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### Review of the efficiency of the administrative and financial functioning of the United Nations

#### Joint Inspection Unit

## Offshoring in United Nations system organizations

### Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly the report of the Joint Inspection Unit entitled “Offshoring in United Nations system organizations: offshore service centres” (JIU/REP/2009/6).

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\* A/65/50.



**OFFSHORING IN UNITED NATIONS SYSTEM  
ORGANIZATIONS**

**Offshore Service Centres**

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**Geneva 2009**

## EXECUTIVE SUMMARY

### Offshoring in United Nations system organizations: offshore service centres JIU/REP/2009/6

#### **Objective**

The objective of this report is to provide an assessment of offshoring policies, practices and experiences in the United Nations system, and to identify best practices and lessons learned.

Offshoring describes the relocation of business processes from one country to another. In recent years, the Office of the United Nations High Commissioner for Refugees (UNHCR), the Food and Agriculture Organization of the United Nations (FAO), the World Health Organization (WHO) and the World Food Programme (WFP) have developed major offshore service centre projects for their administrative services. With the exception of WFP, these organizations have already established their offshore centres.

The present report will focus on these cases and, based on the analysis of experiences and lessons learned, propose recommendations to be used as benchmarks for the implementation of United Nations system organizations when they consider offshoring administrative support services.

#### **Offshoring policy**

Prompted by resource crunches, United Nations organizations have resorted to offshoring for cost-saving reasons, without having first undertaken cost-benefit analyses of alternative sourcing options for delivery of services, and without a comprehensive policy or the explicit approval of governing bodies.

The establishment of offshore service centres is a strategic policy decision with serious implications on the structures of the organizations, therefore it should be subject to the review and approval of the governing bodies. Offshoring policy should be based on the cost-benefit analysis of alternative sourcing options for the delivery of services and developed in alignment with the corporate strategies of the organizations.

The policy should consider not only the expected cost reduction and service improvement, but also the risk management imperatives, such as financial, operational and organizational risks, including the possible adverse impact on staff.

In the United Nations system, increasing numbers of organizations are considering offshoring to reduce the cost of administrative services. However, their offshoring initiatives are piecemeal, ad hoc and disconnected. Organizations should explore inter-agency policy and project development opportunities for greater strategic and operational gains before undertaking individual offshoring projects.

#### **Mitigating measures for affected staff**

During offshoring, the management of human resources is particularly challenging, both for the organization, which stands to lose experienced staff, and for individual staff

members who face unwelcome change and the threat of job loss. Appropriate measures should be taken in an exemplary manner to mitigate the impact of offshoring on the staff.

### **Employment of National Professional Officers (NPOs)**

Significant levels of NPO employment in offshore service centres pose a risk of undermining the international character of the organizations. The governing bodies and heads of organizations should pay the utmost attention to maintaining the international character of the organizations when staffing offshore service centres.

### **Planning, communication and management**

A successful offshoring exercise requires comprehensive planning from the beginning and through all phases of the project. It should include change management and corporate communications strategies; risk assessment and mitigation measures; a sound governance structure; early recruitment of local staff; training and knowledge transfer; and security, business continuity and disaster recovery planning.

### **Monitoring and reporting**

Offshoring should include regular monitoring and reporting mechanisms based on established benchmarks and performance indicators. Progress in the achievement of objectives such as cost saving and service improvement should be monitored and reported. Reporting should be done internally to senior management and externally to governing bodies.

### **Achievements/success of offshore service centres so far**

No reports are yet available to analyze and demonstrate the achievement of cost-saving and service quality goals of the established major offshore service centres of the organizations. Moreover, there are no established methodology and monitoring mechanisms to measure progress and to report thereon.

In the absence of monitoring and reporting, the expected achievements of offshoring, namely cost savings and service improvements, remain in question. Those organizations with established offshore service centres should urgently set up appropriate methodologies and monitoring mechanisms in order to measure progress towards achieving the objectives of offshoring, and report internally to senior management and externally to their governing bodies on a periodic basis.

### **Inter-agency offshoring opportunities**

In order to achieve maximum efficiency, before resorting to offshoring, organizations should examine all inter-agency cooperation opportunities, including insourcing to existing service centres and establishing inter-agency service centres. Better inter-agency communication and potential consolidation would result in greater efficiency gains and provide early warning against risks.

The offshoring initiatives of United Nations system organizations have so far been piecemeal, fragmented and disconnected. This approach fails to capitalize on the potentially greater efficiency gains that might be achieved through inter-agency offshoring initiatives. The United Nations System Chief Executives Board for Coordination (CEB), through the High-Level Committee on Management (HLCM), should expedite the consideration of inter-agency shared service centres and initiate the development of a common/joint offshoring policy, with a view to achieving greater efficiency through a joint decision and project development process.

### **Recommendations**

The report includes 18 recommendations in total. While three recommendations are addressed to governing bodies, 13 recommendations are addressed to the executive heads of the organizations and two recommendations are addressed to CEB. The recommendations establish a benchmarking framework for United Nations system organizations considering offshoring administrative services.

Since UNHCR, WHO and FAO have made progress in the establishment of offshore service centres, the governing bodies and executive heads of these organizations should ensure the implementation of recommendations 7, 14 and 15. In addition, it is expected that, as Chairman of CEB, the Secretary-General should pursue the implementation of recommendations 17 and 18.

### **Recommendations for consideration by governing bodies**

#### **Recommendation 1**

**The governing bodies of United Nations system organizations should request the executive heads, before offshoring services, to develop an offshoring policy which is based on the cost-benefit analysis of all sourcing options for the delivery of services and which is in alignment with the medium- to long-term corporate strategy of the organization. The policy should then be subject to the review and approval of the governing bodies. All inter-agency opportunities, including common/joint policy and project development, should be explored exhaustively before organization-based offshoring policies and projects are prepared.**

#### **Recommendation 7**

**The governing bodies of United Nations organizations should request the executive heads to maintain the international character of the organizations in staffing offshore service centres.**

#### **Recommendation 15**

**The governing bodies of United Nations system organizations should exercise their oversight role in offshoring activities, including the implementation of policies, performance evaluation, and assessment of progress in achieving the objectives.**

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## ABBREVIATIONS

CEB	United Nations System Chief Executives Board for Coordination
ERP	Enterprise resource planning
FAO	Food and Agriculture Organization of the United Nations
GS	General Service
HLCM	High-Level Committee on Management (of CEB)
IAEA	International Atomic Energy Agency
ICSC	International Civil Service Commission
ICT	Information and communication technology
ILO	International Labour Organization
IT	Information technology
JIU	Joint Inspection Unit
MOSS	Minimum Operational Security Standards
NPO	National Professional Officer
SLA	Service level agreement
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UPU	Universal Postal Union
WFP	World Food Programme
WHO	World Health Organization



## I. INTRODUCTION

1. As part of its programme of work for 2008, the Joint Inspection Unit (JIU) conducted a review of offshoring in United Nations system organizations. The objective of the review was to provide an evaluation of offshoring policies, practices and experiences in the United Nations system, and to identify best practices and lessons learned.

2. In general terms, offshoring describes the relocation of support/administrative/business services from one country to another. It can take two different forms: offshore insourcing and offshore outsourcing. Offshore insourcing is characterised by the relocation of business processes to another country while still being kept in-house; and offshore outsourcing is when the business processes are contracted out to a different entity/company in another country.

3. An overview of offshoring practices in United Nations system organizations shows that offshore outsourcing is limited, and is concentrated primarily in the area of information and communication technology (ICT). In the case of offshore insourcing, some organizations have already established large offshore service centres in countries other than where their headquarters are located, and transferred the bulk of their business processes to these centres. In view of this situation, and as the JIU has already addressed the subject of outsourcing in some detail,<sup>1</sup> the present report will focus on the major offshore service centre initiatives (offshore insourcing) in the United Nations system. Henceforth, for ease of reference, the word offshoring will represent offshore insourcing in this report.

4. The present report reviews the cases of the offshore centres of the Office of the United Nations High Commissioner for Refugees (UNHCR), the Food and Agriculture Organization of the United Nations (FAO), the World Health Organization (WHO) and the World Food Programme (WFP) and, based on their experience and lessons learned, suggests recommendations to be used as benchmarks for United Nations system organizations to utilize when they consider offshoring administrative services. However, as UNHCR, FAO and WHO have already established offshore centres, they should implement recommendations 7, 14 and 15. In addition, as the Chairman of the United Nations System Chief Executives Board for Coordination (CEB), the Secretary-General should pursue the implementation of recommendations 17 and 18.

5. In accordance with the internal standards and guidelines of JIU and its internal working procedures, the methodology followed in preparing this report included a preliminary desk review, questionnaires, interviews and in-depth analysis. A short questionnaire was sent to all participating organizations to obtain an overview of offshoring practices in the system. The Inspectors conducted interviews with officials of the organizations and their staff representatives and undertook missions to offshore service centres. Comments from participating organizations on the draft report have been sought and taken into account in finalizing the report.

6. In accordance with article 11.2 of the JIU statute, this report has been finalized after consultation among the Inspectors so as to test its conclusions and recommendations against the collective wisdom of the Unit.

7. The Inspectors wish to express their appreciation to all who assisted them in the preparation of this report, and particularly to those who participated in the interviews and so willingly shared their knowledge and expertise.

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<sup>1</sup> JIU/REP/2004/9, JIU/REP/2002/7, JIU/REP/97/5.

## II. OVERVIEW OF OFFSHORING IN THE UNITED NATIONS SYSTEM

### A. Overview of offshoring initiatives

8. Annex I shows an inventory of the offshore insourcing and offshore outsourcing activities of the United Nations system organizations. Offshore outsourcing is limited to individual and non-critical business processes. In the case of offshore insourcing, UNHCR, FAO, WHO and WFP have recently initiated major projects to establish in-house offshore service centres in low-cost countries away from headquarters.

9. The Secretary-General of the United Nations, in his 2006 reform proposals, identified alternative sourcing options for the delivery of services, including the offshoring of certain administrative functions, outsourcing to external providers, telecommuting, and making more effective use of facilities already established around the world.<sup>2</sup> He noted that progress in exploring these options had been piecemeal and slow in the United Nations, and that administrative and support services were generally performed in-house and at high-cost locations such as New York and Geneva. He also proposed to undertake cost-benefit analyses of relocation, outsourcing and telecommuting opportunities for selected administrative services in 2006/2007.<sup>3</sup> In resolution 60/260, the General Assembly decided to revert to the issue of undertaking such a cost-benefit proposal at its sixty-first session; however, there has been no further action from the General Assembly in this respect.

