**Direct Project Costs**

**2.1** Direct project costs (DPC) are organizational costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity (projects & programmes) or service. Therefore, these costs are included in the project budget and charged directly to the project budget for the development activity and/or service.

**2.2** The primary objective of DPC is to reflect in the appropriate project budget the true direct costs of achieving the development results and objectives funded from regular (core) and other (non-core) programme resources. DPC together with GMS, which covers the organisations’ costs in support of its corporate structure, enables full implementation costs to be reflected and fully costed to the projects by UNDP for the implementation of its development activities and services.

**2.3** With respect to development activities, DPC is used to budget for and recover the costs of activities that fall under the following two harmonized cost classification categories, and five sub categories (see Table 1 below for cost classification category descriptions) which should all be charged as ‘direct costs’ to programmes and projects.

1.     **Programme Activities:**

1a) Dedicated support embedded in development programmes and projects;

1b) Implementation and implementation support activities; and

2.     **Development Effectiveness Activities:**

2a) Strategic Country Programming;

2b) Formulation/management of project pipelines/new business development;

2c) Programme policy advisory services

**Table 1: Cost classification category descriptions and applicable funding sources of organizational costs**

| **Cost Classification Categories**  **(including staff positions)** | | **Applicable funding sources of organizational costs (including staff positions)** | | |
| --- | --- | --- | --- | --- |
| **Core Institutional Budget** | **GMS (through XB)** | **Project funds (including agency funds in category 3)** |
| **1.      Programmes activities** | 1a – Dedicated support embedded in development programmes and projects         1b – Implementation and implementation support activities | No                  No | No                 No | Yes                  Yes |
| **2.     Development effectiveness activities** | 2a - Strategic Country       Programme Planning and       Quality Assurance                 2b- Programme Pipeline Development and Management             2c- Programme Policy Advisory Services | Yes                      Yes                  No | Yes, on a transitional basis. To be phased out by end of 2016                Yes, on a transitional basis. To be phased out by 2016            No | Yes, to be phased by end of 2016 in over 2014-2016 parallel to GMS being phased out             Yes                  Yes |
| **3.     United Nations Development Coordination activities** | 3a- UN System Coordination & Representation           3b- Operational Support and Services to the UN System | Yes            Yes | No             No | Not at the country level        Billing based on UPL/LPL to projects and UN Agencies |
| **4.      Management activities** | 4a -Leadership and Country Representation         4b- Programme Direction and Accountability         4c- Operations Management & Administration | Yes              Yes              Yes | Yes             Yes             Yes | No              No              No |

**2.4** DPC are driven either by Programme implementation  and implementation support activities **(cost categories 1A and 1B in Table 1 above)** and Development Effectiveness **(cost category 2C in Table 1 above):**

        **Programme implementation  and implementation support activities**  - these are costs incurred by UNDP to support project implementation by Operations units, including services related to finance, procurement, human resources, administration, issuance of contracts, security, travel, assets, general services and information and communications technology. The degree of such support depends on the implementation arrangements agreed to with the national government i.e. National Implementation (NIM), Country Office support to NIM or Direct Implementation (DIM). These were previously defined in UNDP as Implementation Support Services (ISS).

        **Development Effectiveness** – these are activities and costs that support programme quality, coherence and alignment and relate to results in country and at regional levels. These are activities of a policy-advisory, technical and implementation nature essential to deliver development results. In UNDP Country Office, these are the costs associated with Programme Units and Programme Support Units. Development Effectiveness costs applies to all regular (core) and other (non-core) programmes and projects.

**Planning and Costing of Direct Project Costs**

**2.5** Direct project costs shall be identified during the [project initiation phase](https://info.undp.org/global/popp/ppm/Pages/Initiating-a-Project.aspx).  All anticipated programmatic and operational inputs, including development effectiveness activities and implementation support arrangements, need to be identified, estimated, and fully costed during the preparation of the project budget and Annual Work Plan.

