**Annex 5. Update on General Management Services (GMS) cost recovery waivers**

1. The Executive Board in its decision 2013/9 endorsed “*a general, harmonized cost recovery rate of 8 per cent for non-core contributions*,” and further endorsed the following differentiated cost recovery rate structure: *“(a) a harmonized 1 per cent reduction for the thematic contributions at the global, regional and country level in UNDP, UNFPA and UNICEF (8 per cent - 1 per cent = 7 per cent), with the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) maintaining the 8 per cent as a temporary arrangement; and (b) maintaining the existing preferential rates for government cost-sharing, South- South contributions and private-sector contributions.”*

1. In the same decision, the Executive Board also decided that on an exceptional basis, and when the urgency of the circumstances requires, “*the Administrator of UNDP and the Executive Director of UNFPA may consider granting a waiver of the cost-recovery rates on a case-by-case basis, taking into account specific priorities, modalities that incur lower management costs, and harmonization goals, and that the Executive Board will be informed of these waivers in the annual financial reports*;”
2. Consistent with decision 2013/9, UNDP has annually reported to the Executive board on the cost recovery waivers through the successive annual reviews of the financial situation as well as the cumulative review of the UNDP integrated budgets. In addition, UNDP continues to work closely with UNFPA, UNICEF, and UN-Women, on the topic of cost-recovery. Most recently, at the second regular session of the Executive Boards in September 2018, the four agencies have jointly reported on this topic to the Executive Boards.
3. In the decision 2018/21 of the Executive Board in September 2018, the Executive Board requested *“UNDP and UNFPA, together with UNICEF and UN-Women, to reduce the granting of waivers lowering the agreed cost-recovery rates and to provide an update on the steps taken in this regard, including on the application of waivers across their organizations, to the Executive Board at its annual session in 2019*”.
4. UNDP makes every effort to apply the Executive Board decision (2013/9) regulating the General Management Services (GMS) cost recovery rate applied to non-core programme expenses, to recover the costs incurred by UNDP in managing programmes funded from non-core resources. Whilst infrequent, GMS waivers continue to be demanded by funding partners. UNDP considers carefully all demands by funding partners for waivers, and has agreed to such demands only in exceptional cases where the project funding would otherwise be at risk, negatively impacting UNDP’s ability to help programme countries to achieve development results.
5. Accordingly, information on GMS waivers is presented in this addendum in two segments:
6. GMS waivers issued in 2018; and
7. GMS waivers issued prior to 2018 for activities on-going in 2018
8. Separate from the above referred GMS waivers, this addendum also sets out framework agreements with multilateral funding partners where GMS rates were agreed below the current 8% GMS rate.
   * 1. **GMS waivers issued in 2018**
9. During 2018, five new waivers were granted, as listed below with financial impact of $1.2m (which represents half of a per cent of the overall level of GMS of $239 million in 2018):

**a.    Three one-time waivers to a reduced GMS fee:**

1. A reduced (5 per cent) fee for a contribution to the "UN Yemen Humanitarian Response Plan 2018 (YHRP);
2. A reduced (7 per cent) fee for a contribution to the "Yemen Humanitarian Pooled Fund / Emergency Cash Payments & Civil & Military Coordination in Hodeidah";
3. A reduced (7 per cent) fee for a contribution to the "Yemen Humanitarian Pooled Fund / Emergency Mines Action - Hodeidah";

**b.    Two waivers to a reduced GMS fee in renewal of a previous waiver:**

1. A reduced (5 per cent) fee for a contribution to "Country-Based Pooled Funds” in Democratic Republic of the Congo;
2. A reduced (7 per cent) fee for a contribution to “Social Local Development Programme – ART GOLD-North” in Lebanon.

The financial impact of these five waivers granted in 2018 is summarized below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Project** | **GMS rate** | **Funding partner** | **Financial impact of GMS waived** | **Justification** |
| UN Yemen Humanitarian Response Plan 2018 (YHRP) | 5% | UNOCHA | $363,295 | Scale of Funding |
| Yemen Humanitarian Pooled Fund / Emergency Cash Payments & Civil & Military Coordination in Hodeidah | 7% | UNOCHA | $15,471 | UNOCHA stipulates 7% GMS for the Humanitarian Pooled Fund. |
| Humanitarian Pooled Fund / Emergency Mines Action - Hodeidah | 7% | UNOCHA | $9,920 |
| DRC - Country Based Pooled Funds | 5% | MPTFO | $837,685 | UNOCHA stipulates 5% GMS for their pooled funds. |
| Social Local Development Programme - ART GOLD-North in Lebanon | 7% | Agency for Sustainable Mediterranean Cities and Territories | $145 | Final extension relating to the final tranche of previous arrangement |
| **Total impact:** | | | **$1,226,516( 0.5% compared to 2018 GMS of $239m in 2018)** |  |

1. **GMS waivers issued prior to 2018 for activities on-going in 2018**
2. In addition to the above, two further projects with reduced GMS rates were ongoing in 2018 where the donors have insisted on retaining the previously agreed GMS rates:
   1. A reduced (4 per cent) fee was applied for a contribution from Global Fund for "Commitment Towards Fast Tracking 90-90-90 Targets and Ending AIDS by 2030" in Zimbabwe, as previously reported in the annexes to the Annual review of the situation, 2017 (DP/2018/19); and
   2. A reduced (4 per cent) fee was applied for contributions to "Law & Order Trust Fund for Afghanistan – MOIA (Ministry of Interior Affairs) Afghanistan Development Outcome – Capacities for reform and accountable and efficient MOIA management and oversight are improved with integrated civilian and uniformed leadership and management and Support to payroll management”, as previously reported in the annexes to the Annual review of the financial situation, 2015 (DP/2015/26).