### B. Major offshoring initiatives: offshore service centres

#### UNHCR

10. In February 2006, UNHCR launched a structural and management change process to review and realign its structures, processes and operating arrangements, with a view to increasing its responsiveness to the needs of beneficiaries and to reducing expenditures on administration and headquarters costs.<sup>4</sup> The terms of reference included outposting/offshoring, decentralization, regionalization and a field review.

11. Through an internal review, certain functions such as human resources, finance, and supply management, as well as necessary ICT support functions, were identified as suitable for offshoring. Subsequently, a detailed offshoring feasibility study (business case) was undertaken by PricewaterhouseCoopers, which identified a shortlist of four locations, with estimated cost savings.<sup>5</sup> UNHCR management chose Hungary (Budapest) among the shortlisted countries for offshoring.

12. Because of offshoring, 129 posts, consisting of 93 General Service (GS) and 36 Professional posts, were to be discontinued at headquarters. The Global (offshore) Service Centre commenced operations in Budapest on 1 January 2008, with the transfer of functions taking place in phases.

13. As of July 2009, there were 194 posts at the Global Service Centre as follows: Director D-1 (2); Professional (56); National Professional Officer (NPO) (25); GS (106); and Field Service (5). The net increase between posts discontinued at headquarters and posts actually created in the service centre was explained by the strengthening of the supply management service, transitory (temporary) staff and the recently established Global Learning Centre. Officials explained that the scope of offshoring has been expanded recently by including a Global Learning Centre for the consolidation of training functions in the offshore centre.

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<sup>2</sup> Investing in the United Nations: for a stronger Organization worldwide, A/60/692, paras. 57 and 58.

<sup>3</sup> Ibid, proposal 12.

<sup>4</sup> EC/59/SC/CRP.3, 10 February 2008, para. 1.

<sup>5</sup> UNHCR outposting feasibility study, final report, 16 April 2007.

## FAO

14. Following repeated calls from the governing bodies to achieve efficiency savings and productivity improvements in the administrative area, the Director-General in 2005 proposed the creation of a shared offshore service centre to be located where costs are significantly lower than in Rome.<sup>6</sup> In the context of organizational reforms, the FAO Conference authorized the creation of an offshore service centre in 2005 (resolution 6/2005). Proposals for the establishment of the service centre, as well as a comparison of locations for its main hub, were presented to the FAO Council in November 2006.<sup>7</sup>

15. In FAO, the provision of administrative and financial services was fragmented across headquarters and four management support units in regional offices.<sup>8</sup> Taking into account various factors, including cost, time zones, languages, facilities and ICT infrastructure, three processing locations in three regional offices (Budapest, Santiago and Bangkok) were considered to be the optimal solution with a coordination centre at headquarters in Rome. Budapest was chosen as the main processing centre, which would cover Africa, Europe (including central Asia) and the Near East.

16. It was planned<sup>9</sup> that with offshoring, a total of 92 posts (72 at headquarters and 20 at regional locations) would be discontinued, comprising 83 GS and 9 Professional posts. The offshore centre commenced operations in Budapest on 2 January 2008, with a phased transfer of functions. As of October 2008, there were 95 posts at the centre (9 Professional and 86 GS staff). Of the total, 72 were established regular posts and 23 were temporary (nine fewer temporary posts than in Rome).

## WHO

17. An analysis of service delivery for WHO management and administration functions, undertaken in 2006, concluded that the consolidation of routine processing of administrative transactions, which were fragmented across the headquarters and regional offices, into a global service centre located in a low-cost country, would result in significant cost savings. It would achieve savings through both economies of scale and lower operating costs in low-cost locations. This would allow a higher proportion of the WHO budget to be dedicated to achieving health outcomes. Moreover, the quality of service delivery would be managed to an agreed level, equal to or better than the best level achieved by WHO.

18. At the same time, it was envisaged that the introduction of a global management/enterprise resource planning (ERP) system would bring further efficiency gains and ensure effective service delivery from a single global service centre. It would provide an integrated global management system which would be shared by all offices worldwide over the Internet. The consolidation of services into one centre and the introduction of ERP would also reduce the administrative burden on technical programmes.

19. After some deliberation, WHO management chose Kuala Lumpur as the location for its offshore service centre. It was planned that the service centre would be responsible for the global delivery of administrative transactions in the areas of human resources, finance, payroll, procurement and global information technology (IT) services. The service delivery model analysis envisaged that the total number of staff performing administrative functions would be reduced. It was estimated that 276 staff would be affected by the offshoring to Kuala Lumpur (168 fixed-term and 108 short-term staff). The service centre reported 191 posts at the end of 2008, as follows: D-2 (1); Professional (26); NPO (31); and GS (133).<sup>10</sup>

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<sup>6</sup> CL 131/18 Add.1, p. 2, para. 2.

<sup>7</sup> CL 131/18, paras. 74-106 and CL 131/18 Add.1.

<sup>8</sup> CL 131/18 Add.1, p. 2, para. 3.

<sup>9</sup> CL 131/18, para. 87.

<sup>10</sup> WHO, Global Service Centre report 2008, p. 8.

**WFP**

20. Offshoring was considered in WFP in the context of downsizing efforts due to a shortage of funds. In 2007, the Boston Consulting Group undertook a study for the offshoring project<sup>11</sup> and drew up a shortlist of possible offshore locations, with estimated cost savings. The study identified India as the preferred offshore location, however, WFP management decided on offshoring different services to different locations in a phased approach. The first phase entailed the offshoring of non-critical processes (non-food procurement to Dubai; IT help desk, vendor management and travel to Delhi). In the second phase it was planned to offshore more critical processes, such as human resources management to Cairo and finance transactions to Delhi, but to date the second phase has been delayed. The Inspectors were informed that a new review of the offshoring project has been taking place, including a new proposal for four service centres.

**C. Justification for offshoring: cost-effectiveness and service improvement**

21. A review of the literature indicates that in the private sector, cost savings were the major driver for establishing offshore service centres. Likewise, cost savings were the main reason for the establishment of offshore service centres in the United Nations system. The justification for each of the four major offshoring cases reviewed in this report was the expectation of substantial cost savings in the delivery of administrative support services. The main source of savings envisaged arose from the significant differences in the salaries of GS staff between headquarters and offshore locations. In addition, it was envisaged that offshoring would improve services through consolidation and optimal use of resources.

22. During interviews, officials stated that the main purpose for offshoring might not invariably be cost saving; it could also be increasing service capacity and quality by enabling organizations to use resources more efficiently. In other words, with the same level of resources, offshoring could enable organizations to hire more staff and utilize more expertise and services for more and better service delivery. Thus offshoring provides flexibility to the organizations in the use of resources.

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<sup>11</sup> WFP offshoring project, final documentation, March 2007.

### **III. OFFSHORING POLICIES AND PRACTICES**

#### **A. Offshoring policy in the context of overall corporate strategy**

23. The decision to offshore should be based on the cost-benefit analysis of all sourcing options for the delivery of services, and a policy that includes objectives to be achieved and principles to be applied for offshoring should be developed. The recommendations of the present report should be taken into account in the development of the main principles of offshoring policies.

24. Sourcing options that should be analysed to determine the efficient and effective models for the delivery of services should include retaining services in their current location but streamlining and re-engineering; insourcing to other organizations; offshoring; and outsourcing. Analysis of sourcing options would indicate the best models for the delivery of different groups of services in the organization. The analysis should establish the benefits-and-risk profile of different alternatives with short-, medium- and long-term solutions.

25. United Nations system organizations resort to offshoring in a piecemeal and ad hoc manner, often in reaction to severe funding shortages, rather than planning and developing an offshoring policy based on the analysis of alternative sourcing options with a long-term vision. Although cost saving was the main driver for offshoring, organizations did not make a true analysis of alternative sourcing options for cost savings. In the case of outsourcing, officials stated that they prefer offshoring to outsourcing because of strategic and security concerns, citing the need to retain in-house control of their data and security, to minimize risks, as well as to retain staff and maintain the international character of the organizations.

26. In the absence of a thorough sourcing analysis in the offshoring cases reviewed, some interviewees argued that when looking at savings targets, in particular on an annual basis, they were not significant in terms of the total expenditure of the organizations, and alternative savings options like eliminating duplications and streamlining services could have easily been found without resorting to difficult offshoring exercises.

27. An offshoring policy should be clearly defined and closely aligned with the overall corporate strategy of the organization, such as decentralization and regionalization. Instead of fragmented and piecemeal projects, a holistic approach covering the whole organization would yield the greatest gains in efficiency. Moreover, the Inspectors are of the view that, given that an increasing number of organizations are considering offshoring, the development of a common/joint offshoring policy by the United Nations system or by United Nations system organizations considering offshoring would yield the greatest efficiency gains.

28. If the idea of a common offshoring policy is accepted, there is no need for organizations to develop policies individually. Then, the recommendations in this report should be taken into account in the development of a common policy for joint actions, including the establishment of inter-agency offshore service centres. In the absence of the establishment of a system-wide policy, organizations that are considering offshoring should jointly develop a policy and project. In any case, organizations should explore all inter-agency opportunities, including common/joint policy and project development, and insourcing to other organizations, before developing policy and projects individually. This issue will be reviewed further in section VI.

#### **Decision-making process for offshoring**

29. The establishment of offshore service centres is a strategic policy decision with serious implications on the structures of the organizations. It should therefore be subject to the review and approval of the governing bodies as part of the overall corporate strategy. The review process should include the cost-benefit analysis, likely investment cost, implications on the organizational structure, risks and mitigation factors, and alignment with overall corporate strategy. In the case of management taking the decision alone, there is a great risk that, on the one hand, the organizational structure and policies might be changed without the approval of the main

stakeholders, and on the other hand, it might later be difficult to gain the support of these stakeholders when needed, such as for funding, regulatory changes and mitigating risks.

30. Among the four offshoring cases reviewed, only FAO had the direct approval of the Member States for the establishment of its offshore centre.<sup>12</sup> In WFP, the intention to offshore was included in the Biennial Management Plan for 2008–2009, but no direct decision was required of or taken by the Executive Board.<sup>13</sup> Similarly, in UNHCR and WHO, offshoring was initiated at the most senior levels of management, and was not dependent on decisions of their governing bodies, although the latter were kept informed of the process through regular reporting.

31. Staff involvement is essential from the outset in any offshoring proposal. Management should brief staff regularly through close consultation with staff associations and town-hall style meetings, providing detailed information to ensure transparency and help gain the confidence of the staff. The active participation of staff representatives in all change management teams, task forces or other such entities set up for the purpose is a prerequisite. The Inspectors found, however, that in the four cases reviewed, staff representatives were not brought in early enough, and staff was only informed after the offshoring decision had been made.

