**Guidance Note on Planning and Costing Global Fund (GF) Projects**

1. **Background**
2. In 2002, UNDP entered into partnership with [The Global Fund](https://www.theglobalfund.org/en/) (GF) [[UNDP partnership with GF]](https://www.undp-capacitydevelopment-health.org/en/about-us/partners/global-fund-partnership/) in order to support the implementation of GF-financed projects.The partnership is based on Letters of Exchange between the two organizations (2003) and the [Framework Agreement](https://intranet.undp.org/unit/bpps/hhd/GFpartnership/GFPartnershipTeam/Key%20Basic%20Documents/UNDP%20GF%20Framework%20Agreement_13OCT16.pdf#search=GF%20Framework%20Agreement) (2016). UNDP may serve as the Interim Principal Recipient (PR) in countries facing severe capacity constraints, conflict or post-disaster situations, fragile governance, or other exceptional circumstances.
3. When acting as a GF PR, UNDP shall implement or oversee the implementation of the programme in accordance with UNDP [Regulations and Rules](https://popp.undp.org/node/10796), [Policies and Procedures](https://popp.undp.org/taxonomy/term/76), UNDP Governing Bodies, as well as the terms and conditions of the Grant Agreement (see Article 2, Framework Agreement).

1. **Planning and Costing of GF projects**
2. **UNDP must identify, estimate, and fully cost all necessary project costs when preparing a grant budget[[1]](#footnote-2).** This encompasses all anticipated programmatic and operational inputs, including programme management, quality assurance and policy support activities. This also includes implementation support arrangements by the Country Office (CO), as well as from other COs and Headquarters (HQ) units.

1. **GF project budgets consist of Direct costs and Indirect costs**:
   1. **Direct costs are directly attributable to a project or programme** and should be directly charged to it. These relate to personnel, equipment, project premises, travel, project quality assurance, audit, dedicated surveys, monitoring and evaluation, and any other inputs necessary to achieve the project and programme results. Programmatic and implementation support services needed to carry out activities may be provided by UNDP COs and HQ units.
   2. **Indirect costs are necessary to run the organization and indirectly support the delivery of programmes and projects, e.g. General Management Costs (GMS).** These costs cannot be traced to a particular project in an economically feasible way.
   3. The table below provides information on Direct and Indirect Cost (GMS) types.