The financial impact of these two waivers in 2018 is summarized below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Project** | **GMS rate** | **Funding partner** | **Financial impact of GMS waived** | **Justification** |
| "Commitment Towards Fast Tracking 90-90-90 Targets and Ending AIDS by 2030" in Zimbabwe (Approved in 2017) | 4% | GFATM | $3,518,566 | Project size and scale |
| "Law & Order Trust Fund for Afghanistan – MOIA (Ministry of Interior Affairs)” (Approved in 2014) | 4% | Multiple donors, see details below: | Total: $14,635,077 | Project size and scale, with annual delivery of $391m in 2018 |
|  |  | Government of Japan | $4,673,636 |  |
|  |  | European Commission | $1,643,704 |  |
|  |  | Government of Germany | $2,969,172 |  |
|  |  | Government of Italy | $2,373,257 |  |
|  |  | Government of the United Kingdom | $1,775,929 |  |
|  |  | Government of Australia | $546,695 |  |
|  |  | Government of Norway | $222,696 |  |
|  |  | Government of Republic Of Korea | $151,977 |  |
|  |  | Government of New Zealand | $87,692 |  |
|  |  | Government of United States of America | $41,248 |  |
|  |  | Government of Croatia | $38,462 |  |
|  |  | Government of Switzerland | $34,487 |  |
|  |  | Government of Netherlands | $29,372 |  |
|  |  | Government of Estonia, Republic | $19,135 |  |
|  |  | Government of Afghanistan | $14,282 |  |
|  |  | Government of Poland | $11,108 |  |
|  |  | Government of Romania | $2,226 |  |
| **Total Impact:** | | | **$18,153,643** |  |

1. A summary of the GMS waivers approved in the last three years with the associated financial impact is set out in the below table. It indicates that over the 2016-2018 period, both in the number of waivers granted and in the financial impact of the GMS waivers granted in these years there has been a notable decline – from 12 to 5 (7 fewer waivers – almost 60% drop) and from $3.7 million to $1,2 million ($1.5 million reduction in financial impact – an 66% drop). The table also indicates that there has been a slight increase in the financial impact of GMS waivers granted in previous years- from $17.0 million in 2016 to $18.2 million in 2017 ($1.2m increase in financial impact – a 7% increase in the impact). The latter reflects donor reluctance to agree to higher cost recovery rates relating to previously signed contribution agreements, noting that the development activities are already in progress – in some cases over multiple years.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2016** | **2017** | **2018** |
| **Number of GMS waivers granted:** | 12 | 6 | 5 |
| **Financial impact of GMS waivers:** |  |  |  |
| *Impact of GMS waivers which were granted in the year:* | $3,673,980 | $12,075,664 | $1,226,516 |
| *Impact of GMS waivers which were granted in previous years:* | $16,974,697 | $17,127,497 | $18,153,643 |
| ***Total financial impact*** | **$20,648,677** | **$29,203,161** | **$19,380,159** |

**Framework agreement with multilateral funding partners**

1. In addition to the GMS waivers detailed in the first section of this addendum, there are a number of framework agreements with multilateral funding where GMS rates have been agreed below the 8% rate. In 2018, contributions from the European Commission, UNOCHA/CERF, the UN Trust Fund for Human Security (UNTFHS), Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), Global Environmental Fund’s small grant programme, Montreal Protocol, and other UN entities were received at GMS rate below the 8% rate. As per the policy on fee structures for accredited entities of the Green Climate Fund (GCF), all projects/programmes except micro-size projects will be subject to the cost recovery rate below 8%. In 2018, there is no financial impact. The financial impact of the framework agreements with reduced cost recovery rates is summarized below:

|  |  |  |
| --- | --- | --- |
| **Funding Partners** | **GMS Rate applied** | **Financial impact of the reduced cost recovery rate in 2018** |
| European Commission | 7% | $2,174,735 |
| Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) | 7% | $1,977,110 |
| Montreal Protocol | 7% | $431,015 |
| UNOCHA/CERF | 7% | $66,847 |
| UN Trust Fund for Human Security (UNTFHS) | 7% | $23,099 |
| Green Climate fund (Small, Medium or Large size projects) | 4%-7% | 0 |
| Global Environmental Programme - Small Grant Programme | 4% | $1,816,037 |
| Funds received from other UN Agencies with lower than 8% GMS: |  |  |
| UN | 7% or below | $6,901 |
| UNICEF | 7% or below | $7,949 |
| UNFPA | 7% or below | $2,228 |
|  |  | **$6,505,921** |