## **B. Business case for offshore service centres**

### **Scope**

32. In order to justify offshoring, and also illustrate the overall scope of an offshoring project, the development of a business case is a prerequisite. A compelling business case would facilitate the decision-making process, garner support for the project from the governing bodies, and also enhance the commitment of senior management. It should include a cost-benefit analysis, a statement of objectives, an appraisal of the impact on the organization and in particular on staff, the identification of services to be moved and their proposed locations, and a report on risk analysis and mitigating factors. The success of the offshoring depends heavily on a proper assessment of the risks. The business case should identify and assess all kinds of risks, including financial, operational and reputational risks and any adverse impact on the morale of the staff, and provide countermeasures to reduce these risks to a manageable and acceptable level.

33. In the development of a business case, organizations should adopt a consolidated approach in an effort to avoid any fragmentation that may arise when the various departments prepare separate submissions for offshoring. The case should consider all parts of the organization, both headquarters and field, as well as the delivery of both administrative services and substantive programmes.

34. For the business case, FAO undertook the analysis in-house, while UNHCR and WFP both engaged consultancy firms. WHO also used a consultancy firm in the process of selecting the location. The Inspectors found the scope and depth of analysis in the WFP business case comprehensive and analytical, and consider that this case would be a useful model for the development of business cases for offshoring in the future.<sup>14</sup> In this case, administrative services were classified and those that were transferable in the short and medium term were identified. Governance and organizational implications, target location and cost recovery were all analysed in detail. Implementation planning addressed timelines and risks, human resources-related issues, and communication. Some elements of this business case can be seen below in box 1.

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<sup>12</sup> The Conference authorized the establishment of the Shared Services Centre in resolution 6/2005.

<sup>13</sup> WFP/EB.2/2007/5-A/1, paras 13, 319 and 329.

<sup>14</sup> WFP, offshoring project, final documentation, March 2007.

### Box 1: Some elements of the WFP business case

- Assumptions of the model, covering staff and non-staff costs and grades, efficiency effects, and investment cost were enumerated.
- Services were classified based on objective criteria as non-transferable, expertise-based and transactional
- The main governance processes and responsibility sharing were defined at the overall and process level.
- Major high-level risks (transitional, political and operational) were identified along with their probability and impact, and counter measures were proposed.
- A risk management process and a communication plan were elaborated.
- A detailed business model was provided for each service to be offshored, including timeline and milestones, major service-specific risks, and a financial summary that included net efficiency effects.

### Justification: cost-effectiveness and efficiency

35. A detailed cost-benefit analysis that included expected cost-effectiveness and service improvements would provide the foundation of the business case. For justification, the business case should clearly demonstrate that it is significantly economical and at least equally efficient to offshore services. For this purpose, the business case should calculate thoroughly all cost elements, quantify net savings, and establish baseline and expected service efficiency indicators. It should demonstrate strategic and operational gains in the short, medium and longer term as well as long-term sustainability. In the offshoring cases reviewed, although benchmarks for service improvements were not determined, estimated cost savings were as follows:

- UNHCR: US\$ 23.4 million for 5 years, and US\$ 80.5 million for 10 years (Budapest)
- FAO: US\$ 8 million for 4 years (Budapest)
- WFP: US\$ 19 million for 6 years (India)
- WHO: US\$ 51.7 million for 8 years (Kuala Lumpur) (includes savings from offshoring, consolidation of services and ERP implementation)

36. The main part of the savings envisaged comes from the substantial differences in the salaries of GS staff between headquarters and offshore locations. In the cases of UNHCR and WHO, recruitment of NPOs was another important factor in cost savings. The rent-free provision of premises provided additional cost savings.

37. In the estimation of cost, direct costs and indirect/overhead/hidden costs all need to be identified and included in the calculation. Costs should include, but not be limited to, separation packages, double incumbency during the transition period, overhead costs of new recruitment, coordination and communication, project management and travel, initial investment cost of premises, training and knowledge transfer, and other transition costs. In the cases reviewed there was a tendency to underestimate costs, and calculations were not clear enough. A true estimation of all costs would give both input to the cost-benefit analysis and also an indication of the funding required to undertake the offshoring project.

### Identification of services for offshoring

38. By and large, the organizations determined similar administrative services for offshoring based on similar criteria. Two categories of services generally considered suitable for offshoring are the processing of routine administrative transactions, and help desk support services. In the case of WFP, administrative functions were classified as follows: non-transferable services which are location bound or strategically crucial to a specific location; expertise-based services which require specific knowledge but are not specific to a given location; and transactional services which are repetitive and do not require specific knowledge. In principle, the last two categories were considered as transferable. FAO identified selection criteria and services to be offshored as shown in table 1.15

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<sup>15</sup> CL 131/18 Add.1 p. 5, para. 17.

Table 1  
FAO criteria and services identified for offshoring

Criteria for choosing administrative services for offshoring	The kinds of services which meet the criteria <sup>16</sup>
<ul style="list-style-type: none"> <li>➤ High-volume</li> <li>➤ Routine in nature</li> <li>➤ Based on agreed and documented rules and standard procedures</li> <li>➤ Individually of low strategic importance</li> <li>➤ Location independent</li> </ul>	<ul style="list-style-type: none"> <li>➤ Human resources and payroll processing</li> <li>➤ Travel advances and expenses claim processing</li> <li>➤ Accounting journals and adjustments</li> <li>➤ Letters of agreement processing</li> <li>➤ Accounts payable processing and payments</li> <li>➤ Routine procurement services</li> <li>➤ Inventory records maintenance</li> </ul>

### Transfer of functions: fully versus partially

39. In general, it was acknowledged by managers that it would be more efficient to transfer business functions fully without breaking the integrity of the processes. However, this was not always the case in practice. For instance, UNHCR moved the whole of procurement to Budapest, but at WHO procurement was split between headquarters and the service centre in Kuala Lumpur. When a service function is split into more than one location, it can complicate the management and integration of the operation, and create coordination and accountability problems. The implementation of the recommendations below is expected to enhance efficiency.

#### Recommendation 1

**The governing bodies of United Nations system organizations should request the executive heads, before offshoring services, to develop an offshoring policy which is based on the cost-benefit analysis of all sourcing options for the delivery of services and which is in alignment with the medium- to long-term corporate strategy of the organization. The policy should then be subject to the review and approval of the governing bodies. All inter-agency opportunities, including common/joint policy and project development, should be explored exhaustively before organization-based offshoring policies and projects are prepared. (See recommendations 16 and 18.)**

#### Recommendation 2

**The executive heads of United Nations system organizations should develop a comprehensive business case as the foundation for offshoring. It should include a cost-benefit analysis, major risks and countermeasures, and demonstrate a significant level of cost-effectiveness with increased or maintained service quality.**

<sup>16</sup> Ibid.



### C. Selecting the location for an offshore service centre

#### Selection criteria

40. Selection of the location must be based on objective criteria. The process must be transparent at each stage and free from undue political influence. The selection criteria most commonly used by the organizations fall broadly into the categories of staff costs, labour force characteristics, infrastructure, and country risk, while organization-specific factors are also taken into account.

#### WFP

41. The criteria applied in the WFP business case are shown in table 2 below. For each of the five criteria, 30 countries were assessed and ranked, and weightings were then applied to obtain an overall assessment and ranking.

Table 2  
Criteria for WFP offshoring location assessment

<b>Staff cost</b>	United Nations salaries in countries used as approximation for staff cost Estimated growth in salaries taken into consideration in analysis
<b>Labour force</b>	Availability of qualified labour force in the country Labour market regulations Language skills of workforce
<b>Country risk</b>	Country risk assessment including several economic and political indicators <ul style="list-style-type: none"> <li>▪ Voice and accountability</li> <li>▪ Political stability</li> <li>▪ Government effectiveness</li> <li>▪ Regulatory quality</li> <li>▪ Rule of law</li> <li>▪ Control of corruption</li> </ul>
<b>Country infrastructure</b>	Infrastructure availability <ul style="list-style-type: none"> <li>▪ Energy</li> <li>▪ Communication</li> <li>▪ Distribution</li> </ul> Office rent
<b>WFP specifics</b>	Factors affecting offshore location special to WFP <ul style="list-style-type: none"> <li>▪ Presence in country</li> <li>▪ Possibilities for funding</li> </ul>

Source: WFP, offshoring project, final documentation, March 2007, slide 31.

42. The case study drew up a shortlist of offshore locations, with estimated cost savings, as shown in table 3 below.<sup>17</sup>

Table 3  
WFP study: estimated accumulated savings, 2007–2012  
(millions of United States dollars)

<b>Philippines</b>	20	<b>South Africa</b>	15
<b>Malaysia</b>	20	<b>Hungary</b>	14
<b>India</b>	19	<b>Czech Republic</b>	11

<sup>17</sup> WFP offshoring project, final documentation, March 2007, slide 34.

43. Taking into account other factors including the existence of a WFP country office in Delhi/India, the business case identified India as the preferred offshore location. However, contrary to the conclusions of the business case, management decided to transfer different services to different locations. In the first phase, the IT help desk, vendor management and travel were offshored to Delhi, whereas non-food procurement was offshored to Dubai. The second phase to offshore other services has been postponed because management decided to review the whole process and a new proposal for four service centres.

## UNHCR

44. UNHCR used a set of core criteria for selecting an optimal location.<sup>18</sup> These were political stability indices, labour costs, skilled labour, location accessibility, infrastructure costs, logistical accessibility, language skills, connectivity, staff retention at the new location and UNHCR proximity distance. The location study was prepared for two sub-groups (the supply management service, and the finance and administration and human resources management divisions). The weighting, and thus the order of importance, of the core criteria differed between these two groups. The core criteria were further elaborated into separate sub-criteria (109 in total), which were used for the analysis.

45. Based on the initial UNHCR study and the experience of the consultants, 20 cities from 14 countries were chosen for location analysis. Although there were differences in the application of criteria for the two management groups, in the final analysis the optimal shortlisted cities were identical. According to the feasibility study, the shortlisted cities and estimated cost savings are as shown in table 4:

Table 4  
UNHCR offshoring study: estimated cost savings  
(millions of United States dollars)

	<b>Bucharest</b>	<b>Budapest</b>	<b>Chennai</b>	<b>Kuala Lumpur</b>
Total savings first 5 years	18.1	23.4	25.9	27.6
Total savings first 10 years	69.0	80.5	85.3	88.6
Yearly savings after year 5	10.1	11.3	11.8	12.1

Source: UNHCR outposting feasibility study, final report, 16 April 2007, p. 4.

