Operational Guidelines for Implementation of new Cost Recovery methodology, Utilization of Multiple-funding lines for posts, and Direct Project Costing as of 1 January 2014

Final Draft 25 November 2013

Section I - Cost Recovery

In January 2013, a joint decision was taken by the Executive Boards of UNDP/UNFPA, UNICEF and UNWOMEN approving a new harmonized conceptual framework for defining and attributing all costs, both programme costs and organizational costs (see EB document DP-FPA/2012/1), and a new harmonized methodology for calculating non-core cost-recovery rates (see EB document DP-FPA/2013/1 and EB Decision 2013/9). The fundamental objective of the new cost recovery policy is to ensure, within the context of the adoption of integrated budgets starting in 2014, that a larger share of core resources be dedicated to programming activities, and consequently, that a larger share of institutional budget activities would therefore necessarily have to be covered from non-core resources.

The new methodology is a step forward in the direction of more equitable funding of organizational costs between core and non-core resources, in particular, with non-core resources paying a larger share, through two main strategies: 1) increasing the cost recovery rate by a marginal amount and therefore allowing more organizational costs to be funded from non-core (and less from core); and 2) direct charging of eligible organizational costs to projects and programmes (about 80% of which are non-core funded).

Effective 1 January 2014, within the context of the launching of the first-ever integrated budget (see EB document DP/2013/41), integrating in one framework the programming arrangements and the institutional budget, the new funding and cost recovery frameworks will have a significant impact on how Country Offices, Regional Centers and HQ activities are funded. Two critically important points should be noted at the outset.

First, the new framework is necessary. The budget strategy for 2014-2015 outlined in the Integrated Budget document results in an improvement in the share of core resources available to fund programmatic (development) components of the integrated budget (62% projected for 2014-2015, up from an estimated 58% in 2012-2013). While this is a significant achievement, further adjustments will be needed to increase the share of organizational costs covered by non-core resources.

Second, the new approach is intended to ensure that all activities of the organization are appropriately costed and correctly attributed to the wide range of funding sources that fund our development work. Organizational structures and capacities need to be sustainably funded, not just
from one biennium to the next (as our current modus operandi allows for), but well into the future, and over time, and in a dynamic and responsive fashion, able to adjust and keep up with the changing core and non-core resource environments.

The Executive Board decision on cost recovery has the following impacts:

- As of 1 January 2014, the cost recovery rate (GMS %) for third-party cost sharing and trust fund contributions will increase from a minimum of 7% to a minimum of 8% for newly signed agreements.  
- As an incentive to donors to provide less-earmarked non-core contributions, a 1 per cent reduction will be applied for thematic contributions at the global, regional and country level (8% - 1% = 7%).  
- Existing preferential cost recovery rates for Government cost sharing contributions will be maintained. These rates vary from a minimum of 3% up to 8% (same as third party cost-sharing) depending on the country context and agreement with the Government.  
- Any GMS rates that are negotiated centrally will remain at current levels until such time as they are renegotiated corporately: a) GFATM and EU will remain at 7% for the time being; b) the GEF Trust Fund, Least Developed Countries Fund, Special Climate Change Fund and Nagoya Protocol Implementation Fund will remain at 9.5% of grants for projects under US $10 million, and 9% of project grants over US $10 million. The rate for the Adaptation Fund is 8.5%.

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1 An inter-bureau task force will be established to determine how the extra one per cent will be internally distributed.  
2 8% is a minimum rate. In some circumstances, such as in highly complex development situations, where actual costs of managing non-core resources are higher, offices are encouraged to negotiate higher cost recovery rates with donors based on best estimates of actual costs, and clear justification and explanation of the business case for a higher rate.  
3 Regarding resources channelled through the Multi-Partner Trust Fund, further consultations need to take place amongst UNDG members and agreement of the FMOG would be required for any changes to be introduced. In the meantime, the MPTF cost recovery rate remains 7% + 1% AA fee.)  
4 Regarding south-south contributions, further analysis is needed to fully identify the roles, responsibilities, and costs incurred by the various units involved including the UNDP CO in the donating country and the UNDP CO in the recipient country. The nature of these costs will determine if they can be treated as direct costs or potentially other funding sources such as 11888.  
5 The family of GEF-managed funds (GEF Trust Fund, Least Developed Countries Fund, Special Climate Change Fund, Nagoya Protocol Implementation Fund, and the Adaptation Fund) have strict rules regarding the services that must be provided for the fee received by UNDP. The GEF Council requires the fee to be used for defined ‘project cycle management services’. These services include assurance and oversight services involved with project identification, preparation of project concept, preparation of detailed project document, project
In principle, the cost recovery income earned from applying the above GMS rates (fund 11300) should be utilized to fund management activities associated with non-core resource projects (see Annex attached for definitions of county office level activities and functions and staff members who typically undertake them).

In principle, Development Effectiveness functions should be funded either from core DE allocations (fund 02550) or directly charged to eligible projects and programmes through the Direct Project Costing guidelines and methodology outlined in section 3 below. While this is new practice for UNDP, it is established practice already for UNICEF, and some other UN agencies.

In practice, it is recognized that adjusting to full implementation of the new cost recovery methodology may take some time, even though the methodology has already been discussed, vetted and approved by the Executive Board, which includes UNDP’s major donors, both core and non-core, and programme countries as well. More specifically, some categories of Development Effectiveness may need to continue to be funded from cost recovery resources (fund 11300) in 2014 and 2015. This is referred to in the budget document as ‘transitionary measures’.

Starting in January 2014, the 8% GMS resources are not to be used to fund UN Development Coordination (UNDC) activities. Put another way, cost recovery resources earned on non-core donors’ contributions to UNDP’s country programme activities are not intended to be used to support UNDP’s stewardship of the RC function and its undertaking of development coordination activities. This is primarily a reporting problem (at the corporate level) that will be resolved through the introduction of multiple-funding lines for posts.

