Operational Instruction OI.FG.2025.02
Engagement Pricing and Costing

Headquarters, Copenhagen

07 Apr 2025

1. **Authority:**

1.1. This Operational Instruction (OI) is promulgated by the Chief Financial Officer, Finance Group on the basis of a delegation of authority from the Deputy Executive Director under Operational Directive Ref. OD.EO.2017.01 - Value proposition and cost recovery model.

2. **Purpose:**

2.1. The purpose of this OI is to provide instructions so that UNOPS operates on a full cost recovery basis for all of its activities and ensures its economic sustainability.

2.2. The specific processes describing in detail how to implement UNOPS cost recovery shall be included in the Policy and Process Portal

3. **Effective Date:**

3.1. This OI shall become effective on 7 May 2025.

4. **Consequential Changes:**

4.1. This OI supersedes and abolishes OI.FG.2018.07: Engagement Pricing and Costing of 28 September 2018. The purpose of the revision is to update the cost drivers to calculate the management fee in section 8.1 and to remove the reference to the Engagement Acceptance Committee in article 8.4.4. of the OI.

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Chief Financial Officer Finance Group

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1. Costs Recovery Principle

1.1. UNOPS shall implement its activities on a full cost recovery basis. In particular each engagement agreement entered into between UNOPS and a partner, as defined in OD.EO.2017.02 - Management of UNOPS Partners and Resulting Agreements,[1] shall include provisions so that UNOPS recover all its direct costs, including costs for shared services, and indirect costs incurred for the implementation of the engagement.

2. Direct Costs

2.1. Direct costs attributable to an engagement are the costs incurred for the benefit of a particular project or client(s). Such costs are identifiable, have a direct relation to achieve the results agreed in the agreement with the partner, and can be clearly documented.

2.2. These include costs recorded under a specific engagement and are directly supporting implementation of the engagement, as well as costs incurred for engagement related activities such as shared support services on a local, regional or corporate level (costs for shared services), which result from a cost savings mechanism established by UNOPS for engagements to share resources/services and leverage economies of scale.

2.3. Costs for shared services shall be first recorded in a “pool” of relevant activities and then allocated at regular intervals between the different engagements and UNOPS management activities that have benefited from the shared services in a reasonable, measurable and practical manner in accordance with pre-defined distribution keys.

3. Shared services management

3.1. UNOPS shared services describe all services UNOPS centralizes at local, regional or corporate level that support exclusively other units within UNOPS. These services support the implementation of UNOPS deliverables funded through the UNOPS account,i.e. UNOPS management and investment budgets, and the implementation of engagement agreements entered into between UNOPS and its partners.

3.2. The management of shared services costs shall be done at the global, regional and local levels of the organization by the head of the cost recovery centre providing the shared services.

3.3. UNOPS shall use activity-based costing to determine and distribute its shared services direct costs. Through this methodology UNOPS shall strive to be as accurate as possible when allocating the costs for shared services, while balancing the level of effort to do it.

3.4. Further instructions on the creation, budget allocation and performance management for shared services projects are provided in OI.FG.2018.01 Budgeting and Internal Investment Management.

1. https://confluence.unops.org/display/LFPROMULGATED/OD.EO.2017.02%3A+Management+of+UNOPS+Partners+and+Resulting+Agreements

4. Shared services costs calculation and recovery

4.1. For each shared service, the head of the unit providing the shared service shall ensure that appropriate cost drivers for attribution of the shared services costs are identified. When establishing the cost drivers, UNOPS shall strive to align its costing with its service line offerings.

4.2. Based on the projection of the costs drivers that have been established and the total cost of the shared service, the head of the cost centre providing the shared service shall establish an annual cost rate by driver for each shared service to ensure full cost recovery for such shared service. For shared services at corporate level this shall be facilitated, and the communication of annual cost rates by drivers for corporate shared services shall be done, by the Finance Group (FG).

4.3. As the costs for shared services will fluctuate overtime, direct cost rates for shared services shall be updated regularly, typically once a year. Changes to the cost driver rates shall be communicated in a timely manner to accommodate budget planning both for UNOPS and affected clients.

4.4. UNOPS shall recover shared services cost on a monthly basis. The head of the revenue centres responsible to implement engagements shall be responsible and accountable to ensure that the shared services costs are accurately charged to and recovered from the relevant engagements throughout the entire engagement life cycle.

5. Costing and presentation of shared services costs in engagement budgets

5.1. Costing is the process of establishing all direct costs for an engagement. Further details on how to establish and present direct costs in an engagement budget can be found in the Project Management Manual and additional sources referenced there.

5.2. When costing an engagement all shared services costs shall be included in the engagement budget, based on the applicable cost drivers. Upon the signature or amendment of an engagement, the applicable cost drivers and the frequency of the cost recovery shall be recorded in UNOPS systems to ensure engagement compliant recovery of shared services costs.

5.3. Cost of shared services shall be presented in engagement agreements as follows:

- When the direct costs are budgeted by input/activity, the costs for shared services shall be embedded into the cost of the inputs/activity, or
- When the direct costs are budgeted by output, the costs for shared services shall be embedded into the cost of outputs, or
- In separate budget line/s, or
- Others methods maybe acceptable with approval from the CFO and the engagement authority.

6. Indirect costs

6.1. UNOPS indirect costs are defined as costs incurred for management and administration of the organization in furtherance of UNOPS activities. Such costs are charged to engagements through a management fee specified in the engagement agreement.