46. The study did not identify a preferred final location for UNHCR offshoring, recognizing that the final choice depended on direct negotiations that the organization needed to conduct with the potential host governments of the shortlisted cities, which might result in further benefits such as financial incentives related to premises and other terms of the host country agreement. Officials stated that they also had to take into account another important factor for the selection, namely, whether or not the country had signed the Convention relating to the Status of Refugees. The final choice was Budapest. However, there was no documentation regarding the justification of the final decision.

## FAO

47. For FAO, a critical factor in the location decision was the need to ensure full time-zone coverage across worldwide operations. Global operations were divided into three continental time zones with a service hub planned for each and a coordination centre at headquarters. It was decided to utilize existing regional offices in Santiago and Bangkok to service Central and South America, and Asia and the Pacific, respectively. The third hub, in the central time zone, serving headquarters, Europe (including central Asia), Africa and the Near East, would be the main offshore service centre in view of the substantial FAO operations in this time zone.

<sup>18</sup> UNHCR outposting feasibility study, final report, 16 April 2007, p. 33.

48. Nine cities, in which FAO already had a regional presence, including Rome, were considered for this main hub, as well as a few other possible cities. A strong ICT infrastructure was a prerequisite for a suitable service hub in this zone. Other technical factors analysed were the alignment of the working week and working hours, especially with headquarters, travel links and level of security. The analysis resulted in a final shortlist of Budapest and Rome. Savings in staff costs by locating the service hub in Budapest rather than Rome were estimated at 66 per cent, and Budapest was chosen.

## **WHO**

49. WHO first identified a number of potential locations for offshoring and applied a set of criteria to reach a shortlist for final selection. The main criteria and their weighting in the analysis are as follows:

- Financial structure (compensation costs/salary levels, infrastructure costs, costs of corruption) (40 per cent)
- Work force skill level and availability (experience and functional skills, labour force availability, education, languages and provision of important quality of life services) (40 per cent)
- Environment (country environment including political stability, country infrastructure/connectivity, accessibility/flight availabilities) (20 per cent)

50. In addition, analysis took into account the availability of service coverage to WHO offices during normal working hours and the availability of a stable security level. WHO also considered the following options for locations: co-locating in an existing WHO office; co-locating in another United Nations family facility; or establishing a new location in a country where there is an existing host country agreement.

51. An initial analysis of locations resulted in the shortlisting of four cities: Chennai, Delhi, Kuala Lumpur and Manila. The Director-General convened a review panel, comprised of an external executive from another United Nations agency and senior WHO managers, who had hitherto not been directly involved in Global Management System/ERP or the preparatory work leading up to the decision to establish a service centre or its potential location. The mandate of the panel was to review the proposals received from the respective authorities, assess their relative value to WHO, and recommend to the Director-General the location that afforded the best value. In the end Kuala Lumpur was selected.

### **Documentation for the justification of final selection**

52. In general there is a lack of documentation of the justification behind the final choice of location, and a lack of transparency in the decision-making process. The Inspectors would like to emphasize that the selection of an offshore location is a strategic decision for the operation of the organizations; therefore, appropriate care should be exercised to document the analysis of locations and negotiations with shortlisted countries, including their proposals. The executive heads should submit the analysis and their preference, along with the reasoning behind their choice, to the governing bodies for review.

### **Differences among the analyses of business cases**

53. The accuracy of the analysis and detailed technical aspects of business cases were not part of this review. However, it was noticeable that there were some differences in criteria, their applications and calculations. Although the four offshoring cases reviewed were all developed within a close period, there are significant differences in their analyses and final decisions. For instance, although the UNHCR and WFP business cases were prepared at the same time (in 2007), they produced relatively different results in terms of the cost advantages of different locations. Organizations should coordinate their offshoring initiatives, including the preparation of business cases and sharing of their experiences, in order to have a consistent and coherent approach.

### **Single versus multiple offshore service centres**

54. With regard to choosing one location for all services or different locations for different zones and/or services, there were different approaches. UNHCR chose to have one service centre, Budapest, for all

offshored services except telecom functions and the IT help desk. UNHCR already had the use of a rent-free warehouse in Dubai for emergency supplies, and in 2005, established a field telecommunications unit there for rapid deployment and better service, while maintaining a small headquarters unit. Before the major offshoring case, UNHCR had also set up a global service desk function in Kuala Lumpur to provide first-level IT support.

55. FAO chose to establish three offshore service centres in three different time zones; however, the Budapest centre would cover the majority of operations. WHO chose one location for all services. WHO estimated that if the service centre were based in more than one location, there would be a 25 per cent reduction in efficiency gains. WFP did not follow the conclusion reached by the business case for a single service centre but does not have any documented analysis and justification in this respect.

56. The Inspectors would like to point out that a single service centre for all services would create more efficiency, easy communication, and better integration in the application of services across the world. It would allow the achievement of economies of scale and consistency in application, and be less costly than multiple centres. The integrity of services is very important. When services are too widely dispersed, the system tends to become dysfunctional. Multiple centres would create communication difficulties, increase investment, maintenance and training costs, and pose a risk for the integration of services and accountability. Time zone differences should not be a significant problem; however, it is important that in the selection of the location, organizations should take into account the time zone that would offer the best coverage of the majority of operations. The implementation of the recommendation below is expected to improve efficiency.

### **Recommendation 3**

**The executive heads of United Nations system organizations considering establishing an offshore service centre should undertake a detailed analysis of alternative locations based on objective criteria, as part of the overall business case, and document the justification for their final preference. The analysis should be submitted to the governing bodies for their review.**

## **D. Host country agreements**

57. The establishment of an offshore service centre by a United Nations system organization can be mutually beneficial. This was recognized by the Secretary-General of the United Nations who noted that relocating activities to new workstations would spread the economic and employment benefits of those activities more equitably among Member States, while at the same time making the organizations more effective and efficient.<sup>19</sup> Countries also enjoy considerable prestige from hosting the offices of United Nations system organizations, and this may enhance their international political standing and bring additional economic benefits.

58. It is critical, however, to have a sound legal agreement with host countries for the secure, efficient and effective functioning of offshore service centres. A brief review of the host country agreements and conditions provided in three major offshoring cases (UNHCR, FAO and WHO), although showing many similarities, revealed noticeable differences. Even the agreements that were concluded with the same country (UNHCR and FAO) differed significantly. In addition, agreements had quite different structures and clauses for the same issues, and these differences may in turn lead to different legal interpretations.

59. There were significant differences regarding the provision of diplomatic privileges. In terms of the employment of spouses of international Professional staff, while the UNHCR agreement provides

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<sup>19</sup> A/60/692, para. 59.

opportunities not only for spouses but also their dependent relatives to work without a work permit, the WHO agreement covers only spouses and leaves their employment to the permission of the host government. While all international Professional officers of FAO benefit from tax exemptions and diplomatic car licence plates, in the same country only staff at P-5 level and above in UNHCR get these privileges. In the case of WHO, only the head of the service centre has diplomatic car license plate.

60. Only the FAO agreement has a clause to require that the Minimum Operational Security Standards (MOSS) are met by the government. All three organizations have rent-free premises inclusive of utilities and furnishings. However, the duration of the host country agreements is inconsistent; for FAO it is indefinite, for UNHCR 10 years and for WHO 15 years. Although agreements have clauses giving the option to renew, the initial optimal length of an agreement should have been considered.

61. The Inspectors are of the view that the agreement with the host country should not be a secondary element in the selection of an offshore location. Indeed, the location decision should be used as leverage by the organizations to obtain the best possible agreement with prospective host countries. To facilitate transparency and disseminate best practices, existing host country agreements should be deposited at the United Nations for easy access, so that organizations can take account of the financial incentives and privileges and immunities granted in similar agreements in the same country or other countries, with a view to obtaining an agreement that is at least as favourable.

62. Organizations should seek close cooperation in the preparation of these agreements and where more than one organization is negotiating with a prospective host country, it would be preferable to engage in joint negotiations. The relevant working groups of the CEB High-Level Committee on Management (CEB/HLCM) would be a good forum to share and discuss host country agreements, and also try to develop a model agreement for offshore centres. The implementation of the recommendation below is expected to enhance effectiveness.

#### **Recommendation 4**

**The executive heads of United Nations system organizations should negotiate with the prospective host country governments with a view to obtaining an agreement for the offshore service centre that is at least as favourable as similar agreements elsewhere. To this effect, they should share and coordinate their host country agreements for offshore service centres.**

### **E. Managing the impact of offshoring on staff: mitigation measures**

#### **Communication with staff**

63. It is often stated that the staff are the most important asset of the United Nations system organizations. The accumulated knowledge and experience of the staff are essential elements in the success of an organization in fulfilling its mandate. Management of this asset must be undertaken in an exemplary manner by the organizations. In the context of offshoring, the management of human resources is particularly challenging, both for the organization, which stands to lose experienced staff, and for individual staff who face unwelcome change and the threat of job loss.

64. Communicating with the staff from the earliest possible moment is an essential part of managing the transition to offshoring. However, in the four cases reviewed, staff representatives were not involved in consultations at the initial planning stage, and were only briefed by management after the offshoring decision had been taken. Such lack of clear communication usually creates confusion, frustration and negative perceptions among staff. Staff representatives and some managers were of the view that initial communications with staff could have been handled better, and this was a lesson learned.

65. After some initial confusion, staff representatives were actively involved with management in redeployment exercises for those staff on indefinite/continuing and fixed-term contracts affected by the offshoring. In all cases, management froze vacant posts, sometimes before offshoring, with a view to using them for the redeployment of staff during offshoring.

### **Mitigating measures**

66. Redeployment task forces operated in both WFP and FAO and most GS staff were redeployed, with only a few taking a voluntary separation package. The Inspectors were informed that no Professional staff left FAO as a result of the offshoring. In WFP, the situation was far from clear, however, as the offshoring coincided with a sharp downsizing brought about by the financial crisis and a delay in the offshoring process.

67. In WHO, staff representatives were fully engaged with human resources management in handling the impact of offshoring on the staff and considered it reasonably successful, both in terms of communication and collaboration, and the outcome for staff. To streamline the process, standing panels were set up and normal selection procedures were waived where staff were matched at grade to vacancies. Some staff chose separation by mutual agreement with a separation package. All affected staff either took the package or found a new position at or above their grade level.