Up to and including in 2013, UNDC costs incurred at the country level (other than those funded directly from the SRC (Support to the Resident Coordinator) programme line – fund 04500) have been estimated through biennial CO workload studies, based upon which, a certain percentage of core country office combined DE and management expenditures were aggregated and reported as UN Development Coordination costs (22% in the 2012-2013 biennium). This is referred to as the RC system ‘backbone’ costs. In other words, in the past, we have not issued separate fund code allocations for UNDC functions at a country level (other than the SRC programme line), but have instead managed the UNDC reporting centrally and at an aggregated level. Starting in 2014, we may start issuing separate core UNDC allocations (using fund code 02500) in order to more accurately monitor and report on UNDC costs arising at the country level. The results of the CO workload study undertaken by 119 Country Offices in June 2013, combined with utilization of multiple funding lines for posts (described in the next section) can be utilized to guide Country Offices in managing the new core resource pool for UNDC, if in fact, it is implemented as a separate allocation in 2014.
Two more points should be noted with regard to UNDC activities at the country level. First, UNDOCO will be allocating SRC programme line resources (fund 04500) to fund RC Office capacities starting in 2014 according to newly defined country typologies, with crisis countries receiving the most SRC resources and higher income countries receiving less. Second, as all UN agencies benefit from the coordination undertaken at the country level, the UNDG has agreed that all agencies will share in a portion of the cost of funding the RC system starting in 2014. UNDP will continue to fully fund the largest share of the UNDC costs, namely the UNDC ‘backbone’ costs described above and the SRC programme line (amounting to some 76% of the total). ‘Supplemental’ RC office costs (amounting to some 24% of the total) will be funded through a cost-sharing arrangement between UNDP as steward of the RC function and each UNDG member agency. While it is important to understand and recognize that the new cost-sharing formula means that other UNDG agencies will help fund the development coordination function, it should also be noted that the cost-sharing will be implemented CENTRALLY, not at the Country Level. UNDOCO will be communicating directly with RCs on both of these points and explaining what it means for each RC Office.
Section II - Utilization of Multiple-funding lines for positions (P5 and below)

Until recently, all core funded positions have been managed on a ‘whole post’ basis. In other words, Executive Board approval of core institutional budgets was made on the basis of a static number of Institutional Budget funded posts, which would be fully charged (either to fund 02550 or 02300).

This past practice was too rigid, and did not accurately reflect the range of funding sources that UNDP staff members actually work on. This past practice was eased somewhat starting in 2013, whereby, in order to meet 2013 core budget reduction targets, units could charge up to 25% of existing approved core IB funded positions to other funding sources to more appropriately apportion position costs (reference Darshak Shah email to Bureau Directors dated 4 February 2013).

In 2014, the use of multiple funding lines for posts has been formally incorporated into the integrated budget strategy for 2014-2017 and has been endorsed by the Executive Board. More specifically, the integrated budget reflects a strategy for financing positions that recognizes the variety, multiplicity, and complexity of the various UNDP funding streams so as to better respond to the evolving development needs of programme countries within the remit of the strategic plan in an accountable, sustainable and agile manner. This leads to a more strategic and efficient use of core resource allocations, and a more accurate linkage of costs to underlying funding sources.

COs can be guided in their decision making by using the CO workload study methodology and/or results that are more fully explained in section 3 below. Multiple funding lines for posts can be entered in the HR module of atlas (not by ex-post-facto GLJE adjustments) in order to minimize transaction costs and the possibility of human error. COA entry is made only once, and then monthly payroll automatically charges the COA lines per the percentages entered in the HR module. Even if several different funding lines are needed per post, it is only a one-time set-up to implement for the remainder of the year. Speed-charts can also be set-up once in atlas finance module, and utilized in order to charge office bills (electricity, rent, telephone/internet charges) to various GOE resource allocations in the same ratio as staff posts are funded. (For example, if staff costs (aggregated) are 35% funded from 02300, 25% funded from 02550, 30% funded from 11300, and 20% funded from programme funds (30000), the same template can be set up as a speed chart which can be utilized each time an office bill is paid.

The example below illustrates the change:

(a) Current practice under the institutional budget, 2012-2013, calls for an assistant resident representative-programme (ARR-P) post to be fully core funded even if the ARR-P has responsibilities covering a portfolio of both core and non-core programmes. Furthermore, even

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6 Multiple funding applies to all international posts at the P5 level and below and all local staff posts (NO and GS). D1 posts and above are reported and monitored directly by the Executive Board and therefore will continue to be single sourced (either 100% core or 100% XB).

7 The introduction of multiple funding lines is not intended as a means to increase staff numbers beyond current levels, only as a means to maintain and sustainably fund capacities at required levels despite fewer core resources.
if the programme portfolio changes from one Country Programme period to the next, the post continues to be funded from the same core allocation within the budget period.

(b) Under the integrated budget strategy 2014-2017, the same post could, for example – based on the nature of work conducted by the incumbent as informed by the results of the CO workload study – be financed from a combination of 65% institutional budget and 35% other resources.

This represents a major change from current practice, and opens up more flexibility for units to manage their core allocations along with other available resources to fund new and/or existing positions.
Section III - Direct Project Costing of Eligible Organizational costs

First, we need to define what is meant by ‘direct project costing’.

Essentially, the aim is to reflect in development project budgets the ‘true costs’ of achieving development results, regardless of where those costs are incurred. This goal has many wide-ranging aspects to it. Over the next few months, OFRM/BOM will be consulting with budget practitioners and providing guidance to COs on estimating project inputs and their costs more holistically and consistently (ie: estimating future project personnel costs (SCs, ICs), over multiple years, guidance on annual inflation and exchange rate factors to use, budget revision processes, etc.) as it is recognized that better overall project input costing guidance is needed. Recent efforts have been oriented toward shifting focus away from an input-driven approach to ‘results based’ development outcomes and results-based reporting, which is necessary. However, we need to also put some rigor and step-by-step processes back into the project budgeting process and how we plan for, and cost, expected project inputs as well.

