



## Operational guidance on application and management of the UN 1% coordination levy in Danish grants

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### Background

The UN Resident Coordinator System is based on three funding streams:

- (i) voluntary contributions by Member States,
- (ii) the UN Sustainable Development Group cost-sharing arrangement and
- (iii) the 1% coordination levy.

The basis for the 1% coordination levy (hereafter “levy”) is the *UN General Assembly Resolution 72/279 on the Repositioning of the UN development system (paragraph 10)* endorsed by the Member States, including Denmark, on 31 May 2018. The UN Secretariat’s Development Coordination Office (DCO)<sup>1</sup> is responsible for the management of the UN Resident Coordinator System including the implementation of the levy.

### Definition and applicability

The levy applies only to “tightly earmarked third-party non-core contributions to United Nations development-related activities<sup>2</sup>”. Following [DCO’s Operational Guidance Annex 2](#), a contribution agreement is therefore potentially subject to the 1% levy when the following four criteria are met **(1)** the contribution is received by a member entity of the United Nations Sustainable Development Group, **(2)** the contribution will fund development-related activities, **(3)** the contribution is tightly earmarked to a single entity programme or project, and **(4)** the contribution is from a single donor.

In addition to these four conditions, DCO outlines conditions where the contribution agreement is exempted from levy. These include if the contribution is for an entire entity country programme without earmarking within the country programme, or if the contribution is to a project/programme funded by multiple funding partners where funds are co-mingled. The full list of levy-exempted conditions can be found in [DCO’s Operational Guidance Annex 2](#).

For the purpose of the Ministry of Foreign Affairs, this means that the levy will be applied when grants are made to specific bilateral projects and programmes, but not when Denmark is providing funding for core support, soft earmarked contributions, pooled or thematic funds or humanitarian action.

### Calculation of the levy

The levy is intended to be calculated as 1% of the overall contribution to the UN entity, i.e., to be added on top of the programmatic funds (including cost-recovery). However, due to the constraints on available funds from the Danish Finance Act, the levy amount must in practice be found within the overall contribution to the UN entity.

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<sup>1</sup> [UNSDG | Coordination Levy Operational Guidance](#)

<sup>2</sup> [UN General Assembly Resolution 72/279](#)

This implies that the following formula should be applied to reach the actual grant amount to the UN entity  $g$  given the **levy** and the financial constraint reflected by the commitment amount  $C$ :

$$g = \frac{C}{1+le}$$

Example: The MFA responsible unit has been granted a commitment (C) of DKK 50 million for an earmarked project with an UN entity. As the 1% levy cannot be an additional amount exceeding the commitment (DKK 50 million + DKK 500,000), the levy must be found within the commitment frame of DKK 50 million. To reach the grant amount (g) which is available for the UN entity, while ensuring the 1% levy, the above formula is applied as follows:

$$g = \frac{C}{1+levy} = \frac{50,000,000}{1+1\%} = 49,504,950$$

Therefore, based on the commitment frame of DKK 50 million, the MFA responsible unit will allocate DKK 49,504,950 to the UN entity for the earmarked project while the remaining DKK 500,050 (1% of DKK 49,504,950; rounded to the nearest kroner) will constitute the levy amount. You can use the Excel sheet (annex X)

### Operational steps

The following steps should be followed during the drafting process of the agreements with the UN partner. They are based on DCO's operational guidance note adjusted to the MFA grant management setup:

- 1) **Confirming the levy.** During the preparation stage, the UN entity should confirm to the responsible MFA unit that the contribution agreement is subject to the levy and document the decision with reference to the check list and definitions from [DCO's Operational Guidance Annex 2](#). DCO has also formulated a [simplified checklist](#) for easy reference.

While the UN entity will indicate the levy amount as additional funds (thus exceeding the grant amount), the MFA responsible unit must outline the financial constraints and apply the formula above to reach the levy amount within the available commitment amount. The unit's CFO can be consulted at this stage.

- 2) **Agreements with levy clause.** When confirmed that the contribution agreement is subject to the levy, a standard "levy clause" must be included in the agreement. For contribution agreements where determination of applicability of the levy is not straightforward, the UN entity and the responsible MFA unit should consult DCO for guidance.
- 3) **Transferring funds.** The responsible MFA unit should not disburse the levy separately, but disburse the levy as part of the first instalment. Once the levy is transferred to the UN entity, the levy will be held in trust by the entity until it is transferred to the UN Secretariat. The UN entity does not have reporting responsibility to the MFA as the funds are not considered revenue or cost recovery to the UN entity and will be directly passed through to the UN Secretariat. Once transferred to the UN Secretariat, all fiduciary responsibility for the use of the levy as well as reporting and refunds to the MFA lies with the UN Secretariat.

- 4) **Significant changes.** The levy is calculated at the time a new agreement is signed and will not normally be revised up or down when the agreement is subsequently amended, except where that amendment exceeds 20% of the initially agreed budget on which the original levy calculation was made. Further information can be found in paragraph 14, page 4, [DCO's Operational Guidance Annex 2](#).
- 5) **Accounting in GRAM.** As funds are not allocated to the UN entity but transferred to the UN Secretariat, the submitted financial statement from the organisation may not include the levy amount. Therefore, when accounting for disbursed funds in GRAM, the responsible MFA unit should include the levy amounts as accounted for in full during the first accounting period, and make a note of this in the accounting remarks.