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| --- | --- |
| **DIRECT COSTS** | **INDIRECT COSTS**  **General Management Support Fee (GMS)** |
| **Costs that can be directly linked to a particular project, and traced to it in a reasonable and economically feasible way. As per Global Fund cost grouping categories, such costs may include:**   1. **Human resources-related costs:** Cost of Sub-recipients and UNDP Project Management Unit (PMU) personnel (salaries and related allowances), project UNVs and consultants. 2. **Travel-related costs:** Costs of trainings, workshops, meetings, supervisory visits, surveys, advocacy meetings, and technical assistance (transportation, accommodation, DSA, rent, etc.) 3. **External professional services**: Technical assistance fees (consultants/companies), SR external audit fees, all-risk property insurance, motor and fleet insurance; OAI audit costs etc., Capacity Development (CD) and Transition to national PR costs. 4. **Health Products - Pharmaceuticals:** Antiretroviral medicines, anti-tuberculosis medicines, antimalarial medicines, opioid substitutes, opportunistic infections and STI medicines, etc. 5. **Health Products - Non-Pharmaceuticals:** Insecticides, insecticide-treated nets, condoms, rapid diagnostic tests, laboratory reagents, syringes and needles, etc. 6. **Health Products - Equipment:** CD4 analyzer/accessories, HIV viral load analyzer/accessories, microscopes, health equipment maintenance costs, etc. 7. **Supply-Chain Management costs**: Procurement support services and handling fees, freight and insurance, warehouse and storage, customs duty and clearance, in-country distribution, quality assurance and control costs, etc. 8. **Infrastructure costs**: Construction/renovations, furniture, etc. 9. **Non-health Equipment**: IT equipment, vehicles, other non-health equipment including maintenance. 10. **Communication materials and publications costs**: Programme-related campaign costs, TV spots, radio programmes, advertising, media events, education, information dissemination, promotional items, etc. 11. **SR indirect, overheads, and UNDP office and transactional costs**: Rent, electricity, utilities, office maintenance, mail, IT and communication expenses, insurance, fuel, security, cleaning, office supplies, related unrecoverable taxes and duties, and UNDP transactional costs, etc. 12. **Living support to client/target population**: Support to orphans and other vulnerable children, (i.e. school fees, uniforms, books, etc.), food and care packages, cash incentives to patients/counsellors/mediators, micro-loans and micro-grants, etc. 13. **Payment for results**: Results-based financing paid on performance, activity-based contracts, task-based and performance-based incentives. | **Indirect costs in UNDP Global Fund projects is the General Management Support (GMS) Fee and cover the following items, which cannot be directly attributable to a particular project.**  **Organizational costs that are not directly attributable to specific projects or services, but are necessary to fund the corporate structures, management, and oversight costs of the organization:**   * Corporate executive management functions * Corporate resource mobilization functions * Corporate communications advocacy functions * Senior management functions of CO and HQ * Corporate oversight functions (finance, HR, admin, etc.) * Accounting and financial management staff at HQ * Independent corporate oversight functions at HQ * Institutional legal support functions at HQ * HR management of UNDP office staff * Corporate policy guidance functions on procurement and logistics support for headquarters and country or regional offices * Office management, office resource and financial management, HR management (learning, training, recruitment, performance management) * ­Corporate equipment and related maintenance and depreciation; corporate shared resources not directly attributable to a project, such as corporate IT platforms and security, corporate planning, budgeting, reporting and risk management tools     **Cost of programme and policy advisory services provided by UNDP personnel\* for Programme and Portfolio Management & Direction and Oversight of overall project delivery to:**   * Design, formulate and present project documents with substantive workplans and fully costed budgets * Develop performance targets, QA indicators and assessments * Approval of project transactions (advances and expenses) and budget revisions as per internal control framework * Oversight activities to ensure project closures |
| *\*The services can be provided by UNDP personnel in different geographical locations. Please note:*  ***- For UNDP personnel on positions fully (\*\*) funded by core IB and GMS by nature of its function,*** *his/her activities cannot be subject to direct costs**even if some of his/her activities are directly linked to a particular project.*  *-* ***For UNDP personnel at the P5 level or below with senior leadership functions****, his/her activities that are directly linked to a particular project may be charged as direct project costs. However, such activities should be charged judiciously, noting its leadership function.*  *(\*\*) As per the Board document (DP/2013/41) and associated Board decision (DP/2014/2), effective 1 January 2014, all P5 level positions and below level can be multi-funded.* | |

***Direct Costs***

1. **Identification and estimation of attributable direct costs shall be based on full costing** as follows:
2. **Human resources-related costs:** Cost of Sub-recipients (SRs) and UNDP Project Management Unit (PMU) personnel (salaries and related allowances), project UNVs and consultants, .

Budgets for UNDP PMU staff on (PA/FTA/TA), Service Contracts (SC), Individual Contractors (ICs), and UNVs should be based on UNDP proforma costs and the workload “Level of Effort” dedicated to the project. In cases where the position is partially funded by the GF, the staff cost apportionment should be based on Level of Effort dedicated to projects and supported by a workload study. The Chart of Accounts (COAs) in Atlas for the staff position and the SC, UNV holder should reflect the Level of Effort in the approved budget.

1. **Travel-related costs:** Costs of trainings, workshops, meetings, supervisory visits, surveys, advocacy meetings, technical assistance (transportation, accommodation, DSA, rent, etc.)
2. **External professional services:** Technical assistance fees (consultants/companies), SR external audit fees, all-risk property insurance, motor and fleet insurance, OAI audit costs, Capacity Development (CD) and Transition to national PR costs, cost of technical assistance, etc.