6.2. Indirect costs are identified in UNOPS management budget and are independent from the delivery of engagements. Indirect costs shall include a contribution to UNOPS account to ensure adequate funding for strategic investments, the contingency surplus and the operational reserve.

7. Management fee

7.1. UNOPS management fee is defined as the sum payable to UNOPS in addition to direct costs for the implementation of an engagement. It is meant to cover UNOPS indirect costs, including those associated with the development, negotiation, conclusion and implementation of the engagement agreement.

7.2. UNOPS management fee shall be recovered as per the engagement agreement. UNOPS management fee shall be charged on a monthly basis to recover the indirect costs incurred.

8. Management fee calculation and recovery

8.1. The management fee required to recover UNOPS indirect costs shall be calculated based on the following cost drivers:

- complexity of the engagement, whereby a higher complexity would indicate higher indirect costs to UNOPS and therefore a higher management fee and,
- the size of the engagement, whereby a larger volume indicates lower indirect costs relative to the size of the engagement to reflect on economies of scale, and therefore a lower management fee

8.2. Detailed instruction on the calculation of indirect costs shall be provided by the CFO or his/her delegate in the Policy and Process Portal

8.3. Once calculated, the management fee shall be charged to engagements using any of the following recovery modalities as listed under article 8.4 and as agreed upon in the engagement agreement. Note that the minimum management fee to be recovered does not change with the recovery modality.

8.4. The heads of revenue centres implementing the engagements shall be responsible and accountable to ensure that the management fee is accurately charged to and recovered from the engagement throughout the entire engagement life cycle.

8.4.1. Time and Materials (T&M) - the T&M engagement agreement is an engagement agreement in which UNOPS partner agrees to pay UNOPS based upon the work performed, and for materials used for the implementation of the engagement plus a management fee, no matter how much work is required to complete the project. In a T&M engagement, the parties typically agree in advance to:

- Unit rates for labour, e.g., rates per day/month/year for engineers, construction workers, medical professionals, project managers, etc. The rates on labour shall include both direct costs and a mark-up to cover the management fee.
- Mark-up on materials: The materials are priced by adding a mark-up onto the prices UNOPS paid. The mark-up shall include both direct costs and a mark-up to cover the management fee.

8.4.2. Cost-plus **-** A cost-plus engagement agreement, also termed a cost reimbursement agreement, is an agreement where UNOPS is paid for all allowed direct costs up to a set limit, plus a management fee to cover indirect costs.

8.4.3. Fixed price - A fixed-price or lump sum engagement agreement is an agreement where the amount of payment does not depend on the amount of resources or time expended (However, it may still include elements of reward if particular success criteria are met). Accordingly, the final management fee will be the residual balance left on the engagement after all other UNOPS costs have been recorded.

8.4.4. Alternative pricing - Applications of any other kinds of engagement agreements and ways of applying the management fee shall require prior approval. FG shall maintain a list of criteria upon which an escalation of an engagement to the appropriate authority shall be made.

8.5. When charging all or parts of the management fee as a fixed amount, the engagement agreement shall state the amount of the fee, the time(s) when it should be charged and that the fee will be recovered regardless of the progress and/or delivery of the project.

8.6. Any difference between the collected management fee and the indirect costs as calculated based on actuals at the end of an engagement shall be monitored and the relevant revenue centre head shall be held accountable for any discrepancies.

9. Pricing and presentation of the management fee in engagement budgets

9.1. Pricing is the process of establishing the appropriate management fee for an engagement. Pricing shall take place during the initiation stage of a given new engagement/amendment once the costing has been finalized. Amendments to an engagement shall be priced considering the combined engagement value to ensure full cost recovery. At the creation/amendment of engagements the applicable management fee and the frequency of recovery shall be recorded in UNOPS systems to ensure engagement compliant recovery of indirect cost.

- Separately from direct costs and proportional to the project financial delivery (as % of project financial delivery), or,
- Separately from direct costs as absolute amounts per month/quarter/year etc., irrespective of project financial delivery (as a fixed amount), or,
- Separately from the direct cost in two components: (i) one component of variable management fee, that is, proportional to the financial project delivery; and, (ii) one component of fixed management fee, that is presented as fixed amounts per month/quarter/year etc., or
- When the management fee is budgeted by output, then the management fee shall embedded into the total cost of the outputs, or
- When the management fee is budgeted by input/activity, then the management fee embedded into the total cost of inputs/activities, or

- Other methods may be possible with approval from the CFO and the Engagement Authority.

10. Costing and Pricing for Common Services Provided directly to Third Parties

10.1. For common services provided directly to third parties where costs are usually recovered through an invoice after the services have been provided, such as provision of UN common offices, the rental of dwelling facilities, or cars, such services shall be provided on the basis of a full recovery of UNOPS direct costs following the same principles outlined in sections 2 and 3 above. However, for such services, no management fee to recover UNOPS indirect costs shall be charged.

10.2. Further instructions on the costing and pricing for such services, shall be provided in Policy and Process Portal.

10.3. Further instructions on the creation, budget allocation and performance management for such services are also provided in OI.FG.2018.01 Budgeting and Internal Investment Management.

11. Costing and Pricing for Long-term Engagements

11.1. For long term engagements, such as secretariat services provided to unincorporated multi-stakeholder initiatives, the agreements shall provide that costing and pricing for such engagements shall be updated on a regular basis.

12. Costing and Pricing for Engagements Implemented under a Framework Agreement

12.1. When a framework agreement has been established with specific costing and pricing modalities, all engagements entered into under such a framework agreement shall comply with those specific costing and pricing requirements.