For now, we can already begin with the Direct Project costing component. What we mean by ‘direct project costing’ can perhaps best be understood with an example:

Old way of thinking – All costs incurred by NIM counterpart institutions (or even going way back, UN Executing Agencies) are ‘projectized’, and funded from corresponding programme/project budgets. All costs incurred by UNDP in overseeing, monitoring, quality assurance, management, guidance, advocacy are organizational costs, deemed to be ‘overhead’ in nature, and have to be covered by UNDP’s core institutional budget or from cost recovery resources (XB). Two extremes – with inherent tensions between them – and leading to an implicit ‘zero-sum’ outcome -- the more we spend on building up UNDP’s own capacities in CO’s (regardless of how valuable and necessary those are), the less we have available to fund programmes and projects.

Over time, however, the boundary lines between where UNDP offices ‘end’ and where programme activities ‘begin’ is much less clear cut than the old way of thinking suggests: a) project implementation modalities such as DIM and CO support to NIM have become ever more prevalent in all regions; b) operations staff (procurement, hr, finance) may spend more time supporting project implementation than supporting UNDP office operations; c) programme unit professional staff, are not only shadow ‘project managers’ and ‘project administrators’, they are more and more providing advisory support, substantive guidance, technical expertise, and development solutions in UNDP’s development areas, and critical, essential, and DIRECT inputs to project outcomes; and d) programme assistants spend much of their time engaged in project budgets, preparing project payments, project expenditure reporting, and other activities directly related to their project portfolios.

This has led to...

The New way of thinking --- Much of UNDP CO costs/staff/capacities directly contribute to the achievement of development results and therefore should be directly charged to programmes, and projects. Government counterparts and donors view UNDP’s capacities as positive, value-added contributions to project outcomes, essential for achieving high quality standards, not in terms of

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8 See Annex 2 for instructions on GEF funded projects.
taking away from resources available for programmes, but as direct contributions to programmes. Governments and donors equally understand the difference between what is funded from our ‘overhead’ charge (ie: the 8% GMS outlined in section 1 above) vs. what is considered a direct project input, whether the input cost is incurred by NIM counterparts or by the UNDP CO itself.

Second, in practice Direct Project Costing is nothing new in concept. We’ve been doing this for years for programme ‘implementation costs’ (so called DIM and CO support to NIM implementation costs). There have been some weaknesses however in successfully implementing DPC until now:

1. The current methodology (known as Implementation Support Services, or ISS) is problematic. We debit (charge) projects (typically through the UPL or a local price list (on a transactional fee basis), float a corresponding amount of income through our XB accounts, and then use that income to fund XB posts (or parts thereof) – So is it a management/organizational expenditure? or a direct project expenditure? It can’t be both at the same time. The way we currently implement ISS causes double counting of the same cost (and an over-statement of management costs which should more properly be categorized ONLY as direct development costs). We need to be able to CHARGE projects directly for the portion of staff time spent on supporting project implementation.

2. Position management policies in the past did not allow for core institutional budget posts to be ‘cost-shared’ with other funding types. This is no longer the case.

3. CO’s were basically on their own to figure out what costs could be considered ‘directly chargeable’ and what costs were instead to be funded from GMS cost recovery. In turn, this led to confusion and mistrust from donors who thought they may be charged twice for the same costs and/or inconsistent practice from one CO location to another.

In addition to the Implementation support costs described above, according to the new cost recovery methodology described in section 1, a whole new category of organizational costs (ie: development effectiveness – typically ‘programme unit’ costs) not previously chargeable directly to projects and programmes, are from 1 January 2014 onwards eligible to be funded directly from core and non-core programme resources. Development Effectiveness activities are further described in Annex 2 and are summarized as follows:

**Development effectiveness activities**

These activities are grouped into three sub-clusters applicable to Country Office staff:

**Strategic Country Programme Planning and Quality Assurance:**
Activities related to ensuring high quality standards across the country programming and project life cycles to include: i) participating in UNDAF formulation; ii) participating in UNCT programming processes, thematic results groups, and MDG monitoring and reporting; iii) participating in Country Programme formulation; iv) cascading development results–chain management (indicators, baselines, monitoring progress, reporting); v) results–based monitoring and evaluation; vi) evidence-based reporting on results achieved compared to baselines; vii) effective advocacy, media interaction, public information and communication of UNDP’s programme priorities and mandate; and (viii) fulfilling substantive reporting requirements.

**Programme Pipeline Development and Management**
Activities related to new business development within an approved UNDAF and/or CPD framework, R&D, partnering and formulating and managing a programme pipeline. It includes i) partnering, communicating, advocating and resource mobilization for pipeline projects and programmes; and ii) formulation of joint programmes.

**Programme Policy Advisory Services:**
Activities related to the provision of substantive, knowledge-based, policy and advisory services to implementing partners and national counterparts. These would include: (i) substantive policy and technical advice in UNDP’s practice areas, (ii) substantive research and analyses, (iii) economic advisory services; and (iv) knowledge-generation and transfer in UNDP’s focus areas and cross-cutting areas of capacity development, gender, and South-South cooperation.

It should be noted that Development Effectiveness activities are conducted by UNDP regardless of implementation modality, and therefore apply regardless of whether projects are NIM, CO support to NIM, DIM, NGO or UN-agency implemented.

In summary there are three main options for implementing Direct Project Costing:

1) **Use CO workload study methodology and/or results combined with multiple funding lines for posts**
   
   This is the preferred modality as there is a minimal transactional burden. It is done up front in the Atlas HR module and the payroll charges are posted directly to the defined COAs without the requirement to perform ‘ex-post-facto’ GL JE adjustments.

