**Government Contributions from Net Contributing Countries (NCCs) and High Middle-Income Countries (MICs)**

**Legal Framework**

1. In accordance with the provisions of the Standard Basic Assistance Agreement (SBAA) that governs UNDP operations in programme countries, host governments are expected to contribute towards the local cost of country offices. As per Article VI – Paragraphs 4 and 5 of the [SBAA](https://undp.sharepoint.com/teams/OLS/Shared%20Documents/Forms/Viewer.aspx?id=%2Fteams%2FOLS%2FShared%20Documents%2FStandard%20Basic%20Assistance%20Agreements&viewid=d28b12ce%2Dc0cc%2D48f4%2D8bc2%2D3a42673b7fcc):

*“4. The Government shall also contribute towards the expenses of maintaining the UNDP mission in the country by paying annually to the UNDP a lump sum mutually agreed between the parties to assist in covering the following expenditures:*

*(a) An appropriate office with equipment and supplies, adequate to serve as local headquarters for the UNDP in the country;*

*(b) Appropriate local secretarial and clerical help, interpreters, translators, and related assistance;*

*(c) Transportation of the resident representative and his staff for official purposes within the country;*

*(d) Postage and telecommunications for official purposes; and*

*(e) Subsistence for the resident representative and his staff while in official travel status within the country.*

*5. The Government shall have the option of providing in kind the facilities referred to in paragraph 4 above, with the exception of items (b) and (e).”*

1. Where there is no SBAA (i.e. the Special Fund or Technical Assistance Agreements are still in use), a standard annex (Supplemental Provisions) to the project document must be used ([Standard Annex to Project Document](https://popp.undp.org/node/2691)).
2. Two key Executive Board (EB) decisions govern the funding of the host programme government contributions for UNDP country office presence in middle-income countries (MIC) with high Gross National Income (GNI) per capita:
3. Decision [2012/28](https://digitallibrary.un.org/record/732219?ln=en) on UNDP’s Programming arrangements, 2014-2017 endorsed a system of biennial updates with the following stipulations:
	* 1. Graduation for MICs with high levels of GNI per capita and transitional NCCs after a 2-year grace period; and
		2. Application of ([World Bank-Atlas Method](https://eur03.safelinks.protection.outlook.com/?url=https%3A%2F%2Fdatahelpdesk.worldbank.org%2Fknowledgebase%2Farticles%2F77933-what-is-the-world-bank-atlas-method&data=02%7C01%7Cbatdolgor.chuluun%40undp.org%7Ce1be94a1fa344957fa8408d7533f5637%7Cb3e5db5e2944483799f57488ace54319%7C0%7C0%7C637069404307048027&sdata=ufmtroKvqHqf7cqvqp4VSPCi5jyD34a1SYSHN8JgC1Y%3D&reserved=0)) 4-year average GNI per capita.
4. Decision [2013/30](https://www.undp.org/sites/g/files/zskgke326/files/undp/library/corporate/Executive%20Board/2014/first-regular-session/English/dp2014-2e.pdf) on Funding of differentiated physical presence EB document (English [DP/2013/45](https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.undp.org%2Fsites%2Fg%2Ffiles%2Fzskgke326%2Ffiles%2Fundp%2Flibrary%2Fcorporate%2FExecutive%2520Board%2F2013%2FSecond-regular-session%2FEnglish%2Fdp2013-45.doc&wdOrigin=BROWSELINK)) (French [DP/2013/45](https://www.undp.org/sites/g/files/zskgke326/files/undp/library/corporate/Executive%20Board/2013/Second-regular-session/French/dp2013-45f.pdf)) (Spanish [DP/2013/45](https://www.undp.org/sites/g/files/zskgke326/files/undp/library/corporate/Executive%20Board/2013/Second-regular-session/Spanish/dp2013-45s.pdf))
5. Endorsed document DP/2013/45 on funding of differentiated physical presence; and
6. Decided on a differentiated approach for UNDP’s regular resource funding of physical presence in MICs with High GNI per capita, and NCCs.

