



Operational excellence for results that matter

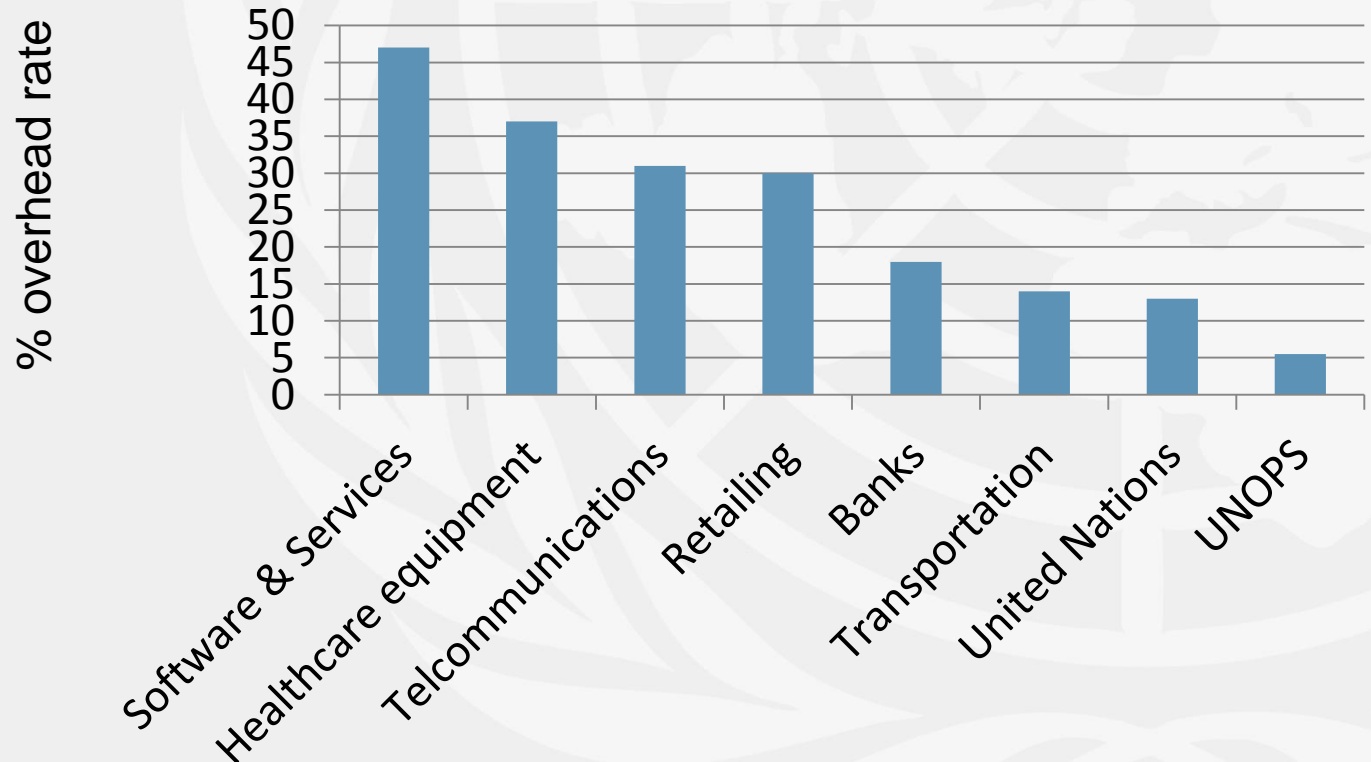
UNOPS Cost Recovery

PM Foundation Course
FPG

Ambition for today

- **Principles of UNOPS Cost Recovery**
- **Locally Managed Direct Costs (LMDC/DSC)**
- **Centrally Managed Direct Costs (CMDAC/AC)**
- **Management Fee (New pricing policy)**
- **Fairness, Development Effectiveness and Focus – why we changed our approach to cost recovery**

Is UNOPS expensive?