**OAI Audit Costs:** UNDP shall charge a lump sum of US$85,000 per country for GF grant audits undertaken by the Office of Audit and Investigations (OAI). If more than one grant is audited in a given year for the same country, the amount will be prorated across the relevant grants. UNDP HQ will advise Country Offices (COs) of the OAI audit plan and the amount prorated to the grants. OAI audits should be budgeted as follows:

1. **High-risk countries**: US$85,000 in audit costs once in two years. Budget timing should correspond to the last OAI audit report date for GF programmes. For example, if a high-risk country was last audited in 2018, COs must budget audit costs for 2020, 2022, etc.
2. **Medium-risk countries**: US$85,000 once in three to four years.
3. **Low-risk countries**: US$85,000 once in four to five years.
4. **In all cases, should a country not be audited in a particular year**,the audit budget should be rephased to the following year, until an OAI audit takes place.
5. **In the event of an “unsatisfactory” OAI audit rating**, a follow-up audit will take place the subsequent year as per UNDP guidelines. The CO should therefore request a budget reallocation to cover the costs of the follow-up audit(s).
6. **UNDP will review audit costs** and reprogram the savings in the first quarter of the final year for the implementation period of the respective grant. If the reprogrammed amount is non-material, the CO can proceed with the reprogramming. However, if the reprogrammed amount is material in accordance with thresholds applied by the GF, this should be approved by the GF.
7. **OAI updates the risk ratings per country** annually during the fourth quarter.
8. **For countries with more than one grant agreement**, the costs should be apportioned across the respective grant budgets based on the total signed grant amounts.
9. **For active grants that do not have an OAI audit budget line**, COs shall reprogram the savings to include the audit costs in the respective grant budgets and the cash forecast for the annual disbursement request. If the reprogrammed amount is non-material, the CO can proceed with the reprogramming. However, if the reprogrammed amount is material, in accordance with thresholds applied by the GF, this should be approved by the GF.

**Capacity Development (CD) and Transition to national PR costs**: UNDP provides technical assistance to national entities to prepare them to assume the role of PR. UNDP HQ will charge a lump sum of US$50,000 per country for technical assistance. Such technical assistance is governed by capacity development plans (or “transition plans”) approved by the respective Country Coordinating Mechanisms (CCMs) and/or the GF.

1. **UNDP Country Offices that have a capacity development and transition plan** and are under implementation should budget the US$50,000 annually.
2. **If a country has more than one grant,** the amount will be prorated across the relevant grants. UNDP HQ will determine the basis of the annual charges for CD and will notify COs accordingly.
3. **UNDP Country Offices that do not have a CD budget** shall reprogram the savings to include technical assistance costs in the respective grant budgets, and the cash forecast for the annual disbursement request. If the reprogrammed amount is not material, the CO can proceed with the reprogramming. However, if the reprogrammed amount is material in accordance with thresholds applied by the Global Fund, this should be approved by the Global Fund.

Technical assistance is knowledge transfer or capacity-building through the provision of human and other resources (national, regional and international experts and/or consultants), that help improve strategic planning and implementation of programmes, and/or address specific technical and systems gaps.

**Technical assistance provided by HQ and regional staff that directly impacts development results may be included in the grant budget under cost grouping related to technical assistance.** Technical assistance related to programme or policies, knowledge transfer, expertise, and capacity development should be classified as “consultants” and managed with internal invoicing mechanisms. It should not be considered human resources costs. COs should document the following:

a. Expected outcome, deliverables, and nature of activities;

b. Justification for using internal personnel instead of hiring externally;

1. Estimated costs, in view of obtaining value for money.
2. **Health Products - Pharmaceuticals:** Antiretroviral medicines, anti-tuberculosis medicines, antimalarial medicines, opioid substitutes, opportunistic infections and STI medicines, etc.
3. **Health Products - Non-Pharmaceuticals:** Insecticides, insecticide-treated nets, condoms, rapid diagnostic tests, laboratory reagents, syringes and needles, etc.
4. **Health Products - Equipment:**  CD4 analyzer/accessories, HIV viral load analyzer/accessories, microscopes, maintenance costs, etc.
5. **Supply-Chain Management costs**: Procurement support services and handling fees, freight and insurance, warehouse and storage, customs duty and clearance, in-country distribution, quality assurance and control costs, etc.
6. **Infrastructure costs**: Construction/renovations, furniture, etc.
7. **Non-Health Equipment**: IT equipment, vehicles, other non-health equipment maintenance costs, etc.
8. **Communication materials and publications costs:** Program-related campaigns, TV spots, radio programmes, advertising, media events, education, information dissemination, promotional items etc.
9. **SR indirect, overheads, and UNDP office and transactional costs:** Rent, electricity, utilities, office maintenance, mail, IT and communication expenses, insurance, fuel, security, cleaning, office supplies, related unrecoverable taxes and duties, UNDP transactional services, etc.

