

Policy on Cost Recovery from Regular and Other Resources

Document Name	Policy on Cost Recovery from Regular and Other Resources		
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A. Background

In its decision 98/2, UNDP's Executive Board recognized the importance of Other Resources as a mechanism to enhance the capacity and supplement the regular resource base of UNDP. The Board requested UNDP to develop, implement and manage all Other Resource funded activities in an integrated, transparent, flexible and accountable manner. In recognizing the increasing level of UNDP Other Resources, accounting now for around 75 per cent of Total UNDP Resources, the Executive Board in discussions on the 2000-2001 as well as 2002-2003 support budgets, clearly indicated that Other Resources do need to cover the full cost of the services being provided to Other Resources funded programmes as well as to contribute to the overall costs of UNDP's operations.

As a multi-funded organization UNDP continues to make the case that Regular Resources provide the funding for the organization's base structure and the additional costs associated in the delivery of regular resources funded programmes. All costs associated with the delivery of Other Resources funded programmes at the country and headquarters levels are to be fully covered through cost recovery mechanisms.

B. Principles

The following principles have guided the development of the new revised cost recovery policy from Regular and Other Resources:

- The Biennial Support Budget (i.e. Regular Resources) of UNDP will provide a base structure for all operations at the headquarters and country levels;
- The costs associated with the delivery of services to programmes above the base structure shall be borne by the relevant funding sources (Regular & Other Resources) within each programme;
- Generally, there are two categories of services provided to programmes; the first of which includes general oversight, management, and quality control, while the second category includes direct services in the context of implementation; and,
- Other Resources-funded programmes benefit from UNDP's global operations (which include strategic initiatives, policy development and corporate systems) and hence should contribute to them.
- Cost recovery from UNV, UNCDF, and UNIFEM do not fall under this policy, but constitute exceptions under the UN Agency cost recovery regime.

C. The policy

Based on the above background and principles, the policy reflects two types of recovery that will be applied to the two categories of services defined below. This policy supersedes all previous policies and guidelines, whether corporate, regional or unit/country specific:

1. **General Management Support (GMS):**

Projects funded from Regular Resources are not subject to GMS fees, as these resources already pay for the basic structure of UNDP, which is designed to provide these services. For programmes funded wholly or partially from Other Resources, the recovery for these services, which are not directly attributable to project inputs or activities, is through a **percentage fee**. GMS encompasses general oversight and management functions of UNDP HQ and CO units, and include the following specific services:

- Project identification, formulation, and appraisal
- Determination of execution modality and local capacity assessment
- Briefing and de-briefing of project staff and consultants
- General oversight and monitoring, including participation in project reviews
- Receipt, allocation and reporting to the donor of financial resources
- Thematic and technical backstopping through Bureaus
- Systems, IT infrastructure, branding, knowledge transfer

- a. **Trust Funds and Third-Party Cost-Sharing (TFs & TPCS):** The level of the fee should be set so that it covers cost arising both at the CO and HQ level, which would usually fall in the **5-7% range**. Based on estimated workload, units are encouraged to **negotiate a higher percentage fee**, also taking into consideration market conditions, and market opportunities. Of the total negotiated overhead, generally corporate support services and UNDP's global initiatives have a **first call of 2%**, with everything above that remaining fully with Country Offices. On regional projects (including TTF regional window), the responsible Regional Bureau will receive all overhead above 2%, while on global projects (including TTF global window) the BDP will receive overhead above 2%.

Finally, a fourth window has been set up for projects that require a greater level of headquarters support than usual. For all these "hybrid projects", general management support is also provided through the responsible Thematic Bureau, very similar to the support provided by Regional Bureaus in the case of "country projects". Consequently, in the case of "hybrid projects", the Thematic Bureau is awarded the GMS overhead share of 0.67%, while the Regional Bureau received 0.33%.

The **distribution** of the fee is as follows:

Source of Funds	Fee Range	of which:	Country Office(s)	Regional Bureau	BDP or BCPR	Central Services ¹	Global Operations
Trust Funds, TPCS	5 to 7%		Country (incl. TTF Country) ²	0.67%	0%	0.33%	1%
			Regional (incl. TTF Regional) ³	0.67%	0%	0.33%	1%
			Global/Interreg. (incl. TTF, GEF, MP, Cap21) ⁴	0.33%	0.33%	0.33%	1%
			Hybrid Projects ⁵ (incl. GFATM, BCPR TF)	0.33%	0.67%	0.33%	1%

Any deviations in the allocation of GMS require clearance by the Office of Budget Resources. When the unit primarily responsible for the general management support (GMS share above 2%) delegates functions to another unit, particularly a country office, then the primarily responsible unit should also provide strategic support to the unit with delegated responsibility.