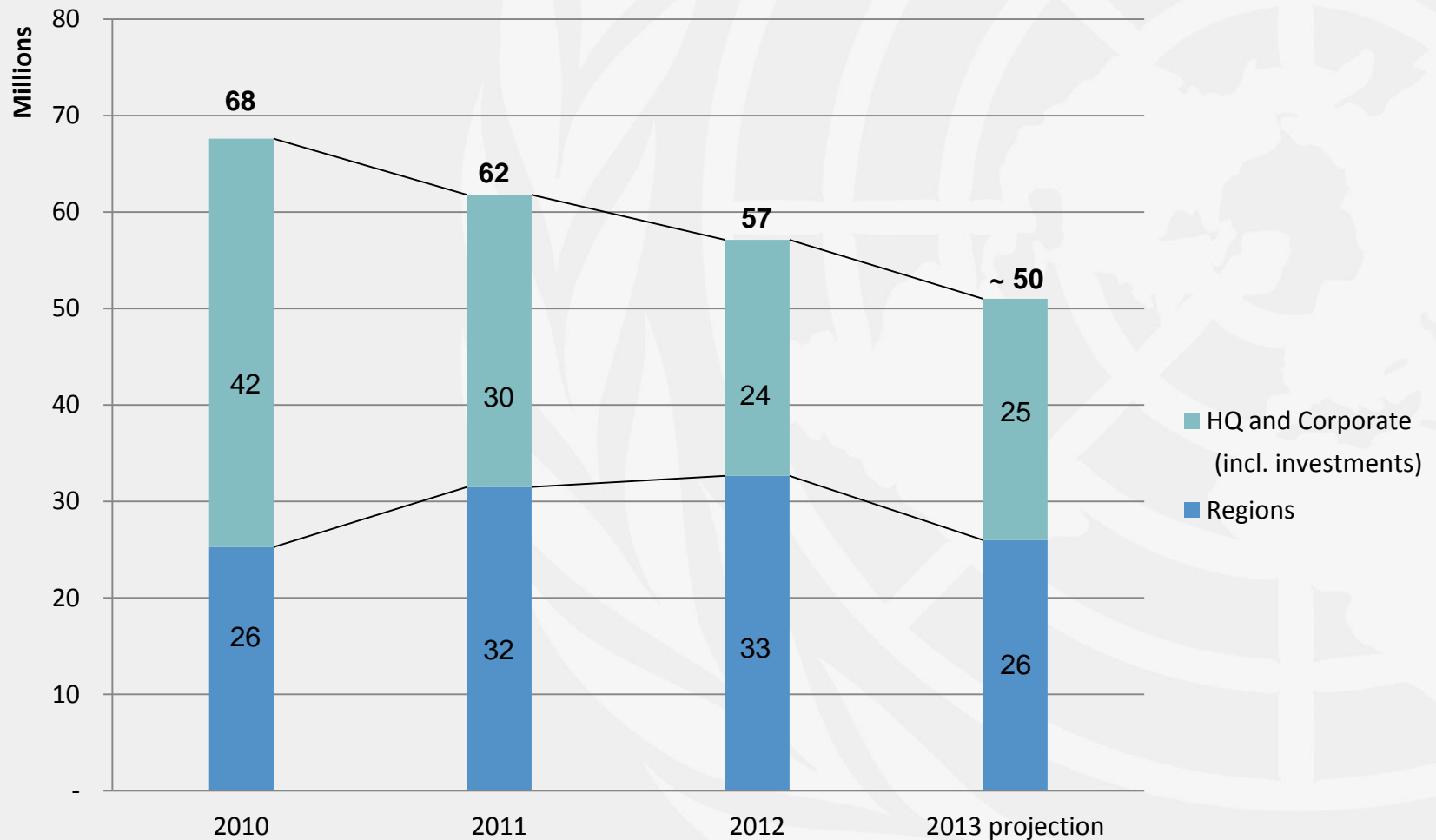
Why do we need to recover our costs?

→ **UNOPS Financial Rules and Regulations; Regulation 9.01:**

“As a self-financing entity UNOPS shall operate on the basis of full cost recovery and shall set its management fees accordingly.”

Where does the money go?

Management expense (ME) 2010 - 2013



Statement of Italy to the EB (September 2013)

“we are very pleased to see that the budget estimates for 2013/2014 show the viability of the self-financing business model of UNOPS [...] the estimates reflect a 6% real reduction in management resources [...] this has been achieved by curtailing costs, increasing efficiency and effectiveness as well as charging relevant costs as direct.

We appreciate the compliance of UNOPS with the **principle of full cost recovery** [..] as well as the efforts made to minimize cost recovery rates. **We commend UNOPS and invite UNOPS to continue to periodically revise its cost recovery and pricing policy.**”

UNOPS Full cost recovery

COSTING

PRICING

100%

DIRECT COST

MANAGEMENT FEE

Budgeting Toolkit

Direct Project Cost

Indirect Cost
+
Risk Increase

Pricing Policy

50%

LMDC Guidance

Direct Cost,
Locally Managed
(Direct Support Cost)

CMDC Guidance

Direct Cost,
Centrally Managed
(Allocable Charges)

0%



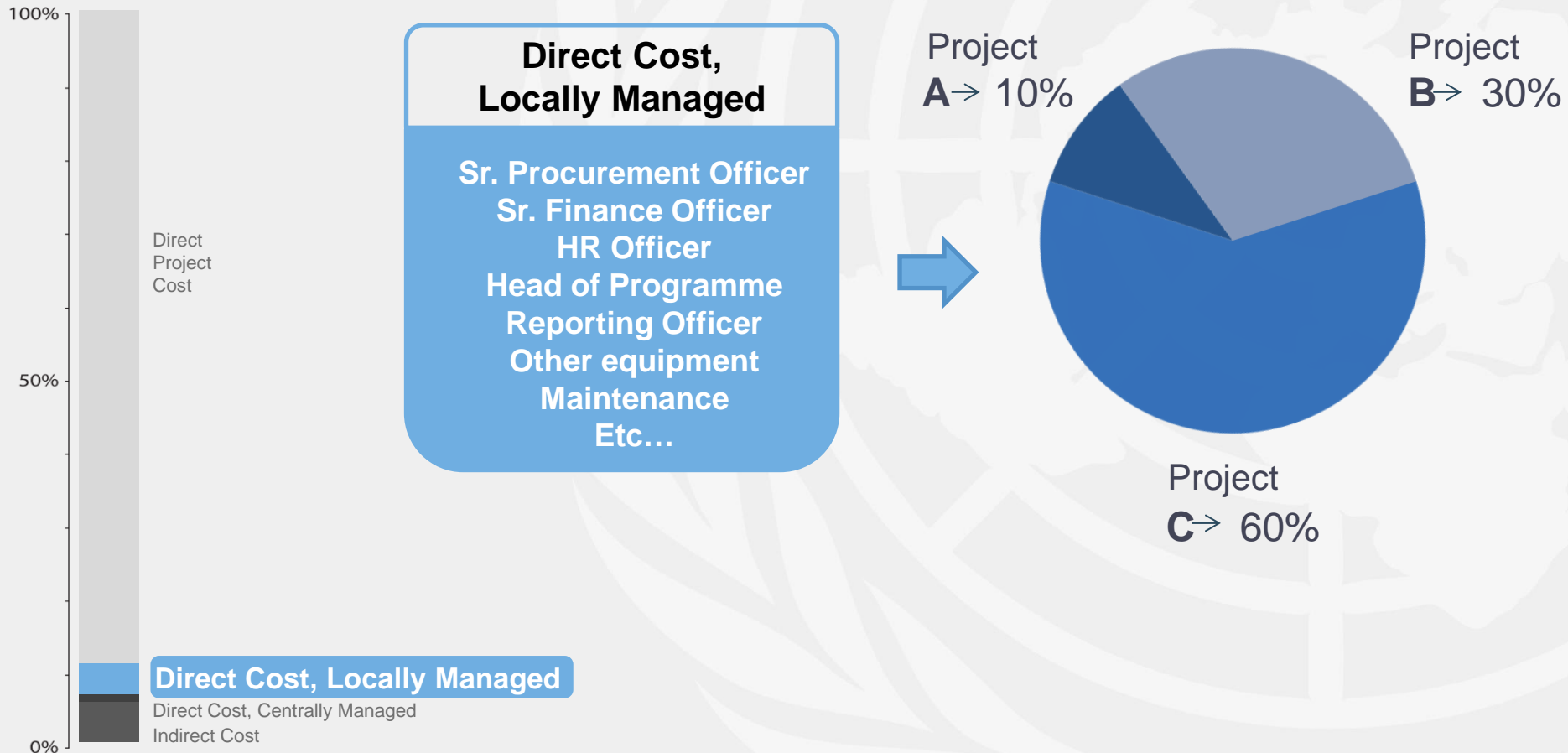
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Locally Managed Direct Cost