2) **Use UPL or Local Price List for transactional costs recovery**
   
   This option may be preferred for operations support, where staff are more likely to provide support to the full range of country office projects (as opposed to programme staff who typically support a narrower portfolio of projects).

3) **Create and manage a stand-alone DPC project (this option would only make sense for offices that have a very large portfolio of development projects).**

The flexibility to determine which option to use rests with the respective country office.

Each of these is described in more detail below:

1. **Use CO workload study approach to DPC**

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9 It is important to note, however, that the direct project costing methodology described in the following paragraphs will not apply to projects financed from the GEF-family of vertical funds (the GEF Trust Fund, Least Developed Countries Fund, Special Climate Change Fund, Nagoya Protocol Implementation Fund, and the Adaptation Fund). There are strict rules imposed by the GEF Council and Adaptation Fund Board regarding Direct Project Costs in any projects financed by these funds. Instead, GEF-specific rules are outlined in Annex 2 attached.
Earlier this year, a draft DPC policy document and companion draft DPC implementation procedures were developed and shared with a sounding board of CO, RSC and Regional Bureau practitioners (reference Darshak Shah email dated 28th February 2013, and the two documents attached as annexes) and on the mpn and mpn-finance networks (reference Valerie Cliff email dated 1 March 2013).

The primary feedback received on the implementation procedures proposed was a request to make the DPC calculation and estimation process easier. Originally, the implementation guidelines called for continuous reconciliation between ex-ante ‘estimated’ budgeted DPC charges (based on estimated staff input time) vs. ex-post-facto actual time spent by staff members on each project on a monthly basis.

Essentially the feedback we received in response to the original drafts was that we needed to strike a better balance between getting it 100% right (ie: ex-ante budgeting based on estimated staff time needed, combined with ex post facto reconciliation and charging of expenditures based on hourly time sheets of staff time actually spent during the month) vs. having an implementable, easy to understand, explain, and justify, transparent and consistent methodology that is ‘good enough’ at defining which organizational costs should be directly charged to projects (and conversely which costs are instead to be funded from GMS overhead percentages) without over-doing the transactions costs of implementing. The aim is to find the right balance between proper accounting treatment and feasibility for country offices to implement.

In order to achieve this, an abbreviated version of the DPC policy note, along with a proposed methodology for conducting an upgraded “CO workload study” which could be used to estimate/approximate what office costs could be eligible for direct project costing, was presented to the OPG at its 6 May 2013 meeting (reference OPG brief dated 6 May 2013 on classification and financing of institutional costs.)

Subsequently, the CO workload study was launched on 10 May 2013 (reference Darshak Shah email to all CO’s dated 10 May). Per that message, while previous CO workload studies provided essential information at the aggregated level, they were not necessarily of much added value to Country Offices themselves, as they were only used to determine the portion of CO costs to attribute at the aggregated level to the UN Development Coordination (UNDC) cost category (rather than through the underlying DE and Management categories). In contrast, and in the context of the preparation of the 2014-2017 integrated budget, the results of the CO workload study conducted in 2013 are intended to be of direct value to Country Offices. More specifically, the results of the study which are now aggregated and compiled at both the CO, Regional and Corporate levels will:

1) Facilitate a consistent application of utilizing multiple-funding sources for positions, combined with a consistent application for estimating staff time and related staff and office costs that are eligible for Direct Project Costing without the need for continuous ex-post facto reconciliation.

2) Providing an evidence-based stock-taking analysis of the various functions currently being performed by Country Offices (and at what costs) which may be used to initiate a dialogue and further thinking about what kind of capacities are needed to
achieve the new strategic plan development outcomes, where focus on results-achievement and quality will be essential.

During June and July 2013, a total of 119 CO workload study results were received, vetted, and analyzed. A full demonstration of how to use the CO workload study results per staff member, per funding source, per cost category in order to determine what organizational costs are eligible for directly charging to projects is provided in annex 1 attached. In addition a series of webinars will be scheduled to support CO’s in using and applying the methodology.

In aggregate terms, the results of the CO workload study, along with an analysis of what shifts need to take place starting in January 2014, are summarized as follows:

(the table below is illegible; refer to excel version of table instead)
## Aggregated results of the CO workload study - June 2013 with 119 CO responses included

### Percentages of total CO staff costs, by self-reported time spent on various functions and activities

<table>
<thead>
<tr>
<th>Function Category</th>
<th>Regular Resources</th>
<th>Institutional Budget - Core (IE + CORE UND core Management allocations)</th>
<th>KB cost recovery resources</th>
<th>Project Resources</th>
<th>All Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Programme</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1a. Dedicated support embedded in development programmes and projects</td>
<td>5%</td>
<td>8%</td>
<td>21%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>1b. Project implementation &amp; implementation support activities (including CO to FBO core to UNM core)</td>
<td>11%</td>
<td>26%</td>
<td>26%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal Programme</strong></td>
<td><strong>18%</strong></td>
<td><strong>34%</strong></td>
<td><strong>47%</strong></td>
<td><strong>30%</strong></td>
<td></td>
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<tr>
<td>2. Development Effectiveness</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>2a. Strategic Country Programming (UNDP &amp; ITF) &amp; Programme Quality Assurance</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>2b. Formulation, Management of Project Pipelines/New Business Development</td>
<td>7%</td>
<td>6%</td>
<td>9%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>2c. Policy Advisory Services</td>
<td>5%</td>
<td>5%</td>
<td>12%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal Development Effectiveness</strong></td>
<td><strong>18%</strong></td>
<td><strong>17%</strong></td>
<td><strong>39%</strong></td>
<td><strong>24%</strong></td>
<td></td>
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<tr>
<td>3. UN Development Coordination</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3a. UN System Coordination and Representation</td>
<td>4%</td>
<td>4%</td>
<td>6%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>3b. Operational Support to the UN/UN (including GPI work)</td>
<td>8%</td>
<td>10%</td>
<td>8%</td>
<td>8%</td>
<td></td>
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<tr>
<td><strong>Subtotal UNDOC</strong></td>
<td><strong>22%</strong></td>
<td><strong>14%</strong></td>
<td><strong>19%</strong></td>
<td><strong>18%</strong></td>
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<tr>
<td>4. Management</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>4a. Leadership and Country Representation</td>
<td>11%</td>
<td>5%</td>
<td>2%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>4b. Programme direction and accountability</td>
<td>3%</td>
<td>5%</td>
<td>5%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>4c. Operations Management and Administration</td>
<td>18%</td>
<td>27%</td>
<td>8%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal Management</strong></td>
<td><strong>31%</strong></td>
<td><strong>26%</strong></td>
<td><strong>29%</strong></td>
<td><strong>25%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>60%</strong></td>
<td><strong>60%</strong></td>
<td><strong>60%</strong></td>
<td><strong>60%</strong></td>
<td><strong>60%</strong></td>
</tr>
</tbody>
</table>