- b. **Programme Country Cost-Sharing (PCCS):** For projects that are fully funded from **Programme Country Cost-Sharing**, the same approach will be applied with the following modifications:
- i. Programme Country Cost-Sharing will be **charged 0.6% as GMS contribution for corporate support services** upfront, which is not necessarily taken on a project-by-project basis, but on a CO portfolio basis.

The **distribution** of the fee is as follows:

Source of Funds	Average Fee	of which:	Country Office(s)	Regional Bureau	Central Services	Global Operations
Programme Country C/S	3%		everything above 0.6%	0.4%	0.2%	Interest on XB balance

¹ Includes BOM, BRSP, OA, OAPR, OSG, etc.

² In cases where an HQ unit assumes part of the management responsibility usually performed by the Country Office, a different fee distribution can be agreed on by the units.

³ In cases where the Regional Bureau delegates part of its management responsibility to country offices, a different fee distribution can be agreed on by the units.

⁴ In cases where BDP or BCPR delegate part of their management responsibility to country offices, a different fee distribution can be agreed on by the units.

⁵ Inclusion of projects under the heading of "hybrid projects" requires clearance by the Office of Budget Resources.

- ii. The lower rate applicable to Programme Country Cost-Sharing is due to the benefits UNDP exceptionally derives from additional interest income on XB balances attributable to this type of resource. This additional income is used as a contribution to global initiatives.
- c. **Interest Income:** In the past some country offices used interest earned on unspent cost-sharing funds to cover their office cost, if an overhead fee was not charged in the cost-sharing project itself. As every project is now required to have a GMS fee, this practice is no longer applicable. Consequently, as is already the case with trust funds, all interest earned on cost-sharing projects (including interest on programme country cost-sharing, third-party cost-sharing, and the 888 account itself) will be credited to the 888 account and as applicable subsequently to projects as additional programmable funds. Thus, unlike in the past, no interest will be distributed into units' DPXB accounts.

2. Implementation Support Services (ISS):

These are services provided mostly by Country Offices in the implementation of Regular and Other Resource-funded programmes and projects (i.e. costs directly related to the delivery of programmes), and include:

- Payments, disbursements and other financial transactions
- Recruitment of staff, project personnel, and consultants
- Procurement of services and equipment,⁶ including disposal
- Organization of training activities, conferences, and workshops, including fellowships
- Travel authorization, visa requests, ticketing, and travel arrangements
- Shipment, custom clearance, vehicle registration, and accreditation

For all projects, **Regular and Other Resource-funded projects** alike, units are required to recover the cost for providing Implementation Support Services (ISS) on the basis of **actual costs or transaction fee**. These costs are an integral part of project delivery, and hence should be charged to the same budget line as the project input itself. In determining costs the approach is to use actual costs for clearly identifiable transactions and when this is not possible COs are encouraged to use the Universal Price List for services (transaction fee), which is part of the cost recovery from UN Agencies, as reference. The fee for ISS is not distributed and remains fully with the unit delivering the service.

The same approach to recovery for ISS also applies to projects under **Direct Execution** or where COs provide support to **National Execution**. In this context, it is emphasized again that COs are encouraged to identify in the design of projects all the necessary support elements, and to establish corresponding budget lines in the programme budgets. Fundamentally, the percentage fee for GMS is not intended to recover the cost of ISS, which instead should either be built into projects, or recovered based on a transaction fee, as described above. In deciding on which support elements should be part of the project budget, the COs should follow guidelines by the donor and/or UNDP's policy on charging projects (see Annex I), whichever is more restrictive.

D. Applicability

The policy takes effect **1 January 2004** for all new programmes. For existing programmes the new rates will be applied with the next substantial project revision following the policy's effective date. By 1 January 2005 at the latest, the new rates will apply to all existing programmes and projects.

⁶ This would include any fee to IAPSO.