- Direct costs for the local support of implementation costs in UNOPS were also referred to as "Direct Support Costs".
- Direct Support Costs help to save implementation costs for clients since they share resources between different projects
- We are currently developing practical LMDC guidance for the field

Locally Managed Direct Cost



LMDC Bottom Line:

- Review the new guidance on LMDC (cost drivers, regular forecasts, planning of support capacity)
- Charge for an identifiable service.
- Plan to break even (and not more, not less).
- Budget LMDC in all projects and ensure partners understand that actuals may vary

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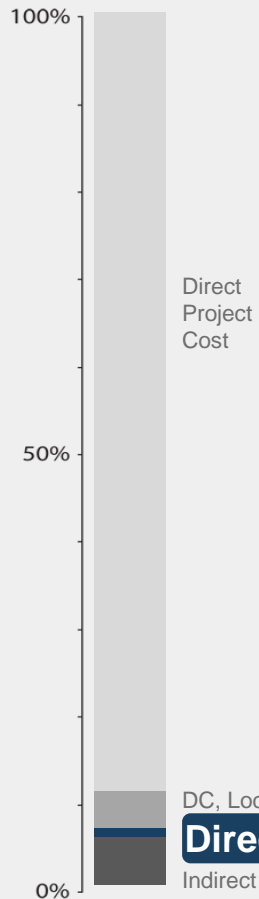
Centrally Managed Direct Costs (CMDDC)