68. In UNHCR, both management and staff representatives reported tensions in their collaboration in the initial stages of the transition to offshoring, but a generous separation package helped to resolve problems and ease the process. During a recruitment freeze, some affected GS staff were redeployed to vacant posts in headquarters and some senior GS staff went on short-term assignments to Budapest on Field Service posts to train newly recruited staff, but no GS staff agreed to take GS positions in the new location. Affected Professional staff sought new posts through the normal rotation process. Staff were also provided with the opportunity to apply for vacancies in other organizations as internal candidates on an exceptional basis.

69. All the organizations endeavoured to avoid involuntary separations by introducing redeployment within headquarters, by offering the possibility to transfer to the new location, or by providing voluntary separation packages. The majority of affected staff were settled in this way, however in WFP some fixed-term contracts were not renewed during the offshoring and downsizing processes. Some officials pointed out that redeployment might not be optimal in terms of efficiency, as skills could not always be matched to available posts; this was also demotivating for staff. Furthermore, redeployment was particularly difficult when the relevant occupational groups had been eliminated from the headquarters location owing to offshoring.

70. For some staff, a voluntary separation package was a better option than redeployment, particularly for those closer to retirement. The terms offered varied among the organizations, with UNHCR being the most generous. In the first phase, in effect until the end of June 2008, UNHCR staff affected by the offshoring were offered the standard termination entitlement plus an additional 50 per cent and a training allowance of 1.5 months. In the second phase, which took effect in August 2008 and was offered to all staff, the package was more generous. A list of the UNHCR second package including redeployment measures can be seen in box 2 below.

Box 2  
UNHCR: Mitigation measures for staff

**For staff redeployment**

- Priority consideration for vacant GS posts at headquarters
- Re-employment opportunities
- Facilitated movement of GS staff into Professional category
- Guarantee of local recruitment in Budapest for GS staff
- Opportunity to apply for vacant positions in other United Nations organizations as internal candidates

**Voluntary separation package<sup>20</sup>**

- Termination indemnities plus the discretionary percentage (50 per cent)
- Financial assistance for training – a lump sum amount equivalent to 3 months' salary
- The full contribution of the organization to the pension fund and medical insurance schemes for staff members in situations where they are some years short of the early or mandatory retirement age
- Continuation of education grant for an additional academic year

**Funding of measures**

71. Funding of the separation packages differed among the organizations. In WFP, the funding was earmarked by the governing body, but in FAO it had to be taken from the existing budget. WHO used funds in its termination indemnity account, which it was subsequently able to replace with a donation from a Member State. Similarly, donations from Member States helped to fund the UNHCR package.

72. The Inspectors believe that in the context of the United Nations common system for salaries, allowances and benefits, the disparities in the separation packages among the organizations are a matter of concern. The reason for the disparities, in general, is explained by the budget available. In a major offshoring exercise that would have a drastic impact on staff, it is advisable that organizations should seek additional funding for relatively generous separation packages, with the justification of long-term substantial savings resulting from offshoring. Therefore, the Inspectors are of the view that governing bodies should provide earmarked funding for separation packages linked to offshoring to avoid funds being diverted from substantive activities. The costs of these packages should be reflected in the cost-benefit analysis of the offshoring. The implementation of the recommendations below is expected to improve effectiveness.

**Recommendation 5**

**The executive heads of United Nations system organizations should take all necessary measures to mitigate the impact of offshoring on the staff, and ensure that the full costs of those measures are reflected in the analysis of the overall costs of offshoring.**

**Recommendation 6**

**The executive heads of United Nations system organizations should seek from governing bodies adequate earmarked funding for voluntary separation packages linked to offshoring.**

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<sup>20</sup> UNHCR inter-office memorandum no. 63/2008, 18/08/2008.

## F. Employment of National Professional Officers in offshore service centres

73. Both UNHCR and WHO have created NPO posts in their offshore service centres. NPO posts had also been foreseen in the WFP offshoring case. FAO is an exception in this regard. The offshore service centre staff structures of UNHCR, FAO and WHO can be seen in table 5 below.

Table 5  
Offshore service centre staff structure

	Director	Professional	National Professional Officer	General Service	Field Service
UNHCR	2	56	25	106	5
FAO	0	9	0	86	0
WHO	1	26	31	133	0

74. The Inspectors have concluded that the employment of NPOs has been an important element in achieving the cost savings that have been the main driver for offshoring by the organizations. Part of the business case of WHO, for example, stated that the NPO cost in Kuala Lumpur was one quarter of the cost of a P-3 in Geneva.<sup>21</sup> As can be seen in table 5 above, more than half of the Professional-level work in the WHO service centre and thirty per cent in the UNHCR service centre are being undertaken by NPOs, with considerable cost savings to the organizations.

75. The Inspectors are concerned, however, that the organizations are not in conformity with the criteria for NPO employment, as proposed by the International Civil Service Commission (ICSC)<sup>22</sup> and enacted by the General Assembly in resolution 49/223. Although the criteria have been revised over the years, their main character has stayed the same. According to the criteria, NPOs should be recruited locally to perform the duties of Professional staff that require knowledge and experience at the national level and which cannot be carried out as effectively by internationally recruited staff. The work performed by NPOs should have a national content.<sup>23</sup> The functions involved are expected to be in the areas of national development assistance and public information. Selected criteria that are pertinent to these concerns are listed in box 3 below.

### Box 3 Criteria for the employment of NPOs

- The employment of NPOs by a given common system organization should be grounded in a policy framework established by that organization's legislative body...
- NPOs should be nationals of the country where they are to serve, should be recruited locally and should not be subject to assignment to any duty station outside the home country.
- The work performed by NPOs should have a national content. It should be at the Professional level, and the same standards of recruitment qualifications and performance as are required for other Professional staff should apply. The functions of all NPO posts should be justified within the overall efforts of the United Nations system to increase national development and other related categories. NPOs should bring to bear in the job national experience and knowledge of local culture, language traditions and institutions.

Source: Report of the ICSC for the year 2006, A/61/30, annex IX, paras. 1, 2 and 3.

<sup>21</sup> WHO Global Service Centre, presentation to HLCM-FB, July 2008.

<sup>22</sup> A/49/30, annex VI.

<sup>23</sup> Report of the International Civil Service Commission for the year 2006, A/61/30, annex IX, para. 3.



76. In the offshore centres of UNHCR and WHO, contrary to the criteria, NPOs have been employed to perform administrative support services such as finance, human resources and payroll administration that have no national content and no direct link to national development. For the most part, managers were candid in acknowledging that the use of NPOs in the offshore service centres was not in line with ICSC criteria. However, they expressed the view that the ICSC criteria needed to be revised to reflect current realities.

77. WHO officials argued that cost-efficiency was only part of the rationale behind the use of NPOs. The most important element was the specialized nature of the work. Processing transactions would be unique to the ERP system, and that type of work would not be undertaken elsewhere in the organization. Although Professional-level work, it would be site-specific to Kuala Lumpur. Therefore, to assign the functions to international Professional staff did not make sense in career development terms.

78. The arguments mentioned above fall short of explaining the significant level of NPO recruitment for administrative services. These functions are not country specific and do not have national content. Most of these functions were previously carried out at headquarters before being moved to an offshore service centre. If the organizations should decide to change location again, the same functions would have to be carried out in the new location. It is therefore recommended that WHO and UNHCR should review and adjust their NPO employment practices in offshore service centres with a view to ensuring compliance with the relevant General Assembly resolution and ICSC guidelines to preserve the international character and the independence of the international civil service. If there is a need for a new post structure or grade level for some technical jobs due to new technologies and corresponding new job descriptions, organizations should consult with ICSC.

79. The current practice of NPO employment in the offshore service centres risks undermining the universal/international character of the organizations that stems from the Charter of the United Nations. In addition, it would also undermine the staff mobility and rotation policies of the organizations. As required by the criteria, the employment of NPOs should be grounded in a policy framework established by the organizations' legislative/governing bodies.<sup>24</sup> Therefore the governing bodies should exercise their oversight role to ensure the maintenance of the international character of the organizations. To this effect, the executive heads should report on the staff structure of offshore service centres to the governing bodies on a regular basis. The implementation of the recommendation below is expected to improve controls and compliance.

**Recommendation 7**

**The governing bodies of United Nations system organizations should request the executive heads to maintain the international character of the organizations in staffing offshore service centres.**

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<sup>24</sup> Ibid, para. 1.

## IV. PLANNING AND MANAGING THE OFFSHORING PROCESS

### A. Change management and corporate communication strategy

80. Establishing offshore service centres drastically affects the structure, culture, human resources and way of working in the organizations. Mere talk of offshoring automatically triggers fear of an unknown future, fear of losing jobs and control in the organizations. This situation may naturally lead to resistance to change in different layers of the organization that could pose a risk for the successful implementation of an offshoring operation.

81. In a shared service benchmark study,<sup>25</sup> two top critical success factors for implementing a shared service centre were found to be executive support (32 per cent) and change management (26 per cent). “A true change management plan will conduct an in-depth cultural assessment, detailed transition planning and recognize the need for constant communication.”<sup>26</sup> Change management needs readiness assessment,<sup>27</sup> that is, the assessment of an organization’s ability to change at all levels. It should include a vision of change and strategy, leadership development, the building of commitment with all stakeholders and affected parties, and any necessary mitigating measures for those staff affected.

82. While a change management strategy is essential to ensure that changes are fully implemented and supported across the organization, an effective communication strategy is critical in providing transparency and justification for the process, and communicating the vision for change. A clear communications strategy targeted at the stakeholders, in particular staff, executive management and end users, is a prerequisite for any successful structural change, and should be an integral part of the organization’s offshoring strategy. It should include the justification to resort to offshoring, main objectives, expected changes and their implications, mitigating measures, and clear scope and timelines.

83. In the offshoring cases reviewed, change management and communication with stakeholders were addressed to some extent. However, both were implemented rather late to deal with the issues, as well as in a relatively fragmented and ad hoc manner. The implementation of the recommendation below is expected to enhance effectiveness.

#### **Recommendation 8**

**The executive heads of United Nations system organizations should prepare change management and corporate communication strategies for the success of offshoring projects.**

### B. Project management approach

84. In order to successfully establish an offshore service centre, it is crucial to have dynamic leadership at the top and to create ownership among critical management levels. Ownership does not mean mere acceptance of the change, but willingness to take responsibility for making changes. This process requires strong, visionary leadership at the top and the involvement of managers in identifying problems and providing solutions.

<sup>25</sup> Shared service: a Benchmark study (authored by Kristin Purtell), Arthur D. Little, The Johnson Group, p. 2.

<sup>26</sup> Ibid., p. 4.

<sup>27</sup> UNHCR outpostting feasibility study, final report, 16 April 2007, p. 29.