**UNDP General Operating Expenses shall be costed and budgeted based on the best estimate** of the latest costs for identifiable inputs to the project. Charges to the grant should be based on actual costs for services provided. The relevant general operating expenses should be budgeted, verifiable, and itemized with total costs and assumptions. They should show quantities, unit costs, rationale, and method of expense allocation. These costs typically include PMU-related operating expenses, such as office supplies, insurance, telephones, mail/courier, common shared costs (rent, security, utilities, office maintenance, IT, communications, UN dispensary/clinic), and apportioned based on project personnel and/or PMU office space. **The CO must be consulted when budgeting for local common shared security**. This will ensure inclusion of all foreseen costs, both recurring and one-off investments, such as security fences.

The same methodology for budget apportionment of shared activities in the latest approved grant budget should be applied for expenditure apportionment. The project’s share of the actual costs can be charged to the project and reported to the GF; not the budgeted amount.

**For UNDP transactional services, offices should use the Universal Price List (UPL) and/or Local Price List (LPL)** to estimate and charge transaction costs for support services (financial transactions, procurement, recurring human resources management and staff entitlement processing, logistics support, travel, event management, etc.) for projects. In cases where the PMU staff process the payments and submit to CO finance for the pay cycle, the CO may recover the service fee in the UPL for “issue check only”, and not the full-service fee for “payment process”. If the services are provided by the GSSU, then the full-service fee can be charged.

**Indirect cost recovery (ICR) for Sub-Recipients.** When UNDP is PR for a GF grant, it engages SRs to implement various components of the grant. SRs can be UN Agencies, International Non-Governmental Organizations (INGO), or Local Non-Governmental Organizations, as well as Government Ministries. UNDP manages the entire programme, including the full budget for components implemented by UNDP as PR and its SRs. **The indirect cost recovery for SRs include**:

* 1. **UN Agency SRs** should budget the GMS rate as approved by the UN Agency Executive Board, except for UN Agencies that have separate agreements with the GF to charge a maximum of 7% GMS.
  2. **INGO SRs** may budget a percentage-based GMS fee for services provided by HQ and/or Regional Offices in the implementation of grants. The SR can charge a maximum 5% indirect cost recovery fee to the grant, and 7% indirect cost recovery fee for countries under the GF Additional Safeguard Policy (ASP). Additionally, INGO SRs can charge for support services directly attributable to the grant activities.
  3. **Local NGO SRs** should budget all costs associated with the implementation of programme activities as direct charges to the grant. On an exceptional basis, the GF may authorize the budgeting and charging of a percentage of direct costs as indirect cost recovery of the relevant local NGO. This can be authorized when the NGO implements programmes supported by several donors and can demonstrate transparent cost recovery. There should be no duplication of costs covered by the percentage GMS fee and other administrative costs of the SR. The local NGO SR can charge a maximum 3% indirect cost recovery fee to the grant, and 5% indirect cost recovery fee for ASP countries.

1. **Living support to client/target population**: Support to orphans and other vulnerable children (OVC), i.e. school fees, uniforms, books, etc.), food and care packages, cash incentives to patients/counsellors/mediators, micro-loans and micro-grants, etc.
2. **Payment for results**: Results-based financing paid on performance, activity-based contracts, task-based and performance-based incentives.

***Indirect Costs – General Management Support (GMS) Fee***

1. **UNDP recovers GMS costs from projects and programmes funded wholly or partially by other resources including the GF, through a percentage fee.** This relates to indirect costs for GF financed projects, where UNDP is PR, Fund Administrator, CCM Funding Recipient, Constituency Funding Recipient, and providing technical assistance to Global Fund implementers. UNDP made an exception to the joint decision of the UNDP, UNICEF, UNWOMEN, and UNFPA Executive Boards, to maintain the 7% GMS rate for GF grants.
2. **COs cannot negotiate this corporately agreed 7% GMS rate computed at total direct costs.** GMS shall be categorized as indirect costs and included as a budget line for all grants at 7%. GMS is not intended to cover costs of services needed for implementing GF projects.
3. **GMS Fee Set-up and Collection** policies and definitions are provided in the [POPP Resource Planning and Cost Recovery section](https://popp.undp.org/taxonomy/term/116).