1

Project cost



*e.g. Insurance, security,
financial transactions.*



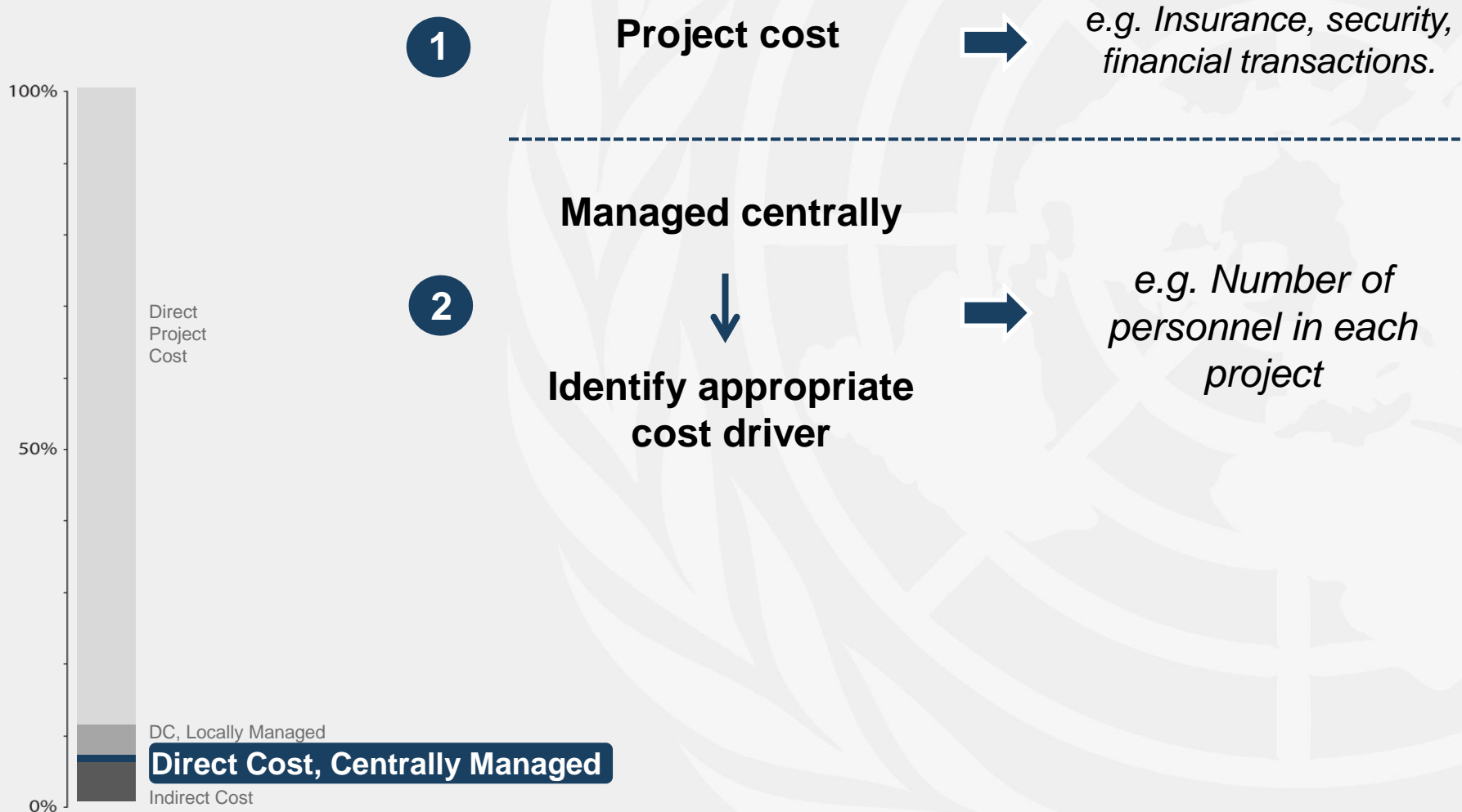
Direct
Project
Cost

DC, Locally Managed

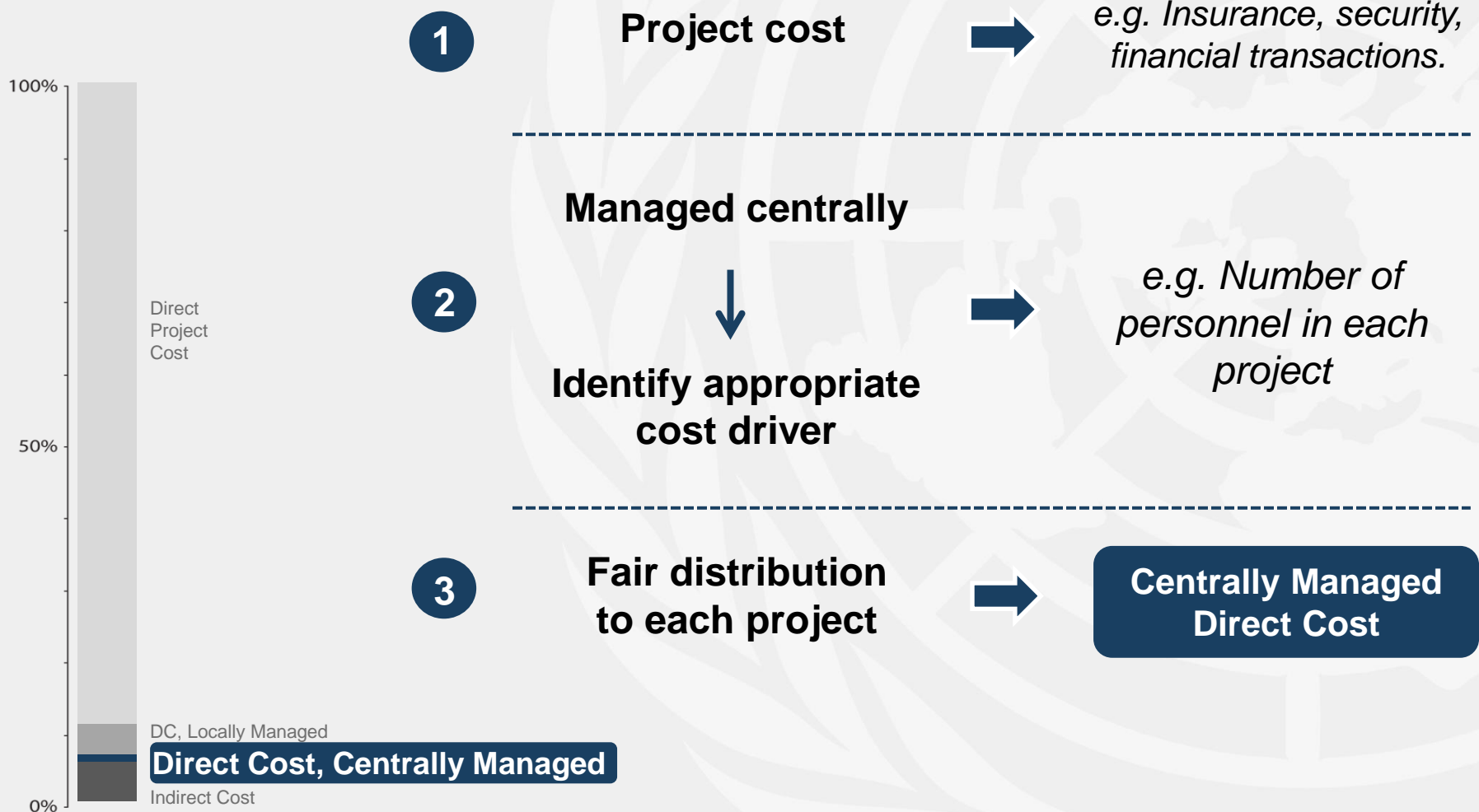
Direct Cost, Centrally Managed

Indirect Cost

Centrally Managed Direct Costs (CMDDC)



Centrally Managed Direct Costs (CMDDC)



Centrally Managed Direct Costs: Practical Guidance

- As of 1st of July 2013, the new [CMDC guidance](#) is in effect
- This guidance applies until 2014 revisions are published
 - currently under review
 - Budget cost drivers in original budget lines!
 - If your partner does not want to deal with **actuals**, budget more!

