to cover the minimum handling fee for contributions of small size. A sliding scale to take into account the size of contributions is proposed as follows:

(I)	Contribution less than $500,000	12%
(II)	Contribution of $500,000 up to $2 million	11%
(III)	Contribution between $2 million up to $10 million	10%
(IV)	Contribution over $10 million and above	9%

27. For contributions into a thematic fund[10] for which one consolidated thematic report will be provided, it is recommended that a 2 per cent lower rate be applied. The justification of the reduction is based on the simplified administration required since the thematic fund is managed within existing MTSP strategies and implementation processes.

28. To reduce the administrative burden to collect donor funds and to provide more predictability, it is recommended also that if 80 per cent of funds is received upon signing the agreements, a 1 per cent lower rate would be applied. If 100 per cent is received, a 2 per cent lower rate would be applied.

29. The lower rates mentioned in paragraphs 27 and 28 above are summarized as follows:

(A1) Contributions into thematic funds, accepting consolidated tracking and reports	Less 2 per cent
or	
(A2) Contributions into emergency funds, with consolidated tracking and reporting	Less 2 per cent
(B1) Contributions where 100 per cent paid within 30 days of signing	Less 2 per cent
or	
(B2) Contributions where 80 per cent or more paid within 30 days of signing	Less 1 per cent

30. Some examples of applying the above rates are:

(a) A 5 per cent recovery rate would be applied to a $15 million contribution paid up-front to a thematic fund (case IV + A1 + B1);

(b) A 6 per cent recovery rate would be applied to a $9 million contribution paid up-front to a thematic fund (case III + A1 + B1);

(c) A 6 per cent recovery rate would be applied to a $2 million contribution paid up-front to emergency which does not require separate reports (case III + A2 + B1);

(d) A contribution between $500,000 and $2 million paid up-front to a thematic fund could be levied with an 7 per cent rate (case II + A1 + B1);

(e) In the case of a contribution less than $500,000 paid up-front to a specific country other resources project, requiring separate reports, a recovery rate of 10 per cent would be levied (case I + B1);

(f) A rate of 12 per cent would, for example, be applied to a contribution of less than $500,000, paid over several periods and earmarked for a specific country other resources project, requiring a separate report (case I).

31. During the Executive Board discussion of the 1998 recovery paper, some Member States proposed that funds raised locally in programme countries should be exempt from recovery charges in order to provide incentives to public support in programme countries. There was also concern about whether it was appropriate to raise the recovery percentage charge while their countries were enduring economic crises and fluctuating exchange rates. For these reasons, it is proposed that the recovery charge not be increased but maintained at 5 per cent as at present for these funds, provided reporting requirements are minimal.

IV. Summary and recommendation

32. In light of the above analysis and conclusions, the Executive Director *recommends* that the Executive Board adopt the following draft recommendation:

The Executive Board

Decides that:

(a) As implemented in the 2002-2003 biennial support budget, there will be one gross support budget to cover the costs of programme support and management and administration for regular resources and other resources;

(b) The interest earned on the other resources cash balances will continue to be an item in the miscellaneous income in regular resources;

(c) The methodology described in paragraph 13 of document E/ICEF/2003/AB/L.1 will be used to calculate the programme support and management and administration costs for other resources programmes;

(d) All other resources programmes shall include a separate budget line for “indirect programme support costs” equivalent to the recovery rate; this line item shall be additional to such direct costs as cost of supplies, cash assistance, project staff and related travel and office equipment costs, which will continue to be included in the specific programme budget. The recovery rate will be applied to actual other resources programme expenditure for a given year;

(e) To cover the support costs to be incurred, the percentages mentioned in paragraphs 26-31 of document E/ICEF/2003/AB/L.1, will be used as the recovery rate in the manner described in subparagraphs (a)-(d) above. These rates will be applied to all new agreements to be signed after Executive Board approval of the revised policy;

(f) In the case of extra requirements for expertise, research, administrative arrangements and reporting from donors, additional charges will be negotiated, on a case-by-case basis, to cover the additional costs to set up separate capacity, systems and procedures.

Notes

[1] "Support costs related to extrabudgetary activities in organizations of the United Nations system" (JIU/REP/2002/3), Joint Inspection Unit study, paragraph 21.

[2] Ibid., paragraph 25.

[3] Ibid., paragraphs 17 and 18.

[4] Ibid., paragraph 16.

[5] Ibid., paragraph 39.

[6] Ibid., paragraph 38.

[7] "UNICEF recovery policy: Report of the Advisory Committee on Administrative and Budgetary Questions" (E/ICEF/1998/AB/L.12), paragraphs 12 and 13.

[8] Ibid., paragraph 16.

[9] Ibid., paragraph 9.