**2.6** Services that will result in DPC need to be disclosed transparently and agreed to by all concerned parties, and clearly included in the Project Document and Annual Work Plan as an integral input to the project (refer to Annex  for a sample development output project budget with direct project costs)

**2.7** Based on the project’s planned results, the project manager must estimate the full cost of all the resources and capacities required (policy-advisory, technical or implementation services i.e. finance, procurement, human resources, security, travel, assets, general services and information and communications technology) for incorporation in the budget. The planning and identifying of direct project costs are to be guided by the following principles:

     **Value added**: Inputs must be used for the purpose of achieving the objectives of the project and its expected development results, in a manner consistent with the principles of economy, efficiency and effectiveness

     **Valuation** of attributable costs shall be on the basis of full costing in accordance with prevailing UNDP policies:

-   **Personnel costs** can be based on a) estimated staff costs based on UNDP [pro-forma cost tables](https://info.undp.org/unit/bom/opb/Documents/Forms/AllItems.aspx?RootFolder=/unit/bom/opb/Documents/Position%20Management/Pro-forma%20Costs&FolderCTID=0x0120009F6D35E3C022EB42AF0083F759479FA0&View=%7bAA4745F4-22B8-4B09-BCD6-BD89100925AF%7d), or b) actual contracted personnel costs, where non-staff contractors are required.

-   **General Operating Expenses** shall be costed and charged based on the actual costs for identifiable inputs to the project. These costs typically include annual recurring operating expenses directly associated with the staff and personnel, such as a percentage share of the office rent and security, utilities and maintenance, communications expenses, supplies, information communications, technical system support expenses etc.

-   All costs that contribute directly to the achievement of development results shall be directly included in the budgets of relevant regular (core) and other (non-core) programmes and projects.

-   For transactional services, offices may opt to use the Universal Price List (UPL) and Local Price List (LPL) to estimate transaction costs for support services rendered to projects.

**DPC and Project Implementation Modalities**

2.8 The operational scope and legal context of DPC will depend on the following two implementation modalities of development projects:

-        [The Direct Implementation Modality (DIM), or](https://info.undp.org/global/popp/frm/pages/financial-management-and-execution-modalities.aspx)

-[The National Implementation Modality (NIM):](https://info.undp.org/global/popp/frm/pages/financial-management-and-execution-modalities.aspx)

-        Support to National Implementation

-        UNDP as Responsible Party

2.9 Once the implementing partner and implementation modality has been selected, the Country Office Programme Manager shall identify the types and degree of support required from the country office to complement the selected [implementing partner’s capacities.](https://info.undp.org/global/popp/ppm/Pages/Defining-a-Project.aspx#TemplatesForms) In this regard, directly attributable costs associated with the required support to be provided by the country office will be funded through DPC.

2.10     All costs under the 2a, 2b and 2c sub-categories of the cost classification are incurred by UNDP regardless of implementation modality, and therefore apply regardless of the project implementation modality.

**DPC in development projects under the Direct Implementation Modality (DIM)**

2.11As an implementing partner, UNDP is responsible for any services provided under such agreements and is entitled to the reimbursement of full costs for these service provisions.

2.12On DIM projects, country offices may provide a wide range of support. The Programme Manager identifies the support required and the associated costs and reflects these into the project budget for subsequent funding approval with relevant parties (i.e. donors, government).

2.13DPC for development effectiveness, programme and implementation support services are negotiated during the project formulation phase and included in the project budget. The nature and scope of these is contained in the annexes to the project document or CPAP.

**DPC in development projects under the National Implementation Modality (NIM)**

2.14 The specific DPC arrangements will depend upon whether or not UNDP provides country office support to NIM, or whether or not it is an implementing partner. In all scenarios full cost recovery is required, covering both direct and indirect costs incurred.

                                           i.     NIM projects -  with no UNDP Country Office Support

2.15 The selected implementing partner is responsible for all aspects of project implementation. The programme country government has the technical and administrative capacity to assume the responsibility for mobilizing and applying effectively the required inputs in order to reach the expected outputs without any implementation support from UNDP. However, the activities related to development effectiveness must nonetheless be charged as direct project costs. For example, the activities of the Programme Officer that relate to programme level monitoring, alignment of project inputs to country programme outcomes and the facilitation of NIM audits.