Centrally Managed Direct Costs

Cost category (level 1)	Cost category (level 2)	Service category	Cost driver	Cost (USD)	Unit	Budget accounts
Personnel related costs	UNOPS personnel related costs	Mandatory services	# International staff (IP)	770	per month	63600
			# Local staff (GS/NO)	260	per month	63600
			# IICAs	210	per month	71200
			# LICAs	160	per month	71300
		Optional services	# users with ERP system (Atlas) access	110	per month	73600
	Partner personnel related costs	Mandatory services	# International staff (IP)	250	per month	63600
			# Local staff (GS/NO)	90	per month	63600
			# IICAs	40	per month	71200
# LICAs			80	per month	71300	
	Optional services	# users with access to (select) UNOPS systems	70	per month	73600	
Project related costs	Project related costs	Mandatory services	# Projects	6,840	per year	73600
		Optional services	# Contract reviews	1,400	per submission	73600

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UNOPS pricing policy

UNOPS changed its approach to pricing on July 1st 2013 and is now pricing based on key value-add to partners:

1) Engagements, 2) Personnel managed, 3) Non-personnel expenses and 4) Risk.



New Pricing: Where do the numbers come from?

Indirect costs	71m	Indirect costs	71m
Total delivery	1,270m	Personnel costs	~ 193m
Indirect costs as % of delivery	5.6%	Indirect costs as % of personnel	~ 37%

New pricing combines these numbers and adds a project start-up component to ensure fair cost recovery

The bottom line: New Pricing

- Old engagements will continue without any change to pricing
- New Leads and Lead Amendments are subject to the new policy
- 2014 (and beyond) management budget carries two rules:
 - Shortfall of pricing will be recovered from management budget & Risk Increments will be credited to management budget
 - Every 1 USD of regional NR will give 1 USD of Management Budget the year after

What do you say if the partner says “Your price is too high”:

“Alright. Thanks for letting me know. Let me try to resolve this and since partners mean different things when they say that, can you explain what you mean?”

There are a number of possibilities:

- “Sticker Shock”
- “Budget busting”
- “Bazar bargaining”
- “Sucker-punched” – lowballing competitor

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The three key reasons it is worth all the effort:

- We want to boost Development Effectiveness
- We want to be fair and Delivery is not the right base to attribute costs
- We want to focus on true impact in our projects

Disclaimer: Don't talk about price unless asked

UNOPS does not seek to discuss prices and costs in the first place and prefers to talk about Sustainability, the Products & Services in the Delivery Practices, the PM approach we use and the Quality / Excellence of our organisation

→ Don't talk about prices unless the partner asks, as it distracts from what UNOPS wants to be known for

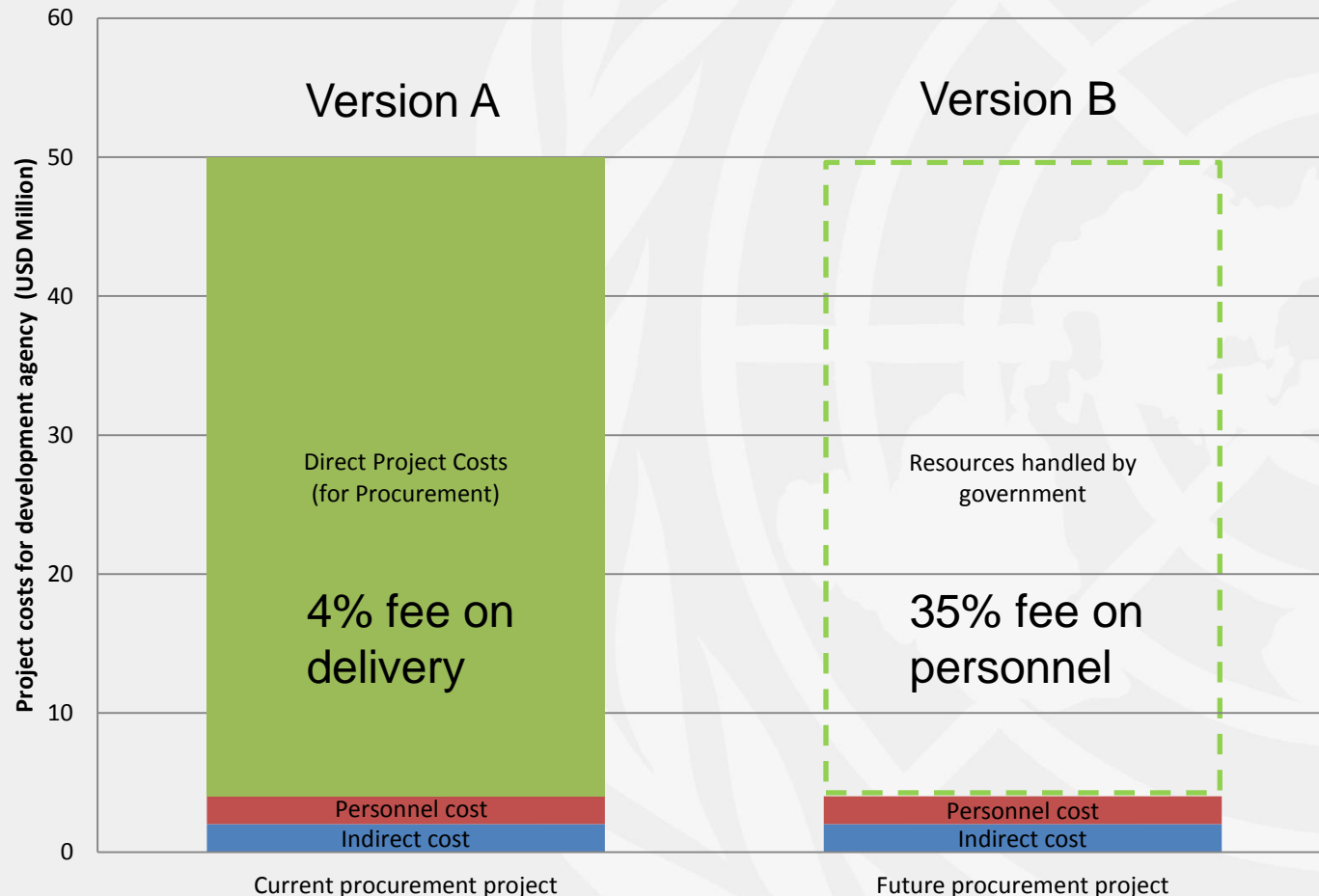
The development effectiveness agenda poses a challenge to existing cost recovery models

- The development effectiveness agenda requires a shift from “direct implementation” by development agencies towards “capacity development” and “national implementation” with development agencies in a supporting role
- Effective pursuit of the development effectiveness will require a change in project cost recovery / pricing paradigms; an alternative approach for recovery of indirect costs in the sector
- Progressive governments have recognized that indirect costs / overhead costs cannot be compared at the %-rate level



부산 세계개발원조총회
**4th High Level Forum
on Aid Effectiveness**
29 Nov –1 Dec 2011, Busan, Korea

Two ways of implementing the same project – which is “cheaper”?