**Scope**

1. This policy is applicable **only** to the countries classified as high-middle income countries (High MICs) and Net Contributing Countries (NCCs) and that are regulated as per the EB decision ([2013/30](https://www.undp.org/sites/g/files/zskgke326/files/undp/library/corporate/Executive%20Board/2014/first-regular-session/English/dp2014-2e.pdf)) on Funding of differentiated physical presence ([DP/2013/45](https://www.undp.org/sites/g/files/zskgke326/files/undp/library/corporate/Executive%20Board/2013/Second-regular-session/English/dp2013-45.doc)) (refer to [Annex 1](https://popp.undp.org/node/2876)).

***High MICs***

1. “High MICs” are defined as countries with 2012-2015 average GNI per capita of between $6,660 and $12,475. For these countries UNDP regular resources will continue to fund fully the UNDP Resident Representative position, in order to carry out key leadership functions. This is premised on a country programme which should at least be at the level of $12 million during the four-year programming period (combined regular plus other resources), in order to carry out functions and activities that underpin the integrity of the organization's programmatic and management mandates. Key leadership functions for countries not meeting these conditions would still be provided, but with coverage from other country office locations.
2. In addition, a cost-sharing formula is used to fund requisite critical, cross-cutting local office capacities, which is defined in [DP/2013/45](http://www.undp.org/content/undp/en/home/operations/executive_board/documents_for_sessions/adv2013-second/) as a resource envelope equivalent to three National Officer (NO) posts plus four national General Service (GS) posts and related general operating expenditures (GOE). UNDP will fund 25 per cent, on the basis that the Government funds the other 75 per cent through annual GLOC, either in cash or in kind. All other costs associated with the UNDP physical presence would need to be met from additional government voluntary contributions, and/or cost-recovery income earned on government and third-party cost-sharing and trust fund contributions.

***High MICs with a two-year grace period***

1. As noted in the paragraph 3, a biennial update of GNI per capita for each country is conducted by BMS/OFM. When such biennial update of GNI per capita moves a country to “High MIC” status for the first time compared to the previous biennial budget period, a two-year grace period is applied to the next biennium. During the two-year grace period, the host government may continue to pay its Government local office costs (GLOC) contribution based on the GLOC calculation methodology (refer to [POPP GLOC](https://popp.undp.org/node/3526)) for its GNI per capita status in the previous biennial budget period, i.e. as an LIC or as an MIC.

***Transitional NCCs***

1. Transitional NCCs are defined as countries with 2012-2015 average GNI per capita greater than $12,475 for the first time compared to its status in the previous biennial budget period. A two-year grace period is also applied before the countries graduate to fully pledged NCC status, during which there is no change to the funding of the cost of UNDP’s physical presence. UNDP regular resources will continue to fund fully the Resident Representative plus 25 per cent of requisite critical cross-cutting capacities (see para 6 above).  The balance of 75 per cent of funding for these critical cross-cutting capacities will need to be funded by the respective programme country government. During the two-year grace period, the eligibility for TRAC-1 resources also remains the same as the previous biennium.
2. **Full-fledged NCC** are defined as countries with 2012-2015 average GNI per capita greater than $12,475 for the second consecutive Integrated Budget period (i.e. in 2014-2015 as well as 2016-17). In these countries UNDP regular resources fully fund the UNDP Resident Representative position and minimal office capacities for the Resident Representative, in order to carry out key leadership functions, premised on a country programme which should at least be at the level of $12 million during the four-year programming period 2018-2021 (combined regular plus other resources). All other costs would continue to be borne through a combination of government contributions and cost-recovery income earned on government and third-party cost-sharing and trust fund contributions. Key leadership functions for countries not meeting these conditions would still be provided, but with coverage from other country office locations. These countries are also not eligible to receive TRAC-1 resources.
3. For the purposes of UNDP’s funding country office physical presence, the status of each countries’ average GNI per capita is updated on a biennial basis within the mid-term review of the UNDP integrated budget. This update may result in changes in the income categories, which are then applied for the next biennium. If the countries revert to a lower level of average GNI capita below High MIC status, i.e. to LIC or MIC, the contributions from host governments would be subject to [POPP GLOC for LIC and MIC](https://popp.undp.org/node/3526).