### Total Dollar value of costs reported through CO workload study

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Dollar Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>All resources</td>
<td>$348,000,000</td>
</tr>
<tr>
<td>Project resources</td>
<td>$105,000,000</td>
</tr>
<tr>
<td>KB cost recovery resources</td>
<td>$70,000,000</td>
</tr>
<tr>
<td>Regular resources</td>
<td>$348,000,000</td>
</tr>
</tbody>
</table>
Footnote to table: The dollar value amounts in the last row of the table above are based on pro-forma staff costs only. In principle, however, corresponding GOE elements should also be charged (and in the same percentages) to the same funding sources as the staff-costs are. To facilitate this, in the next phase of the DPC guidelines, we will seek to incorporate GOE elements as well.

In simple terms, essentially if the workload study reveals that 25% of Staff member X’s time is spent on discrete activities related to projects A, B and C, then corresponding COA lines should be introduced into the HR module to charge such costs directly through the payroll process outlined in Section 2 above.

In the project budget, a new budget category called ‘development effectiveness’ will be introduced as of 1st January 2014, as it will be important to be able to continue monitoring and reporting on UNDP’s development effectiveness activities as a whole. Development Effectiveness activities and resource estimates must also be included in project Work Plans and project budgets, and therefore be subject to donor and/or government agreement, in line with the new cost recovery methodology approved by the Executive Board.

It should be noted that the workload study can be repeated by CO’s as often as needed. In some places, it may need to be done one week per month in order to ‘approximate well-enough’ UNDP’s costs that can be charged directly to projects. In other places, once a year may be sufficient, or once a quarter. All of these possibilities are easier and therefore preferable to having to reconcile actual time spent (ex-post-facto via timesheets) vs. ‘good enough’ ex-ante estimated amounts based on time-sheets maintained during a representative survey period only.

In the next phase of the DPC guidelines, advisory services and signature development products provided by Regional Service Centers, as well as by BDP and BCPR HQ staff, to country programme projects and to the achievement of country level development outcomes should also be subject to similar periodic workload studies, and those costs should also be incorporated as direct charges to country level projects and programmes. Already, CO’s are charged travel costs for Regional Advisors and Experts, and the goal is for full costing of regional experts (travel and staff costs) to be charged correctly to projects for which they provide services, be those at the global, regional or country level.

2. Use UPL or Local Price List

Some sounding board members have also provided feedback that for their operations unit staff time, using the CO workload results per the above is not practical because each Operations staff member may be working on the entire project portfolio (ie: providing finance support for all projects) unlike programme staff who typically are divided up into thematic units and therefore handle a limited number of projects. Therefore, CO’s may also choose to continue using the UPL or local price list option for charging transactional type charges directly to programmes and projects. However, to avoid double-counting of such costs, CO’s should debit projects and record the converse side of the transaction as a negative expenditure against XB accounts rather than as XB income. Keep in mind that using the UPL methodology to charge DPC is still an ‘ex-post-facto’ charge. It doesn’t necessarily help with the ‘planning and ex-ante budgeting’ side of DPC, which would have to be performed separately. Correct use of the UPL or local price list to charge direct project costs can be demonstrated as follows:
Wrong Way to record transactional DPC charges using the UPL or LPL:

As income:
Correct way to record transactional DPC charges using the UPL or LPL:

As a reduction in XB expenditure. (In other words, costs of staff charged to XB are less than what they would have been, had the DPC not been charged directly).

3. Create and implement a stand-alone “DPC” project

Finally, COs may still choose to create a stand-alone “DPC” project as outlined in the original DPC guidelines per Annex 3 attached, if they feel comfortable implementing it and comfortable doing the budgeting vs. reconciliation appropriately. This would likely only make sense in offices that have a very large portfolio of development projects where it would be infeasible to introduce separate COA lines for each one. XB resource balances can be used as ‘pre-funding’ for such DPC projects, but projects should be charged at a minimum on a quarterly basis going forward.

Over the next few weeks, we will be identifying ‘best-practice DPC’ COs within each region, so that other offices can learn from how they are implementing DPC, and how they are communicating with both government counterparts and donors about the validity of the DPC charges and how they are part and parcel of the harmonized cost recovery framework approved by the Executive Boards of UNDP/UNFPA, UNICEF and UNWOMEN in January 2013.
Additionally, we will be preparing a generic communication that UNDP Country Offices may use to share with Governments and Donors locally, containing key decisions of the EB, key principles of DPC, list of eligible services for which UNDP COs can charge the projects, etc. At the country level, the CO-specific list detailing local price lists (if any) for hours per service and unit costs can be developed and attached to the generic communication.
Annex 1 – Demonstration of using CO workload study results at staff member level to determine DPC amounts. (comments and feedback on Annex 1 should be provided directly to Fernandel Carbonell and Vesna Nikolic please.)