Fee: 4% on 50m =
2 million USD

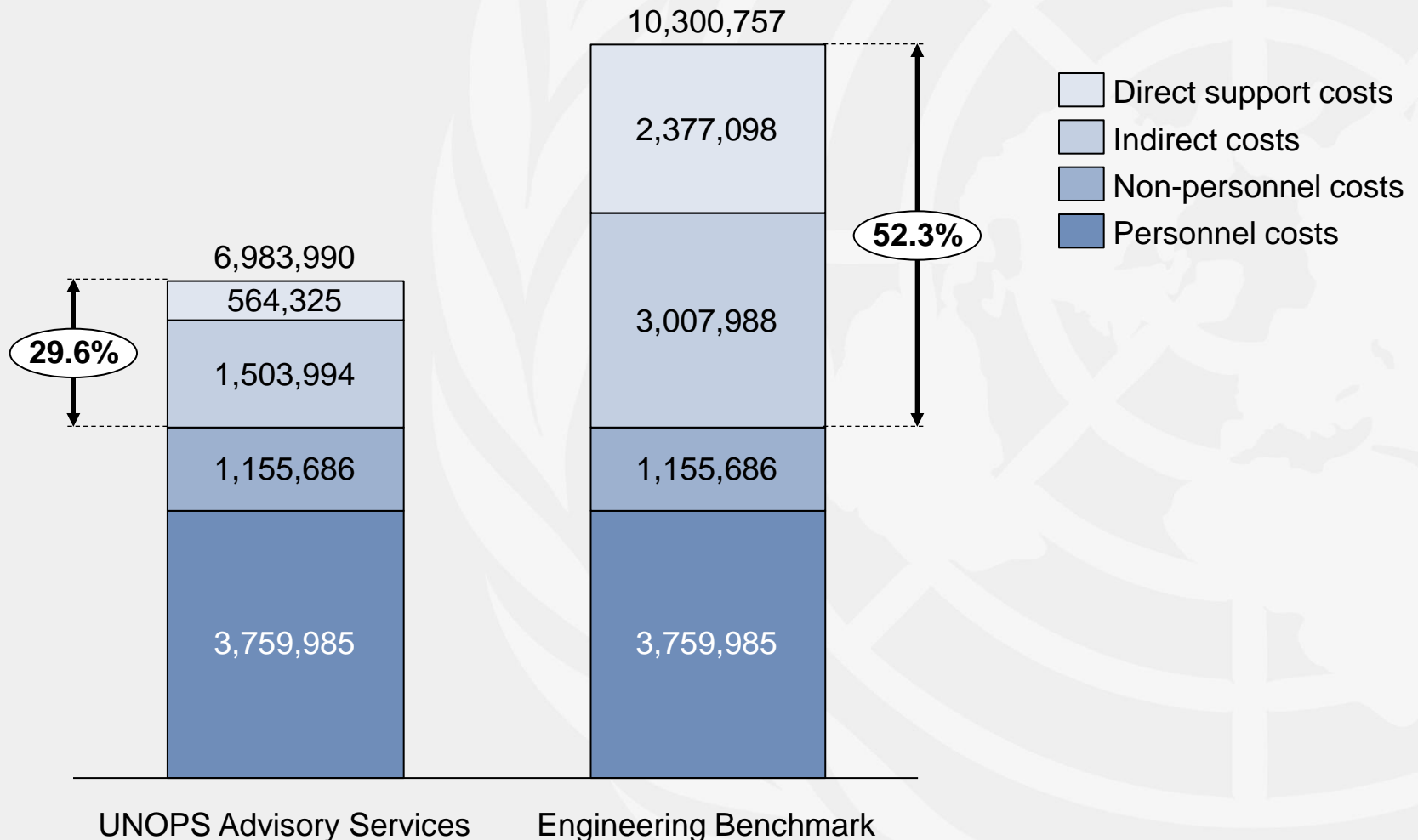
Fee: 35% on 2m =
0.7 million USD

Two ways of implementing the same project – which is better?