                                         ii.     NIM projects - with UNDP Country Office Support

2.16 UNDP may also be called upon by the national implementing partner to provide certain services without being designated as a responsible party.  These services may include certain services that may normally be undertaken by the implementing partner such as:

        Identification and recruitment of programme or project personnel;

        Organizing training activities;

        Procurement of goods and services; and/or

        Payments on behalf of the implementing partner.

2.17 Implementation support to NIM can only be provided at the request of the programme country government. When this occurs, UNDP will recover the cost of these services by ensuring they are fully charged to the project or programme, and agreed with the government counterpart.  Furthermore, in these cases, the nature and scope of the services must be described in annexes to the project document or CPAP and an agreement signed between the UNDP office and the designated national partner.   In this case, the project budget will have to carry DPC and reflect UNDP as a responsible party (implementing agent).

**DPC in the National Implementation Modality (NIM), UNDP as Responsible Party**

2.18 In the context of NIM, the government entity directly concerned with the overall implementation of a project is the *implementing partner.* However, UNDP can be designated as a *responsible party* for a certain output/result within this broader context.  A responsible party is defined as an entity that has been selected to act on behalf of an implementing partner on the basis of a written agreement or contract to purchase goods or provide services using the project budget

 2.19 When UNDP is acting as a responsible party, it may also provide services beyond the purchase of goods of services to include carrying out activities and producing development outputs (development effectiveness activities).  When UNDP is designated as a responsible party in the context of NIM, it is required to identify in the letter of agreement signed with the implementing partner that all costs associated with its role are integrated into projects & programmes as direct inputs (DPC).

**DPC Implementation Methodologies**

2.20 There are three main options for implementing Direct Project Costing. The flexibility to determine which option to use rests with the respective country office.  Furthermore, a combination of all three methodologies may be used as determined by the office needs.

**1.     Application of the CO workload study results, combined with multiple funding lines for posts:** This is the preferred modality as there is a minimal transactional burden on the COs. By using the multiple funding lines for posts, most of the costs are attributed 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. See [POPP Guidelines for Using the Results of the Workload Survey for the Implementation of Direct Project Costs](https://info.undp.org/global/popp/frm/Pages/Guidelines-for-Using-the-Results-of-the-Workload-Survey-for-the-Implementation-of-Direct-Project-Costs.aspx)and [POPP Multiple Funding Lines for Positions](https://info.undp.org/global/popp/frm/Pages/Multiple-Funding-Lines-for-Positions.aspx)[.](https://info.undp.org/global/popp/frm/Pages/Multiple-Funding-Lines-for-Positions0428-8999.aspx)

**2.     Application of the Universal Price Lists (UPL) or Local Price List (LPL) for transactional costs recovery:** This option may be preferred where staff are providing services towards a full range of country office projects (as opposed to programme staff who typically support a narrower portfolio of limited projects). See [POPP Use of the Universal Price List (UPL) or Local Price List (LPL) for Attributing Direct Project Costs](https://info.undp.org/global/popp/frm/Pages/Use-of-the-Universal-Price-List-%28UPL%29-or-Local-Price-List-%28LPL%29-for-Attributing-Direct-Project-Costs.aspx).

**3.     Creation and management of a stand-alone DPC project:** A possible option more suited for offices that have a very large portfolio of development projects. XB or other relevant available 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. See [POPP Attribution of DPC through the creation and management of a stand-alone DPC project](https://info.undp.org/global/popp/frm/Pages/The-Attribution-of-DPC-through-the-creation-and-management-of-a-stand-alone-DPC-project.aspx).

2.21 The direct project costing methodology described in this section shall 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 apply as noted [here](https://info.undp.org/unit/bom/ofrm/bpm/BPMDocuments/Cost%20Recovery%20and%20Direct%20Project%20Costing/Guidance%20note%20on%20DPC%20for%20GEF-managed%20vertical%20funds%20and%20the%20Adaptation%20Fund.docx).