Guidelines for Reviewing the Workload Survey Results
As of 21 October 2013

The results of the June 2013 workload survey (WLS) are provided in seven (7) different reports. These reports offer different perspectives to view the data results either at an aggregated (i.e. by Region) or detail level (i.e. by staff member) depending on the selection criteria.

The seven reports are as follows:

I. Report 1: WLS Summary. Reflects the aggregated responses from 119 country offices and guidance notes that define the required funding shifts to take effect 1 January 2014. Report 2 is the same report but without the guidance notes as this may be clearer for viewing purposes.

II. Report 3: Analysis by Regional Bureau. Reflects the actual distribution of time spent on functions and activities as submitted by staff in the workload survey for all countries in a Regional Bureau. Furthermore, it reflects an analysis with guidance notes, defining the required funding shifts that need to occur as of 1 January 2014 by cost categories- Institutional Budget, XB Cost Recovery (applies to XB resources generated from GMS income) and Project Resources. Detail instructions are reflected below.

III. Report 4: Analysis by Country Office. The same as Report 3 above but per country office. Detail instructions are reflected below.

IV. Report 5: Analysis by Staff Member: The same as Reports 3 and 4 above but per staff member. Detail instructions are reflected below.

V. Report 6: Analysis of Sub-Activity Clusters by Region. Reflects the actual distribution of time spent on functions and activities as submitted by staff in the workload survey for countries in a selected Regional Bureau. Detail instructions are reflected below.

VI. Report 7: Analysis of Sub-Activity Clusters by CO. The same as Report 6 but for a country office reflecting staff member results. Detail instructions are reflected below.

Instructions for running the WLS reports are provided below, from Section II onwards. Reports 3, 4 and 5 have four major sections:

Section I is the selection criteria;
Section II reflects the actual percentages of total CO costs, by self-reported staff time spent on various functions and activities
Section III reflects the funding shifts that need to occur based on the reported results from Section II and
Section IV reflects graphic illustrations of the results.

II. Viewing Report 3: Analysis – by Regional Bureau

➢ Step 1 – Select Regional Bureau from the drop down menu
Step 2 – Select Funding Category from the drop down menu

Only ONE of the following funding categories should be selected at a time: Institutional Budget, XB or Project Resources. Selecting ‘All’ or ‘Other Resources’ will not generate any meaningful results as the distribution of resources in the analysis is categorized only for the Institutional Budget, XB and/or Project Resources. The ‘#N/A’ denotes invalid fund codes entered in the workload survey. Furthermore, selecting any combination of the three funding categories (i.e. selecting IB and XB at the same time) will also not generate any meaningful results because of the constraints with the pivot tables.

Step 3 – The default ‘Multiple Items’ will generate results for ALL grade categories, EXCEPT at the core D1 and above level as the multi funding of posts does not apply to these categories. Additional criteria can be selected to view the results for one grade category (i.e. GS, P/N). While the category ‘other’ is viewable in the drop down list it should not be selected as a stand alone category as it will not generate any meaningful results given that ‘other’ contract holders such as Service Contracts and Temporary Appointments are excluded from the results.

After completing the selection criteria, Section II of the report will be populated with the reported results and reflect the actual distribution of time spent on the 10 sub-activity clusters:
Section III reflects the analysis— with guidance notes— of the funding shifts that need to occur as of 1 January 2014.

Additionally, the results in Sections II and III of the report are automatically illustrated graphically in Pie Charts (Section IV). Two of the pie charts reflect the actual distributions reported for the four broad functional activity clusters of the ten sub-activity clusters and the second Pie Chart reflects the proposed/correct distribution by cost categories.
III. Viewing Report 4: Analysis by Country Office

➢ Step 1 – Select Country Office

<table>
<thead>
<tr>
<th>Distribution of Cost by Country Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pick Country</td>
</tr>
<tr>
<td>1a</td>
</tr>
<tr>
<td>2a</td>
</tr>
<tr>
<td>2b</td>
</tr>
</tbody>
</table>

After selecting the country, follow the same steps and guidance as provided for Report 3 above. 
*Note: The template does not provide filtering of countries in a dropdown list even when a Regional Bureau is selected in an additional dropdown list due to constraints in the pivot table set up.*

IV. Report 5: Analysis by Staff

Staff can be selected by either clicking the pivot table dropdown button or typing in the staff member’s name in the blank field.
*Note: The template does not provide filtering of staff in a dropdown list due to constraints in the pivot table set up.*

<table>
<thead>
<tr>
<th>Distribution of Cost by Staff Member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pick staff:</td>
</tr>
<tr>
<td>Funding Category:</td>
</tr>
<tr>
<td>Country</td>
</tr>
<tr>
<td>Position Description</td>
</tr>
<tr>
<td>Position</td>
</tr>
</tbody>
</table>

This report has the same sections as Reports 3 and 4 above. If additional information is required on the actual COA(s) against which a staff member is charged, instructions are provided in section VII below.

V. Report 6: List of Sub-Activity Clusters by Region

The criteria menu is similar to Report 3. After selecting a Region, a country listing by sub-activities of countries (only those COs that have participated in the survey will be displayed) is provided in dollar and percentage terms.
VI. Report 7: List Sub-Activity Clusters by Staff Member

The criteria menu is similar to that of Report 4. After selecting a country, a staff listing by sub-activities is provided in dollar and percentage terms.
VII. Instructions for checking position COA(s) in Atlas

Ctrl+Click here for the Atlas link. After signing in, the below page will appear. Enter the position number and click the Search button.