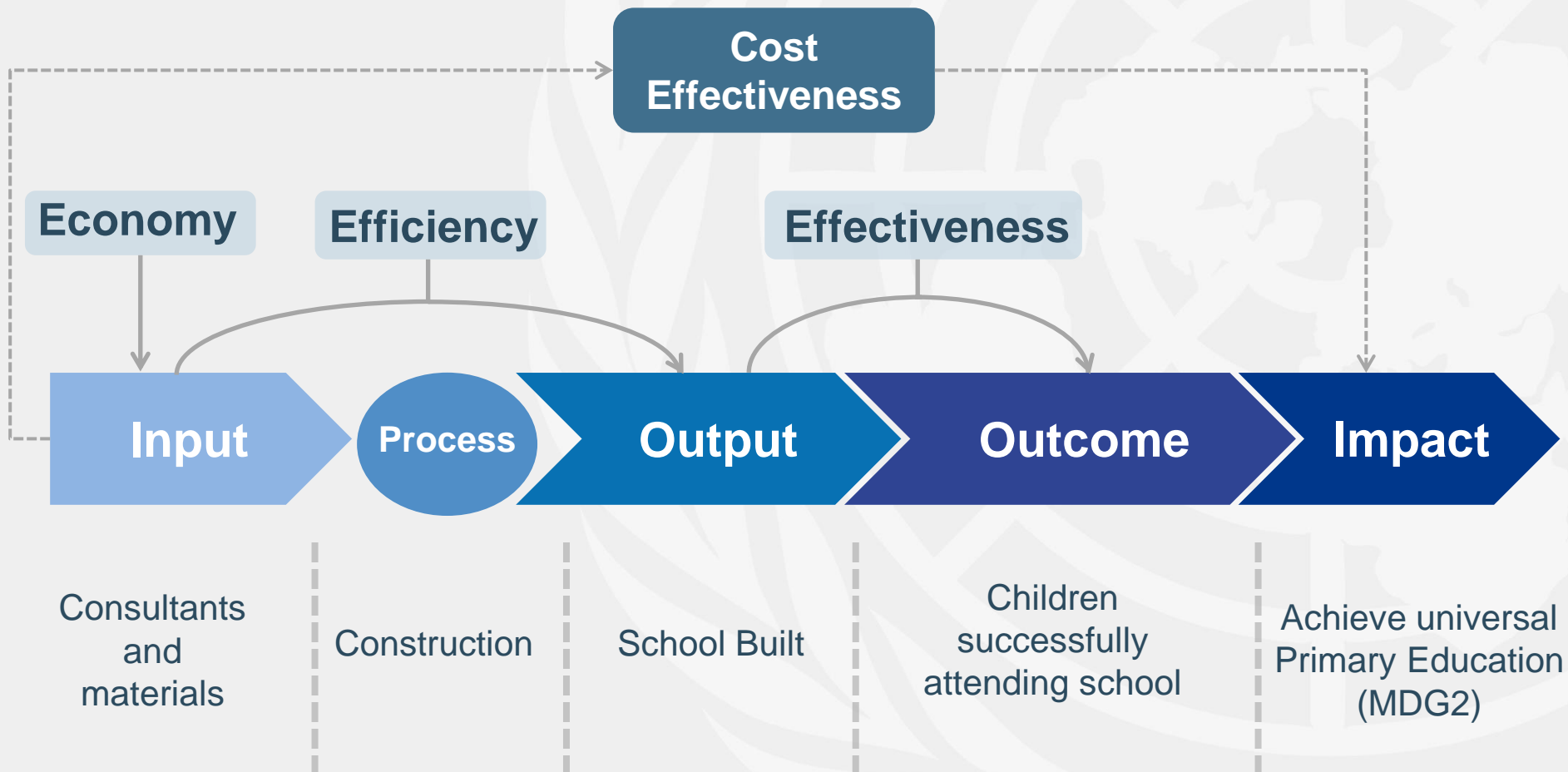
Indirect Costs – Two Important Cost Metrics

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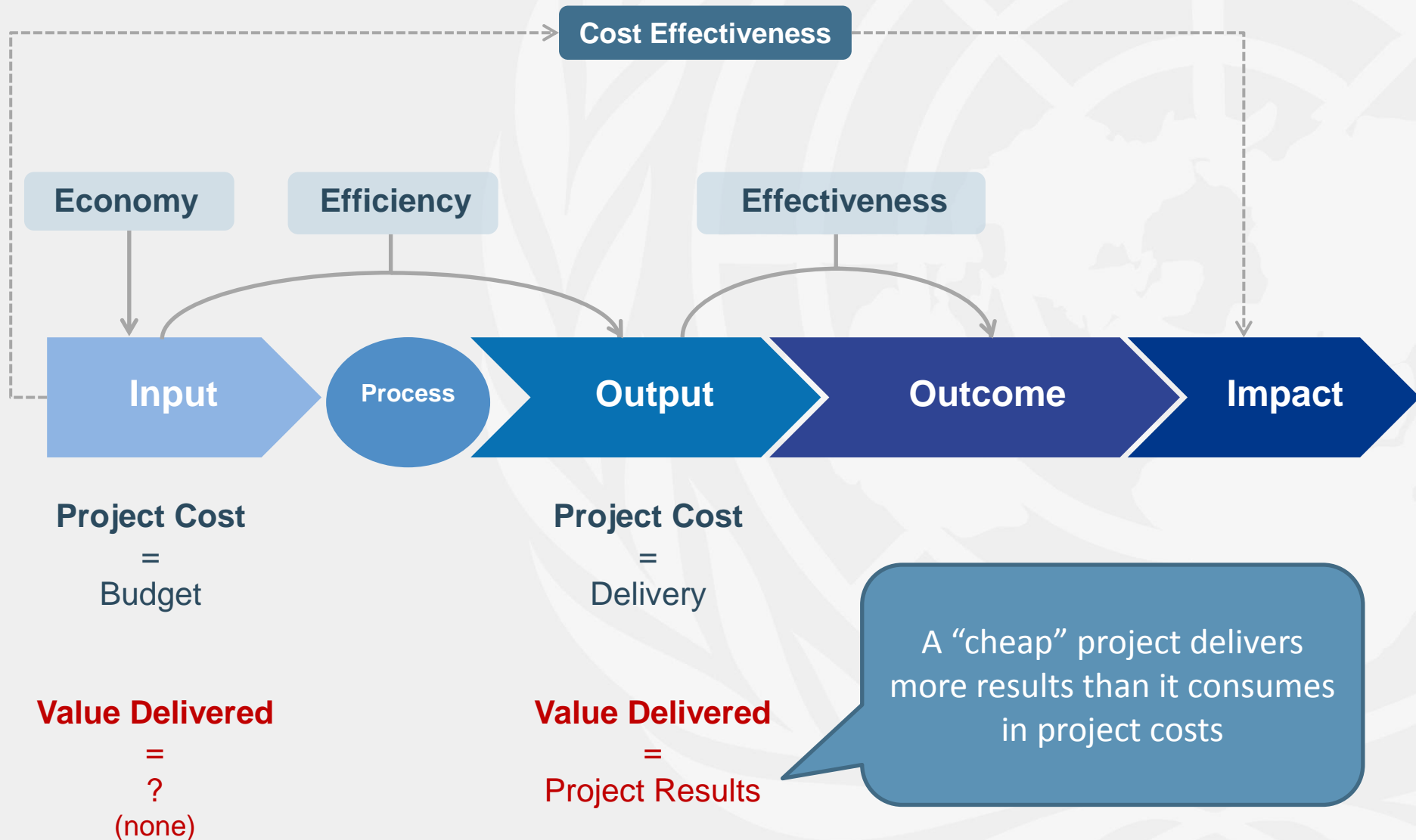
Some benchmarks for capacity development and advisory services



