

MEMORANDUM OF UNDERSTANDING
between the
United Nations ("the UN") and the United Nations Development Programme ("UNDP")
with regards to
UNDP Cost Recovery for Services at the Programme Country Level

I. Introduction

UNDP Country Offices (COs) continue to provide a range of administrative services related to programme implementation to UN Agencies, in accordance with Governing Council decisions 82/33 and 84/42. In accordance with these decisions, this Agreement establishes a corporate-wide system for cost recovery by UNDP for services provided to the United Nations (UN) at the Programme Country level.

Cost recovery for implementation services is distinct from, but compatible with, cost recovery for "shared services" (premises, common services, utilities, etc.) as described in chapter IX of the ACC Guidelines, and, consequently, this Agreement does not cover cost recovery for these services. The Agreement also does not encompass cost recovery by UNDP for any Headquarters level services UNDP might provide to the UN, as those services remain to be governed through a separate arrangement.

In this context, the United Nations and UNDP Headquarters have reached an agreement on the basic principles for UNDP CO cost recovery. It has been established that the cost recovery mechanism shall: a) be on the basis of actual services received; b) be on the basis of the cost to UNDP for providing the service; c) guarantee quality service provided by UNDP COs; and d) be transparent and easy to administer.

II. Definitions and applicability

- a) This Agreement relates to cost recovery for support services provided by UNDP's COs in the support of the UN's activities at the Programme Country level, regardless of the source of funds of these activities. Cost recovery is based on a service fee for each time a service is provided by the COs to the UN, and a listing of the specific services, together with the prices, is attached as ANNEX 1 ("Universal Price List").
- b) The Universal Price List is split into four cost bands, reflecting the differences in local price levels across UNDP's COs. Each CO is assigned to a cost band based on its local misery scale. The list of all COs by cost band is attached as ANNEX 2 ("Country Office Grouping").
- c) The prices in the Universal Price List are the average cost for each specific service across all COs in the same cost band. All costs used to calculate the average price per cost band are computed using the "True Hourly Cost" methodology. Any cost or pricing schemes designed by COs using a substantially different methodology have been excluded from the average cost calculation. The methodology is explained in further detail in ANNEX 3 ("Methodology").
- d) Services that due to their nature cannot be standardized across different COs, or services that vary in scope each time they are provided, are not included in the Universal Price List (e.g. IT support services, airport pickup, pouch administration, programmatic services). To the extent possible, these services should be managed based on local arrangements, similar to arrangements for premises, utilities, security, etc. All ad-hoc/other services, that are neither part of the Universal Price List nor part of the Common Service Account, need to be agreed on locally using either prevailing local market prices or the "True Hourly Cost" methodology.

- e) Both, the Universal Price List and the Country Grouping will be updated on an annual basis, to reflect changes in local price levels. The updated Universal Price List and the Country Grouping will be communicated to all UN Agencies HQs, as well as UNDP Country Offices with an effective date. The Universal Price List and the Country Grouping will become valid as of the effective date, unless the Agency requests a review within 30 days of notification.

III. Determination of cost recovery amounts *

Each UNDP CO will track the number of service requests processed for each agency. The UN will inform UNDP for which of its departments, offices, and commissions, COs should track service requests separately. The cost recovery charges will be calculated by multiplying the number of service requests with the specific service cost as determined by the Universal Price List. When counting the number of requests, corrections necessary due to processing errors by UNDP will NOT be counted as a service request by the UN. In the case of ad-hoc/other services, the price will be agreed upon separately. The COs in their reports to Agencies will provide details on the number and type of services that are being invoiced, as well as the applicable price as determined by the Universal Price List. UNDP will not grant any discounts for large numbers of requests, but at the same time will only seek reimbursement for actual services rendered.

IV. Payment (Please select by checking the box)

Option 1

The UN agrees to accept the charging of UNDP's service fee using the current Inter-Office Voucher mechanism (or its possible replacement in the near future) to an account code specifically identified for cost recovery, which is provided at the same time a service is requested. UNDP COs will charge the UN's account code only based on the requested service and for the amount determined by the Universal Price List. Any service requested where the service fee is not specified in the Universal Price List needs to be agreed on in advance with the CO providing the service and the UN. The UN will receive an annual statement listing the number of services requested, broken down by subunits, as well as a summary of the charges made by each CO. The service fee will be credited to the COs extra-budgetary account, and is used to cover the cost of the CO service delivery units.

Option 2

The UN agrees to reimburse UNDP COs based on the reporting on services submitted on a bi-annual or quarterly basis, depending on the volume of services provided by each CO. The UN agrees to provide the UNDP COs with an account code at the beginning of each calendar year in order to avoid any delays, and COs will charge that account code only in accordance with the reports submitted to the UN. The payments will be credited to the COs extra-budgetary account, and are used to cover the cost of the CO service delivery units. Delays in payment by the UN might directly affect the staffing levels of service delivery units, and could result in an interruption of the CO's ability to provide the services.

V. Settlement of disputes


UNDP is committed to providing quality services to the UN in an open and transparent fashion through the whole Country Office network. Should the services COs provide to the UN not be satisfactory or acceptable, then UNDP COs will take remedial actions within reasonable limitations to UNDP's liability. The UN will not be charged for transactions necessary due to processing errors by UNDP. Should the UN and a particular CO not be able to agree either on the level or quality of services provided, or the reimbursement to be paid, then UNDP HQ will try to resolve such a dispute directly with the relevant UN HQ unit.

VI. Entry into effect and duration of agreement

The Agreement becomes effective as of August 1st, 2003, once it is signed by both parties. It is valid for all Programme Countries, where UNDP provides services to the UN. The Agreement remains in force unless terminated by mutual consent or by either Party giving six months' written notice of termination to the other Party. The Agreement supersedes all previous cost recovery arrangements agreed upon between UNDP COs and the Agency. The Annexes to this agreement will be revised annually in order to reflect changes in local prices, and will be sent to all UNDP COs, as well as all UN Agencies. Cost recovery for services provided before the effective date are settled either on the basis of existing service agreements between UN offices and UNDP country offices, or on the basis of this agreement, if this is acceptable to both, the requesting UN office, and the concerned UNDP country office.

UNDP and partner Agencies are currently in the process of implementing an Enterprise Resource Planning software package, which will include activity-based costing as one of its components. This module will then be used to compile prices, which will serve as the basis to create the average prices in the Universal Price List. UNDP will inform the UN on the implementation of ERP, and once the activity-based costing module is activated, the updates to the Universal Price List will be made using this facility.

Signed on behalf of UNDP:


Jan Mattsson, Assistant Administrator &
Director, Bureau of Management

Date: 22/08/03

Signed on behalf of the United Nations:


Jean-Pierre Halbwachs, Assistant Secretary-General,
UN Controller

Date: 12/08/03

* Based on further confirmation dated 11 August 2003 from Mr. Zinshaber, UNDP, of the UN's understanding contained in the memo of 26 June 2003 from Mr. Halbwachs to Mr. Mattsson.