This leads to the position COA distribution page. If you do not have access to this page, contact your HR colleagues for further assistance.
Annex 2 : Harmonized Classification of UNDP Activities/Costs

Harmonized Classification of UNDP Activities/Costs with UNICEF/UNFPA/UNWOMEN
UNDP Country Office Workload Study – A Functional Approach
2014-2017 Institutional Budget Strategy

In support of the 2014-2017 Institutional Budget Strategy, and as was done in previous biennia, (OFRM) conducted a country office workload study in May-June 2013 using a functional approach. The approach followed was to obtain activity and associated time data on key country office functions aligned to the harmonized cost classifications approved by the Executive Board with respect to Programmes, Development Effectiveness, UN Development Coordination and Management functions/activities. The data is used to arrive at reasonable cost apportionment percentage estimates to support the formulation of the 2014-2017 Institutional Budget both at the Aggregate and Country Office levels.

More than 6,000 staff in 119 country offices participated (more than double the number of participants in the 2012-2013 CO workload study), a very comprehensive representational sample from which reasonable estimates can be drawn.

The results of the study are summarized in the excel file attached. For a thorough understanding of what activities are included under each category and sub-category, please refer to the definitions and descriptions of each major functional category and sub-category that follow.

A. Definitions of classification of Country Office activities

1 – Programmes activities
Activities that directly assist programme countries in achieving development results, through Country Programme Documents and/or project documents. They are grouped into two sub-clusters applicable to Country Office functions:

1a – Dedicated support embedded in development programmes and projects
Activities conducted by UNDP Country Office staff fully financed from existing development projects.

1b – Implementation and implementation support activities
Activities related to UNDP Country Office staff involved in implementation of DIM or CO support to NIM projects. Activities in this sub-cluster include operational and administrative support to projects in the following areas:

- Communications Unit staff time spent on communication of development results and outcomes in the context of specific development programmes and projects.
- Human Resources Unit staff time spent on the recruitment, selection, hiring, contracting, and/or contract administration of project personnel.
- Procurement Unit staff time spent on the procurement of goods or services on behalf of a project, covering the entire procurement cycle tasks, transport, storage, distribution, on-site receipting of goods, customs clearance, logistics, etc.
- Finance Unit staff time spent on undertaking direct project payment requests.
- Programme staff time and any other CO staff time spent directly on programme implementation and directly contributing to development results.

2 - Development effectiveness activities
These activities are grouped into three sub-clusters applicable to Country Office staff:

2a- Strategic Country Programme Planning and Quality Assurance:
Activities related to ensuring high quality standards across the country programming and project life cycles to include: i) participating in UNDAF formulation; ii) participating in UNCT programming processes, thematic results groups, and MDG monitoring and reporting; iii) participating in Country Programme formulation; iv) cascading development results–chain management (indicators, baselines, monitoring progress, reporting); v) results–based monitoring and evaluation; vi) evidence-based reporting on results achieved compared to baselines; vii) effective advocacy, media interaction, public information and communication of UNDP’s programme priorities and mandate; and (viii) fulfilling substantive reporting requirements.

2b- Programme Pipeline Development and Management
Activities related to new business development within an approved UNDAF and/or CPD framework, R&D, partnering and formulating and managing a programme pipeline. It includes i) partnering, communicating, advocating and resource mobilization for pipeline projects and programmes; and ii) formulation of joint programmes.

2c- Programme Policy Advisory Services:
Activities related to the provision of substantive, knowledge-based, policy and advisory services to implementing partners and national counterparts. These would include: (i) substantive policy and technical advice in UNDP’s practice areas, (ii) substantive research and analyses, (iii) economic advisory services; and (iv) knowledge-generation and transfer in UNDP’s focus areas and cross-cutting areas of capacity development, gender, and South-South cooperation.

All costs under 2a, 2b and 2c sub-categories are incurred by UNDP regardless of implementation modality, and therefore apply regardless of whether eligible projects are NIM, DIM, NGO or UN-agency implemented.

3 - United Nations Development Coordination activities: Activities and costs associated with the UN Resident Coordinator’s Office that contribute to the UN Resident Coordinator’s leadership of the UN Country Team through the responsibility and authority provided by relevant General Assembly resolutions and in accordance with the full implementation of the management and accountability System. The Strategic Plan, 2014-2017 calls for increased emphasis on UNDP’s substantive role, and an increased focus on country level coordination work around delivery and getting development results, whereby UN country teams need to stay abreast of ‘big picture’ changes in a country’s
development context, partner better, and be able to position the UN Development system to support programme countries’ priorities for transformational change. These activities are grouped into two sub-clusters applicable to UNDP Country Office staff:

3a- UN System Coordination & Representation: Activities conducted by the UN Resident Coordinator, the staff of the Resident Coordinator’s Office and/or UNDP Country Office staff related to: (i) the coordination of UN system development activities for resident UN Country Team agencies; (ii) coordination of, and representation of, non-resident agency activities, interests, and mandates; (iii) leadership of the UN country team in the strategic development and realization of the UN Development Assistance Framework, including ensuring alignment of UN assistance with national development strategies and coherence among operations undertaken by the UN Country Team members; (iv) carrying out the functions of Designated Official for Security on behalf of the UN System; v) chairing or co-chairing UNCT Thematic/Results Groups; vi) representation and advocacy on behalf of the UN system, covering the UN mandates at large (Secretary General’s Office, UN Secretariat, DPKO, DPA, etc.) including for non-resident UN Agencies; (vii) leadership of aid coordination fora, reports, and documents undertaken on behalf of the UN; (viii) Support to Regional Director team functions, (ix) media relations, press releases and conferences, communication pieces and outreach events conducted on behalf of the UNCT and/or UN; (x) establishing and maintaining relationships with senior-most Government offices on behalf of the UN (ie: Prime Minister’s Office, Senior Coordinating Ministries, Ministry of Foreign Affairs, etc); (xi) partnership management on behalf of the UNCT and/or UN; (xii) resource mobilization on behalf of the UN system, including partnerships to support the UN system; and where applicable, (xiii) the coordination of emergency, humanitarian & relief activities.