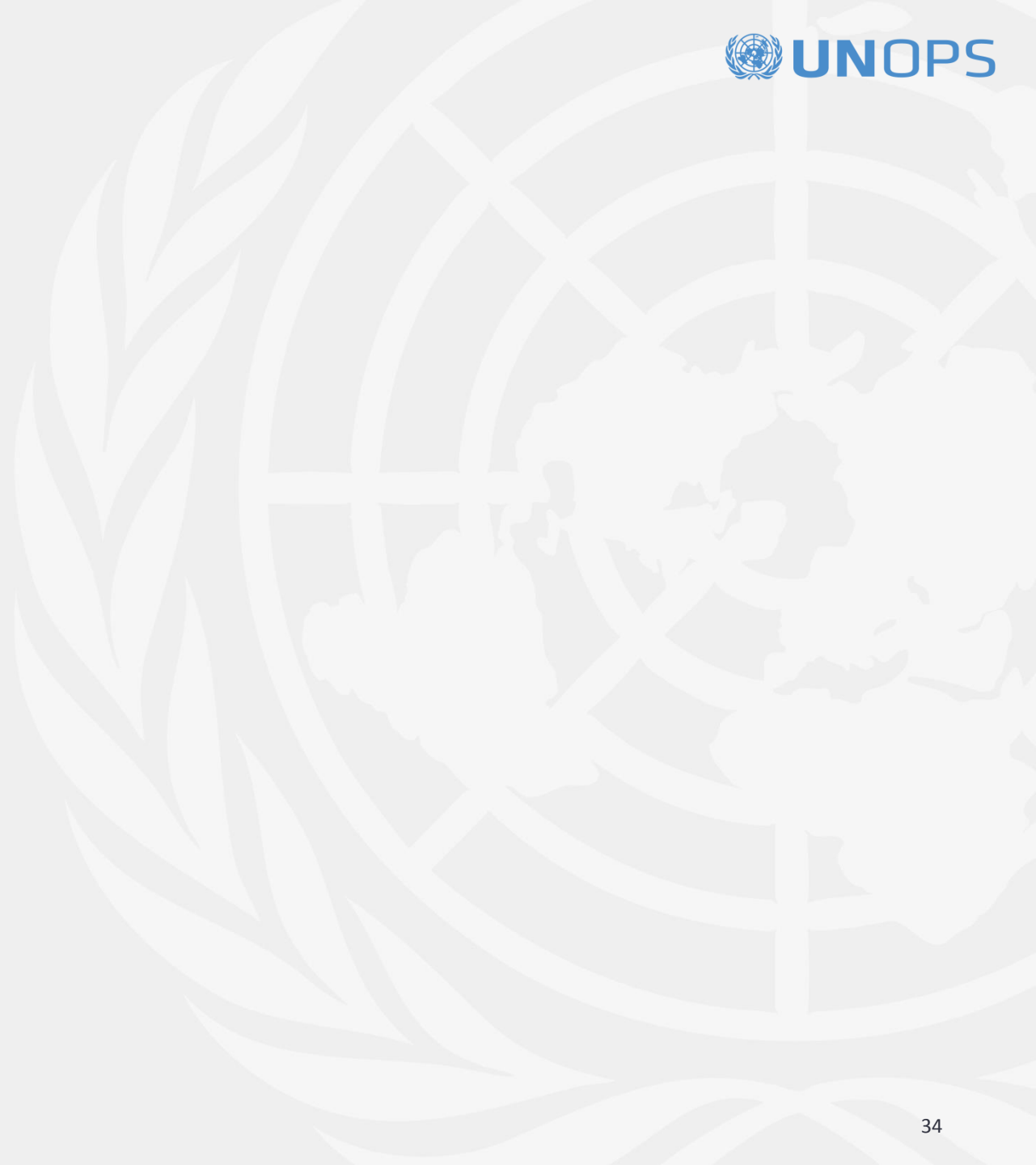
What is value for money? The 3Es Framework



How do costs and value relate?



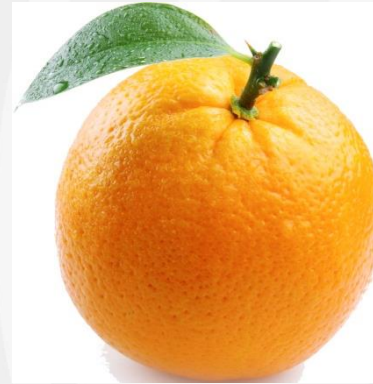
Backup



What can we argue?



=



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- **QUALITY:** It is not possible to compare two different proposals by price.
- The unique measurement of cost effectiveness between two proposals from different agencies is:

Outputs
&
Quality

TOTAL
BUDGET

Which will be integrated with our business development process and sustainability approach