Managers should understand and embrace the proposed changes, work together and speak with one voice towards change. It is good practice to assign a top-level manager with full authority for the execution of the project. In addition, since offshoring projects are cross-departmental in nature, it is better to establish a cross-departmental steering committee to oversee the project progress and address problems as they arise.

85. One of the problems reported during interviews was the lack of dedicated project management staff, so that managers in the functional areas concerned were obliged to take on additional responsibilities and workloads. A dedicated management team would facilitate successful implementation, particularly in offshoring cases of a significant size and scope. If it is not possible to have a fully dedicated team, there should be at least a few dedicated core members to pursue issues, coordinate and monitor implementation. The Inspectors found that the organizations set up project management structures to some extent, but most did not have the funding for dedicated project management teams. The cost of project management, including dedicated team members, should be included in the upfront investment cost of offshoring.

86. In UNHCR, the Deputy High Commissioner was provided with full authority to carry out offshoring. He led a task force comprising all the managers in the administrative and other divisions concerned, and a change management team acted as secretariat for the task force. In FAO, the administrative and finance department team managed the implementation. In WHO, a steering committee comprising an Assistant Director-General and a wide range of relevant officials, including the general management group, oversaw the process. In WFP, the Field Emergency and Support Office was the department responsible for offshoring; there was also a steering committee. The offshoring exercise at WFP stalled after the first phase, and there has been prolonged uncertainty regarding the fate of the offshoring. Turnover in the key positions was one of the important factors in the uncertainty, which has led to a lack of ownership of the project at the top level.

87. A comprehensive project plan, with a clear road map and timeline, is essential to the success of a project. A project governance structure must be put in place with clearly defined roles and responsibilities, and effective communication and reporting lines should be established in detail. Lack of clarity in communication and reporting lines among the various actors blurs accountability with a concomitant increase in risk. The implementation of the following recommendation is expected to enhance effectiveness.

#### **Recommendation 9**

**The executive heads of United Nations system organizations should create effective project management teams with strong leadership at the top and prepare detailed project plans for setting up offshore service centres.**

### **C. Managing the transition**

#### **Enterprise resource planning**

88. The key to successful offshoring is seamless integration, and technological developments play a crucial role in this respect. The implementation of an ERP system has been the major enabling factor for the offshoring of business processes by the organizations. FAO, for example, noted that the new ERP systems “facilitate a new business model where the processor no longer has to be geographically close to the decision maker for efficient operations – the transaction, routed electronically, can just as easily be processed from any

location. Consequently, the introduction of these ERP systems has allowed the Organization to look at low-cost processing centres as part of its drive for increasing efficiency and lowering administrative costs".<sup>28</sup>

89. The implementation of ERP systems in UNHCR, FAO and WHO has made it easy to consolidate and transfer services to remote offshore centres. However, there were different approaches with respect to the sequence of ERP introduction and offshoring, with implications on the risk level posed to organizations. This situation will be reviewed further in the sections below.

### **Phased versus Big Bang approach: combination of offshoring with the roll-out of ERP**

90. It is critical to carefully assess and take into account possible risks when deciding about the method of transferring business functions to offshore service centres. The methods in this area can be summarized as Phased and Big Bang approaches. In the phased approach, business processes are transferred and begin operations in a gradual and sequential manner. This approach reduces risk by providing the opportunity to establish initial success and experience with functions that are not critical, facilitating the transfer of critical functions at later stages with less risk.

91. In the Big Bang approach, business functions are transferred together and start to operate at the same time. This approach carries a significant level of risk for the proper functioning of operations owing to the magnitude of the tasks to be undertaken at the same time, in particular if it is done with newly recruited staff. However, this approach is considered less costly in comparison to a phased approach because of its shorter completion period, requiring only one training and one set-up of the system.

92. UNHCR, WFP and FAO chose a phased approach to offshore their business processes. For instance, UNHCR, in the transfer of the human resources function, progressed from non-critical to critical ones. The personnel administration unit was transferred first, then the compensation unit, and finally the payroll unit. Payroll was operated and stabilized with the new ERP system at headquarters for one year before moving it to the offshore centre. WFP envisaged a three-year phased implementation in the period 2006–2009, with non-critical processes transferred in the first phase, and more critical processes planned for the second. In the first phase WFP offshored IT help desk, non-food procurement, vendor management and travel. In the second phase WFP planned to offshore human resource management and finance, however the second phase has been delayed to date.

93. In the case of FAO, all human resources servicing, travel and help desk functions were progressively moved from headquarters in the first half of 2008. In the second half, it was planned that accounts payable, invoice processing and vendor management were to be moved.<sup>29</sup> FAO adopted a phased approach for three main reasons: systems and process constraints, infrastructure and training needs, and the need to minimize adverse impact on staff.<sup>30</sup>

94. Although phasing can be considered a good risk management approach, organizations may consider taking the Big Bang approach. If that should be the case, based on previous experience and lessons learned elsewhere, they should make comprehensive plans and risk assessments, and prepare any necessary mitigating measures, including contingency plans for worst-case scenarios.

95. Another question regarding the transfer of functions is whether business processes should be re-engineered before offshoring. Clearly, organizations should streamline and convert their business transactions to electronic format as much as possible and create an electronic documentation system. In terms of re-engineering, it would be highly preferable if processes were re-engineered and operations were stabilized before going live in the offshore location. However, if the processes are re-engineered in the course of

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<sup>28</sup> CL 131/18 Add. 1, para. 16.

<sup>29</sup> FC 123/16, p. 1, para. 1 and 7.

<sup>30</sup> CL 131/18, paras. 92-106.

offshoring, and start operating at the same time as the opening of the offshore service centre, it can pose risks and create many problems due to the lack of stability in the systems at the start-up. The simultaneous launch of offshoring with an ERP system, as in the case of WHO which is discussed below, illustrates the risks inherent in this approach.

96. If the Big Bang approach includes the introduction of a new system, the risk will be higher because problems with both offshoring and the new system might occur at once. In addition, implementing a new system with newly recruited inexperienced staff may further aggravate transition problems. ERP systems require organizations to streamline and/or re-engineer business processes and convert large quantities of administrative records from the old to the new system. The system migration from old systems is complex and challenging, particularly where the organization has a large field presence. Experience has shown that the testing, system migration and stabilization of the ERP system needs to be completed before moving business processes offshore. FAO and UNHCR took this approach; thus, when their offshore centres started operating, they had fewer problems regarding the functioning of the ERP system.

### **WHO case: lessons learned**

97. WHO decided on the Big Bang option, and rolled out the ERP and offshore centre operation for headquarters and the Western Pacific region at the same time on 1 July 2008, in Kuala Lumpur. The simultaneous launch of offshore operations and ERP was truly a Big Bang approach with high risk.

98. The external auditor, in his report from May 2008, documented very well the problems in the offshore service centre before it went live.<sup>31</sup> The audit findings included lack of user testing for system solutions; lack of parallel runs for modules; lack of tests for end-to-end scenarios; lack of capacity-planning tests; lack of a documented training needs analysis and a formalized knowledge transfer plan; persisted problems in data conversion; and lack of formal data integrity testing and a formal information security management system. Based on these findings, the external auditor made a number of recommendations, including full testing to confirm the stability of the system before the offshore centre is allowed to go live.

99. The review by Inspectors revealed that WHO encountered serious problems and challenges with the concurrent launch of offshore operations with ERP roll-out, which adversely affected the efficiency and effectiveness of the services delivered. There were also problems in the adequacy of bandwidth. Staff had enormous problems in processing transactions and hence transactions were severely delayed. The management of the service centre summarized the problems, both in interviews and in its report, as follows:<sup>32</sup>

- Unstable systems
- System bugs in all functional areas (payroll, human resources, procurement and accounts payable)
- Legacy data conversion problems
- Lack of adequate knowledge transfer and training in some areas
- Lack of knowledge of business processes among staff members, most of whom were newly recruited.

100. Planning, risk assessment, and estimation of the magnitude of the issues and risk mitigation factors were inadequate. The system had not been stabilized, business processes were immature, and testing was insufficient. Overall, the centre was not ready to go live on the date it went live. The Inspectors recognize that there was an enormous effort by the management and staff of the offshore centre to improve the situation. Some officials reflected that the effort they had to put in during transition had been like fire-fighting. Although the situation has improved significantly over the months since the centre went live, it is still in transition mode. The system is not yet fully stable and there are still problems and delays in the transactions.

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<sup>31</sup> Report of the External Auditor to the Health Assembly, WHO, A61/23, paras. 79-123.

<sup>32</sup> WHO, Global Service Centre report, 2008.

101. In order to expedite the improvement process, WHO management should take stock of the issues in a consolidated manner, and make an assessment of the current situation and problems objectively and transparently, with a view to defining the problems and providing solutions with a timetable for their implementation. Management may also consider using independent outside expertise for this purpose.

102. The findings of WHO management,<sup>33</sup> and interviews by the Inspectors with officials, confirmed that the following actions, gleaned from lessons learned, should be taken before allowing an offshore service centre to go live:

- Ensure the stability and predictability of ERP in all key functions
- Ensure adequate end-to-end testing and training for all users
- Ensure adequate staffing in both number and competencies for functions
- Ensure upfront knowledge transfer and enhanced training to offshore centre staff
- Ensure that old data are cleaned and converted into the new system
- Validate, possibly with the help of independent experts, the readiness of the system and service centre to go live

The implementation of the following recommendation is expected to improve efficiency.

#### **Recommendation 10**

**The executive heads of United Nations system organizations should ensure the readiness of the enterprise resource planning system and the offshore service centre before going live. To this effect, appropriate tests should be done; and adequate staffing, infrastructural capacity, and enhanced training should be provided.**

### **D. Governance**

103. Two different models have emerged in the governance of the offshore centres in the United Nations system. While the offshore service centres of UNHCR and FAO are treated as an extension of headquarters, in WHO the centre is operationally independent (stand-alone) from the management structure of the headquarters and regional and country offices.

104. In UNHCR and FAO, the heads of functions have remained at headquarters and the functional lines of authority remain as before the offshoring. In this model, accountability still remains at headquarters. Heads of functions at headquarters exercise their responsibility and oversight through electronic work processes, e-mails, memorandums and letters, phone calls and teleconferences. Service units in the offshore centres, while functionally continuing to report directly to the heads at headquarters, administratively report to the head of the offshore centre. The head of the offshore centre does not have functional authority and accountability for services and staff, but is responsible for administrative duties such as representation, the maintenance of the centre, and monitoring of leave and absences.