[10] See paragraph 7 above for explanation of thematic funds.

Annex I

Definition of fixed and variable costs for various divisions and offices

1. *Headquarters Programme Group*: Programme Division consists of the Director's Office, technical sections (Health, Nutrition, Education, Child Protection, Water and Sanitation, and HIV/AIDS) and an inter-agency/field support section. Programme Division, in coordination with the Division of Policy and Planning (DPP), is responsible for designing programme implementation guidelines and indicators for the themes of the MTSP. DPP plays a critical role in helping to measure results against UNICEF indicators and in articulating the broad UNICEF message around the MTSP priorities. Programme Division is also responsible for managing globally-raised funds and the allocations to countries. The Programme Group makes a substantial contribution in implementing the MTSP strategies (programme excellence and effective country programmes of cooperation). In the 1998 recovery paper (E/ICEF/1998/AB/L.6), their costs were not attributed to be funded from other resources. However, since the programmes — whether funded from regular resources and other resources — benefit from these functions, in the present report, their support costs, excluding the Director's Office, will be attributable for regular resources and other resources programmes according to the 44/56 split.

2. Within the Office of Emergency Programmes (EMOPS), the Director's Office and the Operations Centre dealing with security will be considered fixed/mandatory costs. The remaining costs are attributable to regular resources and other resources according to the 44/56 split as most programmes have an emergency preparedness component.

3. *Fund-raising*: Three divisions are responsible for orchestrating the UNICEF fund-raising strategy: the Programme Funding Office (PFO), which is responsible for the relationship of UNICEF with donor Governments as well as intergovernmental and international financial institutions and foundations; Private Sector Division (PSD), which is responsible for the relationship of UNICEF with the private sector; and the Regional Office for Europe, Geneva (GRO), which is responsible for the relationship of UNICEF with the National Committees. It should be mentioned that the costs of PSD are fully funded from the revenue from private sector fund-raising (including card and products sales) and, hence, is not covered in this study. For the other two offices, the costs of the Director's Offices and two senior officers who plan, manage and direct the fund-raising strategy will be considered as fixed costs. Those staff who are dedicated to other resources processing are fully attributed to other resources.

4. For the Division of Financial and Administrative Management (DFAM), a few units, which deal only with the other resources process such as issuance of allotments, other resources income and receivables recording and other resources reporting, will be 100 per cent attributable to other resources. The Comptroller's Office and the units preparing biennial statutory accounts are considered as fixed costs. For the remaining sections in budget and finance, the costs are split into regular resources and other resources according to the 44/56 split. The administrative unit that supports the headquarters unit will be split between fixed and variable portions in accordance with the ratio for all headquarters divisions. The

infrastructure costs of rent, utilities and telecommunications for headquarters are also broken down into fixed and variable portions in the same manner.

5. For the Division of Human Resources (DHR), the Director's Office, which deals with human resources policy and planning, is considered as fixed costs. The remaining sections are split into regular resources and other resources according to the 44/56 split.

6. For the cost of the Information Technology Division (ITD), the costs of the Director's Office, the technical architecture and infrastructure sections have been considered as fixed costs, with the remaining distributed into support costs for regular resources and other resources according to the 44/56 split.

Annex II

Proportioning of support costs (using 2000-2001 actual expenditure)

