**Guidance Note on GMS (Indirect Costs) for International Financial Institutions**

UNDP applies the harmonized rates for cost recovery as approved in 2013 by the Executive Board, in decision 2013/9. The decision, applicable to UNDP, UNICEF, UNFPA and UNWOMEN, established a harmonized rate for non-core contributions from third parties of a minimum of 8% GMS. The decision also maintained existing preferential rates, including those for government financing.

Effective 11 June 2020, the guidance below sets out the approach to applying the harmonized cost recovery rates for development financing provided by the International Financial Institutions (IFIs).

For IFIs, a GMS rate of 8% applies. A preferential rate of 5% GMS may be applied to financing agreements with IFIs where both of the following criteria apply:

1. UNDP anticipates to sign financing agreements of $50m or more in a year with funding provided by the IFI, including through respective national governments; and
2. The financing agreement is predominantly to support the government’s implementation of sovereign loan or credit guarantees.

Where the financing agreement is to provide grant funding for implementation directly by UNDP, for example within a country where the IFI cannot lend or provide funds directly to the national government, this is not considered government financing and therefore not eligible for the preferential rate. The GMS rate of 8% applies.

The rates should be clearly communicated to each IFI, so they are aware of the standard and the preferential rate applicable for a volume of signed agreements at $50m or more in the year. The incentive of a preferential rate may help build and maintain volume.

Further details of the application of the above two criteria is set out below.

1. **The application of annual volume expectations**

A pragmatic approach is to be applied to determine the expected annual volume of signed financing agreements financed by the IFI of $50m or more within the year, and thus to determine one requirement of eligibility for the preferential rate of 5% GMS.

The expected annual volume of $50m or more within the year may be determined in many ways:

1. Through a framework agreement, MOU or other form of documentation which establishes a commitment of the expected volume of partnerships annually;
2. Through a partnership planning meeting, where the minutes of the discussion indicate a reasonable expectation of the volume of agreements; and/or
3. Cumulative global pipeline (class A and class B[[1]](#footnote-1)) for the year and financing agreements already signed that indicate a reasonable expectation of the volume of agreements.

If the expected annual volume of $50m or more is not reached, the existing EB approved indirect cost recovery rate of 8% will be applied to future contribution agreements financed by the IFI.

Whichever basis of determining the annual volume is applied, it needs to be documented and communicated to BERA and BMS. This documentation also needs to be shared with BMS/GSSU with any subsequent eligible contribution agreement, to enable them to record the agreements at the preferential GMS rate. For ease of calculation, the year of the annual volume may be calculated prospectively from the date of the establishment of the expected volume of partnerships.

IFI partners with annual financing volumes smaller than $50m will not be eligible for the preferential rate. The existing GMS rate of 8% applies.

1. **Eligible financing agreements**

The preferential rate is applicable to UNDP loan or credit guarantee implementation support to national governments, and aligns with the preferential rate applied by some other funds and programmes. Typically, the national government is required to repay the loan, including the costs of UNDP support activities. Funds are usually provided by the IFI to the national government, which then provides the funds to UNDP. This is often referred to as indirect financing.

The preferential GMS rate is not applicable to grant financing provided by IFIs. Some IFIs provide grant funding directly to UNDP, of which there is no repayment requirement by the national government. This is often called direct funding. Grant financing is subject to the existing EB approved recovery rate of 8%.

In some cases, the IFI financing may contain a mix of both loan and grant financing. Provided the finance is predominantly loan/credit financing (e.g. over 50% of the total finance provided by the IFI), it may be eligible for the preferential rate.

The above preferential rates assume that adequate and full direct costs of programming would be paid by the funding partner(s).

**Exceptions:**

1. Grant Financing: In some cases, projects require a mix of loan and grant financing from IFIs, third parties or programme governments. The grant financing may be provided by other third-party donors, such as the European Commission (EC), to cover some of the costs of UNDP’s loan support (such as GMS). In these cases, the agreed corporate rate for that donor will apply to the grant financing.
2. The European Investment Bank (EIB): An exceptional GMS rate of 7% applies to the EIB, in alignment with the preferential rate applicable to the EC. The EIB does not provide grants and will require all indirect costs of loan support to be funded by third parties (likely the EC, which is expected to be the main source of funding for UNDP’s loan implementation activities, or programme governments). If these costs are funded by programme governments, the preferential GMS rate of 5% would apply.

UNDP attracts loan implementation support funding due to its ability to mitigate risks and meet the IFIs’ stringent assurance standards, which makes IFI implementation more costly. All offices must ensure that direct costs are reasonable, and risks carefully managed. To help mitigate risks, IFI funded projects should be directly implemented by UNDP (DIM) or full country office support to national implementation (NIM).

1. Class A pipeline includes projects that have confirmed funding and are ready to be launched within 3 to 6 months. Class B pipeline includes projects that do not have confirmed funding but are likely to reach Class A maturity and be launched within 6 to 12 months. [↑](#footnote-ref-1)