3b- Operational Support and Services to the UN System: Activities conducted by the staff of the Resident Coordinator’s Office and/or UNDP Country Office staff related to: i) providing administrative support to the RC’s office, and in support of the resident UN Country Team agencies, and to non-resident UN agencies and entities in the business operations areas of ICT support, finance and budget management, logistics, and HR functions, including all activities performed and conducted under the Universal Price List (UPL) mechanism; (ii) management of common services (such as shared premises, common/shared local security budgets, UN dispensaries, etc.; and (iii) responding to in-country requests from the SG and senior visiting UN officials.

4 Management activities: Activities and costs whose primary function is the promotion of the identity, executive direction, representation, accountability and well-being of the UNDP Country Office. These activities are grouped into three sub-clusters applicable to Country Office staff:

4a -Leadership and Country Representation: Activities related to leading and defining the vision of the Country Office, as well as representing UNDP in advancing its core mandate and major programme goals with governments, donors and other third parties.

4b- Programme Direction and Accountability: Activities related to overall managerial responsibility and accountability for achieving UNDP’s role in supporting programme countries in achieving development results; ensuring continuous and simultaneous alignment (or re-alignment) of Country Programme results with national planning goals and UNDP Strategic Plan results, including responding to emerging needs mid-cycle; UNDP leadership role(s) in the UNCT programming
processes and UNCT strategic meetings; strategic partnership management; and overall partnering and positioning of the programmatic work of the organization within the country.

4c- Operations Management & Administration: Activities related to overall staff/office management and the provision of workplace and support services (ICT, Finance, OHR, UNDP security, travel, assets and general services) which permit UNDP to carry out the mission of the organization (but excluding direct project implementation support). Activities related to the harmonization and simplification of UN operational processes and business practices should also be included here.
Annex 3: (Comments on this section should be provided directly to Andrew Raine and Xiumei Zhang)

Direct Project Costs for projects financed from GEF-managed vertical funds

1. The GEF Council and the Adaptation Fund Board have both adopted rules and issued guidance on when and how Direct Project Costs may be recovered for projects financed by the GEF Trust Fund, the Least Developed Countries Fund, the Special Climate Change Fund, the Nagoya Protocol Implementation Fund or the Adaptation Fund.¹⁰

2. For any projects financed by these funds and approved on or after 7 June 2012¹¹, UNDP must observe the following requirements:
   a. The costs of any project cycle management services provided by UNDP must be paid exclusively from the fees paid to UNDP and not from the project budget. Project cycle management services are the quality assurance and oversight services involved with project identification, preparation of project concept, preparation of detailed project document, project approval and start-up, project implementation and supervision, and project completion and evaluation.¹² ‘Development Effectiveness’ costs are therefore not eligible for recovery from a project budget;
   b. Direct Project Costs – which will include the costs of any activities over and above the project cycle management services for which UNDP receives a fee – may only be charged to the project budget upon the specific request of, and agreement with, the Implementing Partner. These costs are not mandatory, and according to the GEF Secretariat and Adaptation Fund Board these costs should not be considered routine or normal, but instead provided only on an exceptional basis.
   c. For any NIM or NGO implemented project, any Implementing Partner request for services incurring Direct Project Costs must be documented in: (i) a Letter of Request from the Implementing Partner to UNDP outlining why the services are needed and justifying the exceptional basis for the request. This letter does not need to be project-specific - it may be a generic letter which could apply to all projects if necessary; and (ii) a Letter of Agreement between the Implementing Partner and UNDP, outlining the specific services to be provided and their itemized costs;
   d. The costs of any anticipated or known Direct Project Costs need to be clearly documented in the Project Information Form (PIF for GEF projects) or project concept or proposal (for Adaptation Fund projects) submitted for approval. This should be accompanied by the Letter of Request, and the subsequent Letter of Agreement, when entered into, needs to be annexed to the final project document. Any DPCs requested by an Implementing Partner after GEF CEO endorsement or AFB approval need to be submitted to the GEF Secretariat or Adaptation Fund Board Secretariat, as appropriate;
   e. Direct Project Costs must be within the Project Management Cost/Executions Costs Budget provided to Implementing Partners under GEF and Adaptation Fund projects¹³; and

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¹⁰ For the GEF Council, see paragraphs 32 and 33 of the 42nd Council Meeting Joint Summary of the Chairs regarding the paper, Fee Structure for Agencies, Part I and Part II (GEF/C.42/09, June 2012). For the Adaptation Fund Board, see Decision B.18/30 concerning Implementing Entity Fees as provided in the Report of the Eighteenth Meeting of the Adaptation Fund Board (AFB/B.18/6, August 2012).
¹¹ These requirements also apply to any projects approved BEFORE 7 June 2012 but involve recovery for Direct Project Costs incurred on or after 7 June 2012.
¹² For the GEF, these services are defined in GEF Council paper, Rules and Guidelines for Agency Fees and Project Management Costs (GEF/C.39/9).
¹³ Project Management Costs (PMCs) represent the Implementing Partner’s management costs associated with the unit executing the project on the ground and are included in the project budget. For GEF projects, the GEF Secretariat currently adopts the following approach: PMC shall not exceed 10% of GEF project grant for projects requesting GEF project grants up to $2 million, and shall not exceed 5% of the GEF project grant for projects requesting GEF project grants of $2 million.
f. Eligible Direct Project Costs should not be charged as a flat percentage. They should be calculated on the basis of estimated actual or transaction based costs and should be charged to the separate account code: “74599-UNDP cost recovery charges-Bills” until such further notice is given.

and above. In principle, no PMC will be provided for DIM projects without justification. In exceptional cases where the PMC exceeds the fixed percentage amounts, a justification should be provided on the additional budget needed for the PMC.
Annex 4:

Part 1 - Policy Guidelines for Enhanced and Transparent Project Budgeting and Costing

Part 2 - Draft Implementation procedures for policy on Enhanced and Transparent Project Budgeting and Costing

(not attached here due to file size limitations; should be used only in cases where CO wishes to set up stand-alone DPC project).

21 February 2013