	Total support costs	Fixed costs/ core functions	Variable costs	% of variable costs borne by		Variable costs borne by		% of OR support to total OR programme
				RR	OR	RR	OR	
	(1)	(2)	(3)=1-2	(4)	(5)	(6)=3x4	(7)=3x5	(8)=7/OR prog.
Field offices								
Country offices	**202.80**	**109.8** a/	**93.00**	44%	56%	**40.6**	**52.4**	**4.7%**
Termination/after service insurance	7.2	7.2 a/						
Regional offices	**53.6**	**28.1** a/	**25.5**	44%	56%	**11.2**	**14.3**	**1.3%**
Termination/after service insurance	2.5	2.5 a/						
Subtotal, Field offices	**266.1**	**147.6**	**118.5**	**44%**	**56%**	**51.8**	**66.7**	**6.0%**
Headquarters (Programme support)								
Innocenti Research Centre	0.6	0.6 b/						
Programme Division	25	5 c/	20	44%	56%	8.8	11.2	
EMOPS, excluding Operations Centre (incl. Geneva)	5.8	1 d/	4.8	44%	56%	2.1	2.7	
Operations Centre	1.1	1.1 d/						
Programme Manager System	3.5	0.5	3	44%	56%	1.3	1.7	
Supply Division (net of warehouse recovery)	16.4	1.6	14.8	44%	56%	6.5	8.3	
Subtotal	52.4	9.8	42.6	44%	56%	18.7	23.8	
Percentage of distribution		19%	81%			36%	45%	
HQ common costs	7.4	1.4	6.0			2.6	3.4	
HQ termination/after service insurance	0.7	0.7						
Subtotal, HQ Programme support	**60.5**	**11.9**	**48.6**	**44%**	**56%**	**21.4**	**27.2**	**2.5%**
Headquarters (Management and administration)								
Office of the Executive Director	5.9	5.9 b/						
Office of the Secretary of the Executive Board	2	2 b/						
Office of UN Affairs and External Relations	1.9	1.9 b/						
Division of Communication	17.7	17.7 b/						
Office for Japan	3.5	3.5 b/						
Evaluation Office	1.7	1.7 b/						
Office of Internal Audit	5.8	5.8 b/						
Sharing costs of UN activities	3	3 b/						
Division of Policy and Planning	6.7	2.5 c/	4.2	44%	56%	1.8	2.4	
PFO (excluding units solely for OR)	3.9	2.6 e/	1.3	44%	56%	0.6	0.7	
PFO fund monitoring unit/asst. fund-raising	2.5	e/	2.5		100%		2.5	
GRO excluding emergency	11.8	2.6 e/	9.2	44%	56%	4.0	5.2	
GRO solely for OR	0.3	e/	0.3		100%		0.3	
DHR	18.2	5.8 f/	12.4	44%	56%	5.5	6.9	
DFAM (excluding units below)	13.6	5.3 g/	8.3	44%	56%	3.7	4.6	
DFAM units solely for OR	2.8	g/	2.8		100%		2.8	
ITD	32.1	10.9 h/	21.2	44%	56%	9.3	11.9	
Subtotal	**133.4**	**71.2**	**62.2**			**24.9**	**37.3**	
Percentage	100%	53%	47%			19%	28%	
HQ administrative costs + UN reimbursement	36.4	19.4 g/	17.0			6.8	10.2	
	100%	53%	47%			19%	28%	
HQ termination + after service insurance	3.2	3.2 a/						
Total HQ Management and administration	173.0	**93.8**	**79.2**	40%	60%	**31.7**	**47.5**	4.3%
Recovered from other sources i/	**-9.0**		**-9.0**				**-9.0**	-0.8%
Global support expenditure	**490.6**	**253.4**	**237.2**	44%	56%	**104.9**	**132.3**	**12.0%**
Total Programme expenditure			1,844.4	40%	60%	740.1	1,104.3	

(Footnotes on following page)

(Footnotes to Annex II)

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[a] See para. 15 above for description.
[b] See para. 16 above for description.
[c] See annex I, para. 1, for description.
[d] See annex I, para. 2 for description.
[e] See annex I, para. 3 for description.
[f] See annex I, para. 5 for description.
[g] See annex I, para. 4 for description.
[h] See annex I, para. 6 for description.
[i] Income received for administering JPOs and other trust fund activities.

Annex III

Estimated handling costs and rationale for sliding scale

	Standard costs	Case A	Case B	Case C	Case D	Case E
Number of reports		1	2	3	4	5
	US$	Handling costs (US$)				
Review agreement (One day of P-4)	531	531	531	531	531	531
Initiate funding record/recording income (2.5 hours)	150	150	150	150	150	150
PBA monitoring/management by country office (Two days of P-2)	665	665	1 330	1 995	2 660	3 325
Donor reporting		0				
Progress and utilization report (2.5 days)	1 093	1 093	2 186	3 279	4 372	5 465
Financial report (One day)	373	373	746	1 119	1 492	1 865
Year-end rephasing (Half an hour)	38	0	76	114	152	190
Closing/final settlement (Two days)	728	728	728	728	728	728
Total costs		**3 540**	**5 747**	**7 916**	**10 085**	**12 254**

Handling costs as % of contribution value	Case A	Case B	Case C	Case D	Case E
10 000	35.4%	57.5%	79.2%	100.9%	122.5%
20 000	17.7%	28.7%	39.6%	50.4%	61.3%
100 000	3.5%	5.7%	7.9%	10.1%	12.3%
500 000	0.7%	1.1%	1.6%	2.0%	2.5%
1 000 000	0.4%	0.6%	0.8%	1.0%	1.2%
2 000 000	0.2%	0.3%	0.4%	0.5%	0.6%
3 000 000	0.1%	0.2%	0.3%	0.3%	0.4%
4 000 000	0.1%	0.1%	0.2%	0.3%	0.3%
5 000 000	0.1%	0.1%	0.2%	0.2%	0.2%

Case A: One progress report and financial report.

Case B: Fully spent in 2 years, requires 2 progress reports and financial reports.

Cases C, D and E: It would require 3 - 5 reports.