**C. Compliant Grant Expenditures**

1. The Framework Agreement dated 13 October 2016 states:

“*In the case of any disbursement of the Grant that is not made or used in accordance with the relevant Grant Agreement, or that finances goods or services that are not used in accordance with the relevant Grant Agreement, the Global Fund, notwithstanding the availability or exercise of any other remedies under the Grant Agreement, may require the Principal Recipient to refund the amount of such disbursement*”.

1. **Non-compliant expenditures/transactions may include**:
2. **Unsupported expenditures**: Missing or insufficient supporting documents, missing or inappropriate authorizations, and shared costs not justified;
3. **Expenditures incurred outside of the grant scope or period**: Goods/services not included in the approved work plans and budget, material budget adjustments lacking prior GF approval, expenditures incurred outside of the implementation or closure period;
4. **Expenditures compromised by prohibited practices**: Diversion of assets, procurement irregularities or non-compliance with UNDP procurement procedures, fraudulent and corrupt practices, disregard for efficiency or value for money;
5. **Other types of non-compliant expenditures may include:** Recoverable duties and sales tax/VAT, use of interest/other revenue without prior GF approval.

**D. Causes for expenditures to be rendered non-compliant**

1. **Failure to differentiate between GMS and direct costs, and to provide clarity on no duplication of costs**:

**Budget assumptions for UNDP services should be detailed and itemized to demonstrate no duplication of charges**. e.g., the different security charges include:

* + 1. **General Assembly-mandated security budget managed by HQ:** This contribution should be included in the pro forma costs for staff and SC holders. These are charged as a percentage of staff costs (PA/FTA/TA), Service Contract holders (SC), Individual Contractors (ICs), and UNVs. These costs are part of staff and SC proforma costs, and should thus be budgeted under Human resources-related costs.
    2. **The local common shared security budget:** This contribution to the common shared security budget is managed by the CO. These costs should be budgeted under operational expenses.

1. **Implementation support activities or transaction services should be properly justified in the budget assumptions.** The number of project personnel in the PMU will depend on the implementation arrangements and available budget. Costs must be identified upfront, e.g. if the PMU cannot perform Internal Control Framework functions such as pay-cycle, human resources (HR) administration, procurement through Contracts, Assets and Procurement Committee (CAP), Regional Advisory Committee on Procurement (RACP), or Advisory Committee on Procurement (ACP). If the project budget includes a procurement specialist to run all procurement processes then the CO should not charge for it, unless quality assurance over the process is provided and justified.
2. **COs should carefully identify direct costs** during grant making. The most commonly overlooked transactional services are for financial transactions, procurement, recurring human resources administration, and staff entitlement processing, logistical support, travel, or event management.
3. **Budgets cannot be prepared with lump sums for services to projects**. The GF may not accept budgets without clear assumptions, justification, and means of verification. UNDP should itemize direct costs by nature, showing total costs with detailed assumptions, quantities, unit costs, as well as the rationale and method behind the fair allocation of costs. The same methodology used in the budget assumptions should be used for the apportionment of actual expenditure.
4. **Percentage charges for project services not compliant with UNDP corporate policy on cost recovery.** In most cases, direct costs should be charged on actual costs and not as a percentage. e.g., implementation support activities should be charged based on the number of services provided and applicable fees in the UPL/LPL. Exceptions include procurement support services fees.

1. Budget Templates for the 2021-2023 funding cycle: [Link](https://intranet.undp.org/unit/ofrm/Financial%20Resource%20Management%20Policies/Forms/fba_other.aspx?RootFolder=%2Funit%2Fofrm%2FFinancial%20Resource%20Management%20Policies%2FGF%20TEMPLATES&FolderCTID=0x0120009837A6491BE4B440B59E74738CBA3637&View=%7B59C889D5%2DEC75%2D4ACD%2DACDC%2D55F493D6CC3D%7D) [↑](#footnote-ref-2)