**Negotiating and Communicating annual contributions from host governments**

1. Country offices are responsible for estimating, negotiating and communicating annual contributions from host governments in High MIC, transitional NCC and full-pledged NCC countries. The table below sets out a sample computation of minimum annual contributions expected from host governments:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Critical Cross-Cutting Capacities** |  |  |  |
|   | Income status |  | Resident Representative  | Three NO (Proforma costs x 3 posts) | Four GS (Proforma costs x 4 GS) | Operating Expenses - 30% of Staff cost or estimated actual office operating expense | Total Local Expenses | **UNDP maximum share**  |   | **Government minimum contribution to local office costs** |
|  | (D1 proforma plus operating expense |   |   |   |   |  |   |  |
|   |   |  |  A | b | c | d | e=b+c+d | **f** |  | **g** |
| Country A\* | High-MIC |  | 325,000 | 242,000 | 170,000 | 123,600 | 535,600 | **458,900** |  | **$401,700**  |
| Country B\* | Transitional NCC |  | 325,000 | 242,000 | 170,000 | 123,600 | 535,600 | **458,900** |   | **$401,700**  |
| Country C\* | NCC |  | 325,000 | 242,000 | 170,000 | 123,600 | 535,600 | **325,000** |   | **$535,600**  |

*\*For illustrative purposes, to allow a comparison of UNDP maximum share of local office presence in different income categories, the same proforma costs have been used in the above table.*

1. Country Offices may negotiate annual and multi-year contributions, by integrating such commitments into state or national multi-year planning dialogue. Once annual or multi-year targets are agreed with host governments, the country offices should enter the expected contributions in their annual institutional budget and work planning process, and submit a request through UNDP service request portal to GSSC to create a master contract for UMIC/NCC payments.
2. The outcome of the annual and multi-year contributions expected from host governments for the Country Offices shall directly impact the size and scale of the country office. Hence, a timely and sufficient contribution from host government is critical to the country office presence in the country.
3. Upon receipt of annual contributions, a recommended best practice is to promptly send a letter of appreciation to the host government.

**Recording of cash contributions**

1. The annual GLOC payments should be applied by GSSC through the Quantum Accounts Receivable (AR) module. Upon receiving the GLOC payments, GSSC will create a Standalone Contract, recognizing the revenue via the Contracts Revenue Event and generating the Receivable via the Billing Event. The Receipt created against the GLOC payment is then applied against the Receivable via the AR module. Revenue and Receivables are recorded via the Contracts module whereas receipts are applied through the AR module, using the following COA:

 Type of Contribution Year Fund Account

UMIC/NCC contributions YYYY 11303 51016

1. In some cases, host governments may settle their cash targets in advance, especially when a multi-year contribution target is successfully negotiated. When country offices receive such advance payments for a single or multiple years before a commencement of a budget year, the offices should request the GSSC revenue team **within 1 week** of receipt of these payments, to record the payments to the below COA:

Type of Contribution Year Fund Account

GLOC Gov contr Locl Cost Future YYYY 11303 51017

1. GLOC contributions from host governments should not be applied to any other fund or accounts other than as provided above without prior approval from OFM and Regional Bureaux.
2. At the end of every year, the Head of Office will be required to certify in the annual assertion that all signed agreements/amendments to agreements have been submitted to GSSC on a timely basis prior to the closure of the financial ledgers. This will help ensure that UNDP revenue is captured in a timely manner as any late submission of these documents poses a significant management reporting risk and audit risk as revenue will not be reported accurately in the UNDP financial statements, including quarterly financial statements.

**Reporting**

1. UNDP routinely reports to the Executive Board on the government contributions made from High-MIC and NCCs in the following official documents:
* UNDP financial report and audited financial statements
* Annual Review of the Financial Situation
* UNDP Integrated Budget

**UNDP Revenue Recognition policy paper**

* [IPSAS 23 Policy paper](https://popp.undp.org/node/2931)