105. UNHCR, in order to facilitate the transition process to the offshore centre, appointed a director dedicated to the service centre for one year. Following the transition period, the head of the Global Learning Centre (D-1 level) was assigned as head of the centre. The Global Learning Centre and Supply Management Service are the functions fully relocated to the offshore centre. In FAO, the head of the offshore centre (D-1 level), who oversees service centre operations in three time zones, has remained in Rome, while a member of staff at P-5

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<sup>33</sup> Ibid., p. 29.

level heads the main offshore centre at Budapest. In the case of WHO, management established a stand-alone offshore service centre headed by a director (D-2 level) dedicated solely to it. WHO management established the following principles for the functioning of the centre:

- Combined ownership among regions, countries and headquarters for the centre
- Operational independence and accountability
- Management of centre with clearly defined service level agreements
- Full transparency in costs, resources and performance of the centre

106. In WHO, while policy development remains in headquarters, the implementation of functions has become the responsibility of the head of the service centre. In this model, service units report both administratively and functionally to the head of the service centre. Thus, accountability of delivery and quality of services belong to the service centre and to its head as the official responsible. The head of the centre functionally reports to the Assistant Director-General of the General Management Group on the performance and deliverables of the service centre. However, the service centre is included as a standing item in the meetings of directors, the administration and the finance network for continuing consideration on issues relating to the centre.

107. As the service centre models mature over the years, their relative advantages and disadvantages will become clear. However, where functional heads remain in headquarters, dual reporting lines arise. This poses a risk of disconnection between the functional head and the staff he/she has to supervise. This situation could complicate the management, coordination and integration of service delivery, which would pose a risk for the efficiency and accountability of operations. The Inspectors are of the view that when the offshore centre includes a significant number of business functions and a high volume of transactions (call it a “critical mass”), it would be more beneficial to have a stand-alone service centre with the full delegation of functions. This would enable the head of the centre and heads of functions in the centre to remain abreast of emerging issues and respond quickly and in close coordination.

108. The establishment of service level agreements (SLAs) between service centres and service users, including headquarter units and offices, is an important element in the governance process. SLAs should be developed to clarify lines of responsibility, authority and accountability; create a common understanding of service needs; and provide a framework for measuring and improving service delivery performance. Unfortunately, among organizations it is only WHO that has made progress in establishing SLAs for the operation of its offshore centre.

109. Irrespective of the service centre model that organizations adopt, the most important thing is the establishment of a sound and documented accountability framework, including clear delegation of authority, effective monitoring and reporting. Although the organizations have in practice more-or-less established lines of authority and reporting, there is a need for further elaboration and documentation of the accountability framework, including clear responsibility and accountability for the delivery and quality of services, as well as performance evaluation and monitoring. It should be integrated into the administrative instruments and individual delegation orders, and strengthened with clear functional SLAs. The implementation of the following recommendation is expected to enhance effectiveness.

#### **Recommendation 11**

**The executive heads of United Nations system organizations should ensure that the accountability framework is carefully assessed and established for the offshore service centres, including the development of service level agreements and clearly defined delegation of authority, and that these are integrated into the administrative policy instruments.**

## **E. Recruitment of local staff, training and knowledge transfer**

### **Recruitment**

110. The need to recruit a large number of local staff for the start-up of the offshore service centres is a major exercise. UNHCR and WHO each used a local recruitment firm for part of the process, such as initial advertising and pre-screening of candidates, while FAO handled the whole process in-house. WHO officials stated that the employment of a firm was successful for finding a significant number of suitable staff within a short time.

111. UNHCR and FAO reported unforeseen difficulties relating to recruitment in the local labour market in Budapest, including differences in pay scales, entitlements and career prospects compared with the private sector. Both organizations also found it necessary to recruit graduates to GS posts to ensure the required language skills. This was an issue for UNHCR, since there was then no distinction between local GS and NPO staff in terms of qualifications. In the case of FAO, recruitment was initially very slow because of high-level competition in the market. In general FAO proposed lower grades than UNHCR for the same jobs. In total, more than 20 candidates declined the FAO offer of appointment and one resigned after a few weeks. There was relief when in May 2008 the ICSC approved an increase of 25 per cent to the local GS salary scale.<sup>34</sup>

### **Knowledge transfer**

112. In general, institutional knowledge tends to be concentrated in staff, but not adequately documented in the organizations. Therefore, it is important to fully capture and document the required organizational knowledge in order to secure proper knowledge transfer for successful offshoring. In the case that there is a restructuring of processes or ERP roll-out assisted by a private company, it is vital to ensure proper knowledge transfer from the company to the relevant business units of the organization.

113. Offshoring requires concentrated training efforts to transfer large amounts of knowledge in a short period of time. In many instances, headquarters staff whose posts were being relocated were requested to provide training to the new incumbents. The willingness of the affected staff to train their successors, often in difficult personal circumstances, was a key element in the success of the relocation to offshore service centres in all the organizations. Sometimes it is useful to ensure knowledge transfer through work shadowing in critical services during the transition period. In UNHCR, for example, NPOs shadowed three Professional staff members in finance functions who had moved to Budapest on a temporary basis for one or two years.

114. During interviews, it was often stated that issues arose among help desks, business owners and system integrators with respect to ownership of problems. In general, IT departments were involved late in the cycle of the offshoring project and implementation of system solutions owing to their daily workload. This caused problems later on when the IT departments had to take over relevant functions in the new system. These issues should be addressed properly in the planning and operation of offshoring projects.

### **Training**

115. Adequate and timely training to ensure optimal knowledge transfer was one of the most frequently cited lessons learned from the offshoring experience. All the organizations considered that there should have been more training. UNHCR and FAO phased the transition and undertook at least some training in advance, followed by intensive on-the-job training. FAO sent trainers to Budapest for limited periods because of funding constraints, but this resulted in fragmented training. It was considered very important for recruitment and training to be undertaken in advance, and that the necessary funding should be made available.

116. In WHO, owing to the simultaneous launch of ERP and the offshore service centre, training needs were more complex and imperative. During the transition, key personnel who had been expected to interface between the organization and system integrator (a private company), and to address any problems that arose

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<sup>34</sup> FC 123/16, p. 3, para. 12.



with their accumulated knowledge, either left the organization or redeployed to other functions in headquarters. Newly recruited staff in the offshore centre lacked the experience with and knowledge of the organization's rules and procedures and the way the old system worked. They were trained to use a new system, which had not been properly tested and stabilized.

117. When problems arose, there was often confusion about whom to ask or where to attribute the problems, such as whether it was a system or IT problem, or stemmed from a lack of knowledge. The newly recruited staff were not sufficiently trained in all application scenarios of functions, including parallel runs. Lack of training and experience meant that the service centre staff were not fully in command of workflow processes in the early months of operation. When this situation was compounded with the lack of stability in the system, it resulted in considerable dissatisfaction with the services provided. It is apparent that such a complex and simultaneous undertaking did not work well.

118. Before offshoring, a formal training plan should be established based on the analysis and identification of needs, which should include skills requirements and skills gap analysis. Training should cover not only administrative staff, but also end-users and all other staff who would be affected by the new system and processes. There should also be easy-to-use and accessible electronic and paper manuals covering every area. The implementation of the following recommendation is expected to enhance efficiency.

#### **Recommendation 12**

**The executive heads of United Nations system organizations should have in place effective knowledge transfer and training plans to facilitate the transition to offshore service centres. Training plans should be based on the assessment and identification of training needs.**

### **F. Security, business continuity and disaster recovery planning**

119. The security of the staff and facilities of the organizations in offshore locations is an issue that requires the utmost attention. During interviews, managers stated that basic security was in place; however, there was not much evidence or documentation for the full implementation of MOSS. Usually, funding shortages pose obstacles for its full implementation.

120. Business continuity and disaster recovery plans including an exit strategy must be ready before the offshore centres go live. There should be contingency plans against worst-case scenarios, like failure of operations at the start up. Except in WHO, there was little evidence for a formal documented business continuity and disaster recovery plan before the offshore centres went live.

121. Considering the high volume and critical information flow through offshore service centres, there is a need for an information security policy and a security management system to protect information and information systems from unauthorized access, disclosure, disruption, modification and destruction. The cost of security, business continuity and disaster recovery arrangements should be included in the cost-benefit analysis and funding requirements of offshoring. The implementation of the following recommendation is expected to enhance efficiency.

#### **Recommendation 13**

**The executive heads of United Nations system organizations should ensure that adequate security for staff and facilities is provided; information security is ensured; and business continuity and disaster recovery planning, including an exit strategy, is prepared for offshore service centres before going live.**

## V. MONITORING AND REPORTING

122. Performance monitoring and reporting is critical in offshore service centres in order to measure the progress towards cost saving and improved efficiency, the two reasons that were used to justify such a major organizational change. Effective monitoring requires the establishment of baseline and performance indicators to provide benchmarks against which performance can be measured.

### **Quality of services**

123. In the offshoring cases reviewed, organizations all aimed to improve services. However, none of the organizations had established and documented the baseline service quality indicators of existing services before offshoring. No report has yet been prepared to demonstrate the progress in the quality of services and satisfaction of clients with respect to previous periods.

124. As an integral part of the performance monitoring system for offshoring, organizations should set up SLAs for each service provided, setting out performance indicators and targets and incorporating quality aspects before offshoring. In addition, surveys should be used to assess the change in the level of satisfaction with services. Among organizations, only WHO had a formal SLA before the launch of the offshore service centre. However, it was not being implemented as of early 2009, because of the ongoing need to stabilize the system.

### **Cost savings**

125. Organizations cited cost saving as the main justification for establishing offshore centres. However, none of them have measured and reported the progress on cost savings so far. The Inspectors noticed that there were unforeseen cost elements to the offshoring exercises, which might have increased costs above the initial estimation. Due to unexpected circumstances like the need for trouble shooting and further coordination and training, travel and other overhead costs seem to be on the rise.

126. There is also a tendency in practice to recruit more staff than initially planned. Organizations do not clearly track and document changes in the staffing situation owing to offshoring, such as separation, recruitment and redeployment, in a comparative manner. This situation is not conducive to establishing the overall impact of offshoring on staffing numbers and cost. In addition, redeployment exercises increase overall costs by reducing vacancy rates.

127. Some officials raised doubts about the realization of any cost savings. Other officials stated that it was difficult to measure cost savings, because offshoring had coincided with other structural changes such as the consolidation of services, ERP roll-out and expansion of services. These conditions may indeed make the calculation difficult, but not impossible. The majority of officials acknowledged the need for measuring and periodically reporting on cost savings to demonstrate progress, and to monitor and control costs, but they stated that it was too early to report because offshoring was still at an early stage. However, management has neither established any methodology and mechanism, nor assigned this responsibility, to any unit within the organizations.

