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**POLICIES AND PROCEDURES FOR COST RECOVERY WITH REGARD TO
EXTRABUDGETARY ACTIVITIES**

EXCERPT FROM
“REPORT BY THE DIRECTOR-GENERAL ON THE ACTION PLAN FOR IMPROVED
MANAGEMENT OF EXTRABUDGETARY FUNDS” (DOCUMENT: 34 C/41)

6

Excerpt from “Report by the Director-General on the Action Plan for Improved Management of Extrabudgetary Funds” (*Document: 34 C/41*).

IV. ISSUES RELATED TO THE IMPLEMENTATION OF THE ACTION PLAN FOR IMPROVED MANAGEMENT OF UNESCO’S EXTRABUDGETARY FUNDS

Policies and procedures for cost recovery with regard to extrabudgetary activities

26. The objective of the Organization’s cost recovery policy is to ensure the achievement of expected results negotiated with the donor for extrabudgetary projects while limiting the financial burden on the regular programme budget for the execution of these projects. UNESCO has taken the lead in reviewing the issue of recovery of programme support costs with other United Nations agencies and funds, with a view towards better harmonization of definitions, principles and approaches to be applied by all United Nations organizations. Efforts in that regard are ongoing. In particular, discussions continue within the United Nations’ High Level Committee on Management (HLCM) to arrive at a common understanding on rates to be charged in the context of joint United Nations country-programming exercises, and the repercussions on the underlying cost structure for the budgets. In this context it has been agreed that all **direct costs** associated with an extrabudgetary project should be charged directly to the project, and that **variable indirect costs**, usually called programme support costs (PSC), should be totally recovered from extrabudgetary projects in one way or another, as a percentage rate or a cost component of the project direct costs. As discussed in document 175 EX/35 and noted by the Executive Board in 175 EX/Decision 36, the following general principles are currently in effect with respect to the application/recovery of PSC for extrabudgetary projects:

- a PSC rate of 13% should be negotiated with all donors other than Member States;
- a 13% PSC rate is retained for Member States, but efforts will be made to reduce this rate to the extent that variable indirect costs can be converted into cost elements that can be charged directly to projects;
- a reduced PSC rate of 10% is applied to special accounts in recognition of the lower administrative costs;
- a minimum floor amount shall be applied to cover the minimum handling fee for contributions of small sums;
- income received from applying the PSC should be primarily dedicated to central services at Headquarters as well as field office running costs to cover the indirect variable costs incurred by these units for the backstopping of extrabudgetary projects.