128. The Inspectors stress that in the absence of monitoring and reporting for the accomplishment of objectives, the benefit and/or value added of offshore service centres would remain in question. Therefore appropriate monitoring mechanisms should be established; and there should be periodic reporting about cost savings, service quality and operational performance of offshore centres, internally to senior management and externally to governing bodies.

### **Oversight role of governing bodies**

129. In view of the strategic policy implications of offshoring, it is imperative that the governing bodies of the organizations should exercise their oversight role. The implementation of offshoring policy and progress in the achievement of its objectives should be included in the agenda items of governing body meetings. To this effect, executive heads should report regularly on these activities. Organizations should also conduct periodic evaluations of offshore centres and report the results to their governing bodies. The implementation of the following recommendations is expected to enhance efficiency.

#### **Recommendation 14**

**The executive heads of United Nations system organizations should establish regular monitoring and reporting mechanisms for offshore service centres, to demonstrate progress made in the achievement of objectives, including cost savings and improved service quality. There should be periodic reporting thereon, internally to senior management and externally to governing bodies.**

#### **Recommendation 15**

**The governing bodies of United Nations system organizations should exercise their oversight role in offshoring activities, including the implementation of policies, performance evaluation, and assessment of progress in achieving the objectives.**

## VI. INTER-AGENCY COOPERATION

130. United Nations system organizations should identify, document and share lessons learned from ongoing offshoring exercises. Any organization that is considering offshoring should learn from the experience of other organizations and explore all possibilities, including insourcing to the existing offshore centres of other organizations. This may be an effective solution where the offshoring of a single service is being planned. In particular, relatively small organizations, and organizations which are considering offshoring individual business functions, should insource to existing offshore centres instead of establishing another offshore centre.

131. There has been a piecemeal, ad hoc and disconnected approach to offshoring activities in the United Nations system, as seen in annex I of this report. The Inspectors would like to stress that a system-wide offshoring strategy, including the establishment of inter-agency offshore shared service centres, would yield greater strategic and operational benefits. In 2007, the HLCM of the CEB put forward a plan of action for the harmonization and reform of business practices in the United Nations system.<sup>35</sup> Among the common services initiatives there was a proposal to consider the feasibility of, and develop a business case for, the establishment of regional inter-agency shared service centres, based in lower-cost locations. Potential benefits were identified as follows:<sup>36</sup>

- Major efficiency gains compared to current individual agency-based services
- Driver for greater harmonization of business practices
- A valid and economic basis for the provision of inter-agency administrative services in general
- Valuable option for the provision of administrative services to One United Nations country offices

132. The HLCM paper notes that many organizations are actively seeking to reduce the unit costs of administrative services by relocating these to lower-cost countries. It points out that the individual agency approach to offshoring of administrative services fails to recognize the potentially greater economies that might be achieved by offering these services on an inter-agency basis.<sup>37</sup> In September 2008, HLCM issued a funding proposal for a feasibility study on inter-agency shared service centres.<sup>38</sup>

133. The Inspectors raised the issue of inter-agency shared service centres during the interviews for this report. While the concept received the support, in principle, of many managers as a means to gain cost-efficiencies, several issues were raised, including:

- Considerable differences of detail in the administrative rules and regulations among organizations
- Differences in ICT platforms and management information systems
- Reluctance to relinquish control, particularly with regard to quality of services

134. Notwithstanding these obstacles, inter-agency cooperation and harmonization initiatives, coupled with technological developments, can and should overcome these problems. Delivering as One, as a United Nations strategy, should be applied where economically feasible. Currently in the United Nations system, a number of harmonization initiatives are taking place in administrative areas such as financial regulations, accountancy, ERP and procurement. These initiatives would enable, and should result in, increased inter-agency cooperation in the delivery of administrative services.

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<sup>35</sup> CEB/2007/HLCM/16 and CEB/2007/HLCM/16/Add.1.

<sup>36</sup> CEB/2007/HLCM/16/Add.1, p. 56, para. 1.

<sup>37</sup> Ibid., para. 4.

<sup>38</sup> CEB/2008/HLCM/10, p. 32.

135. The Inspectors are of the view that it is possible to establish inter-agency shared service centres, which would benefit from greater economies of scale with higher business volumes, and result in larger cost savings. Where organizations have established separate offshore centres, particularly in the same location, as have UNHCR and FAO in Budapest, the potential cost-efficiencies through joint action, including the establishment of an inter-agency service centre, may have been lost. The Inspectors believe that the HLCM initiative provides a way forward, with the system of CEB networks offering a forum for the development of inter-agency shared service centres, the systematic sharing of offshoring experiences, and a common means by which to address many of the obstacles which may emerge.

136. The Inspectors suggest that based on this report, and also the results of the planned feasibility study of HLCM, CEB through HLCM should discuss and initiate the development of an offshoring policy framework for review and approval by those organizations considering offshoring. A strategic action plan should be developed by CEB to include the offshoring intentions of all United Nations system organizations. The policy and strategy development should take into account the recommendations in this report, and aim to achieve greater efficiency through the joint action of all organizations that are considering offshoring.

137. If a joint action is agreed, the recommendations of this report should be considered from the United Nations system perspective, not from the perspective of individual organizations. To facilitate the process, Member States and donors should be more open to funding inter-agency activities and should encourage management to do joint undertakings with other agencies for the achievement of greater efficiency.

138. Irrespective of a decision on whether there should be a common offshoring policy framework and project, it must be the norm that, before making a final decision, each offshoring initiative considered by any organization should be presented to the relevant HLCM working group to benefit from the collective wisdom, lessons learned and experience of other organizations. It would provide an opportunity to explore inter-agency options. In addition, in the designing of the project plan, the inter-agency discussion platform would provide tremendous insight, including early warning of potential issues, risks and possible mitigation factors, and better pricing. CEB should invite organizations to bring all offshoring ideas and plans into HLCM working group discussions before making their final decision. The implementation of the following recommendations is expected to enhance efficiency.

#### **Recommendation 16**

**The executive heads of United Nations system organizations should coordinate their offshoring initiatives with a view to achieving greater efficiencies in cooperation with other organizations. Before offshoring, they should explore all possibilities, including insourcing to existing offshore service centres and establishing joint service centres. To this effect they should present their offshoring plans and ideas in the relevant HLCM working group meetings for discussion and brainstorming.**

#### **Recommendation 17**

**CEB through HLCM should facilitate the systematic sharing of offshoring experiences, lessons learned and possible offshoring plans, and expedite the consideration of the establishment of inter-agency shared service centres.**

#### **Recommendation 18**

**CEB through HLCM should discuss and initiate the development of a common/joint offshoring policy framework with a view to seeking greater efficiency through joint decision-making and project development processes.**

## Annex I

## Inventory of offshoring in United Nations system organizations

Org.	Business process	Location	Date of relocation
<b>A. Offshore insourcing</b>			
<i>United Nations</i>	Department of Safety and Security Logistics Office	U.A.E.	May 2005
<i>United Nations funds and programmes</i>			
<b>UNDP</b>	Staff Administrative Services —global payroll —staff benefit and entitlement —Junior Professional Officer centre	Denmark	2004 2003 2001
	Procurement Support Office	Denmark	2004, 2007
<b>UNFPA</b>	Procurement Services Branch	Denmark	Jan. 2005
<b>UNICEF</b>	Set packing and warehousing	China	Mar. 2008
<b>WFP</b>	IT Help Desk	India	Jan. 2007
	Vendor management and travel	India	June. 2007
	Non-food procurement	U.A.E.	Apl. 2007
<b>UNHCR</b>	Global Service Centre (Offshore Service Centre): —Human Resources, finance, payroll and supply management —Global learning centre —IT infrastructure support	Hungary	2008  2009 2007/08
	Global Service Desk	Malaysia	2007/08
	Field Office Support	Malaysia Hungary Panama	2007/08
	Field Telecoms Unit	U.A.E.	2007/08
	Refugee systems (registration) regional support	Malaysia South Africa	2007/08
<i>United Nations specialized agencies and IAEA</i>			
<b>FAO</b>	Offshore Systems Development and Support Centre: —information systems development and support —user account management	Thailand	Sep. 2005
	Shared (Offshore) Service Centre: division of worldwide operations support into three time zones, each serviced by one dedicated processing hub: Zone 1: covering North, Central and South Americas Zone 2: covering Europe, Africa and the Near East Zone 3: covering Asia and the Far East	Chile	Nov. 2007
		Hungary	Jan. 2008
Thailand		Nov. 2007	

<b>Org.</b>	<b>Business process</b>	<b>Location</b>	<b>Date of relocation</b>
	Business processes covered by each processing hub: —Human Resources, travel and other support operations  —Accounts payable and some procurement operations		Nov. 2007 to mid-2008 Late 2008 and early 2009
<b>WHO</b>	Global (offshore) Service Centre: administrative functions, including: —Human Resources, payroll, finance, accounts payable, expense accounts, procurement, certain IT functions	Malaysia	2008
<b>IAEA</b>	Disaster recovery infrastructure hosting	Switzerland	Dec. 2007
<b>B. Offshore outsourcing</b>			
<b>United Nations</b>	Software development: —conversion of IMIS finance and related functions to a web platform —customer relations management	India  Thailand	2003–2005  Jul. 2007
<i>United Nations funds and programmes</i>			
<b>UNDP</b>	Web development support services	India	2007
<b>UNFPA</b>	Atlas Tier 2 Help Desk Vendor management	India India	Jan. 2004 2008/09
<b>UNICEF</b>	Freight forwarding Pre-delivery inspection	Denmark U.K.	2006 Nov. 2007
<b>WFP</b>	Applications support for WINGS	<i>na</i>	<i>na</i>
<b>UNHCR</b>	Applications development IT and telecoms supply chain Satellite services	India Denmark U.S.A.	2007 2006, 2007 2007
<i>United Nations specialized agencies and IAEA</i>			
<b>ILO</b>	Infrastructure hosting, administration and support for ERP applications Processing of income tax reimbursements for US taxpayers	Netherlands  Austria	Dec. 2004  Jan. 2007
<b>UPU</b>	Renting of a platform for the broadcasting of on-line training for the Tunisian Post Office Typing, printing and mailing of the Spanish version of documents	Tunisia  Uruguay	Apl. 2004  1970s/1980s
<b>WHO</b>	Investment management and related accounting. Photocopying Some IT	U.K. Ireland <i>na</i>	<i>na</i> <i>na</i> <i>na</i>
<b>IAEA</b>	Application development and support Maintenance of a database, and publication and dissemination of a journal	India U.K.	2005 2003

Source: JIU questionnaire and interviews. *na*: not available