

**COST EXCELLENCE: PROPOSALS FOR DEVELOPING
A SERVICE CENTRE IN WFP**

Additional information paper



Informal Consultation

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World Food Programme

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1. Purpose of the paper

1. The Secretariat provided the Executive Board with a background paper on cost excellence, ahead of the Informal Consultation on 2 September 2015, focusing on the work undertaken to develop proposals for a service centre. The initial paper:
 - Provided the background to the work on cost excellence and the two main elements of work involved – the global support cost analysis and the service centre feasibility review;
 - Summarized the results of WFP's work to identify best practice in creating a service centre, including WFP's past experience with offshoring services;
 - Explained how WFP had developed proposals in line with best practice;
 - Outlined the functions and processes that could be moved to a service centre;
 - Presented the proposed timeframe for the project;
 - Explained how the business case had been developed; and
 - Presented estimates of the investment costs and savings involved.
2. During the Informal Consultation on 2 September 2015, the membership asked a number of questions about the information provided. Most of the questions focused on the service centre proposals seeking more granular information around four main topics:
 - What functions and processes could be moved to a service centre?
 - What are the estimated costs and savings?
 - What is the timeframe for implementing a service centre?
 - What is the approach to identify an optimum location for a service centre?
3. While the Secretariat continues to develop its proposal for a service centre and discuss with the membership, this paper is focused on responding to the questions raised during the Informal Consultation on 2 September 2015. Specifically, this paper:
 - Provides a brief synopsis on the cost excellence initiative and the process for developing a service centre as outlined in the earlier background paper;
 - Describes the methodology used to identify the functions and processes to be moved;
 - Explains the underlying assumptions related to the detailed costs and savings projected for a service centre;
 - Explains the criteria and assumptions on which the location analysis is based; and
 - Provides the current plans in terms of the implementation of a service centre, including the potential for outsourcing to other United Nations agencies.

4. WFP Management is seeking the Executive Board's approval of up to USD 7 million from the Programme Support and Administrative Equalization Account (PSAEA)¹ for implementation of a service centre in 2016 based on the overall concept and business plan for a service centre. While the details of the business case are being finalized as part of the ongoing location discussions, the Secretariat expects that the remaining approximately USD 2 million for implementation costs in 2016 would be met through host government contributions or other sources such as the capital budgeting facility.
5. The earlier background paper, shared with the Executive Board on 20 August 2015, outlined the approach the Secretariat has taken to ensure that a decision on the proposal for a service centre is soundly based and in the long-term interest of the organization.
6. In line with best-practice, WFP is proposing to implement a service centre in two waves (see section 3.4.a) and this paper provides information on the investment case for Wave 1 and Wave 2. Following the implementation of the first wave, the Secretariat would provide a review of lessons learned by the end of 2017 to the Executive Board as any additional requests for resources for Wave 2 are being sought.

¹ Further to the historical practice of the Executive Board, the use of the PSAEA is subject to the Executive Board's budgetary approval.

2. Synopsis on cost excellence and the process for developing a service centre proposal

7. The cost excellence initiative focuses on seeking out concrete ways that WFP can change the way it works to improve efficiency and redirect more resources to its core work in ending hunger. The cost excellence initiative, launched in July 2014, therefore addresses the two main elements of WFP's overheads – payroll and non-payroll costs.
8. There are two main areas of work thus far on cost excellence:
 - The global support costs analysis. A detailed and extensive review of non-payroll global support costs (i.e. travel, facilities, utilities, etc.) to identify and systematically explore the scope for achieving better value for money for these overhead costs.
 - The service centre feasibility review. A feasibility study to explore and quantify options for creating a service centre to both achieve savings in payroll costs and generate additional efficiencies through process optimization.
9. While this paper focuses only on WFP's feasibility review for a service centre and thereby leaves aside the global support cost analysis, it is important to emphasize that WFP's approach to cost excellence is two-pronged.

2.1 Service centre feasibility review

10. The feasibility review aims to analyse opportunities for greater efficiency and effectiveness through re-engineering and consolidating processes and taking advantage of transferring certain selected processes to a service centre at a lower cost location. Benefits could range from cost savings for budget reduction to expected improved service efficiency and finally greater mission focus by enabling functional units and offices to concentrate on core processes and strategic priorities.
11. The main elements of WFP's feasibility review include:
 - a best practice review of industry and United Nations experiences with offshored service centres, which also considered WFP's own past experience;
 - extensive scoping exercise to ensure a comprehensive review of the scope for reorganizing and offshoring functions and processes; and
 - developing a detailed business case including a thorough financial assessment of the costs and benefits of a service centre, a comprehensive risk assessment and a thorough review of options concerning the location of a service centre.
12. A key feature of the service centre feasibility review was the creation of an advisory group comprised of Headquarters Directors, Regional Bureaux and country office representatives as well as staff representative bodies. The group receives regular updates on progress of the initiative and provides feedback as representatives of their respective roles in the organization. Since the initiative began, both the Leadership Group and advisory group have met twelve times to consider various aspects of the cost excellence initiative.

13. Staff have been kept informed of developments through the communication strategy for the project, which provides for all-staff meetings at key stages of the project, a dedicated section on WFP's internal website and specific line manager meetings for staff potentially impacted by the proposal for a service centre.
14. In addition to communicating with staff, WFP Management has been engaged in discussions with staff representative bodies specifically on questions around mitigation measures to offset potential negative impact on individual staff members as well as overall morale. Funding assumptions for mitigating actions have therefore been included in the investment case (further details in section 3.2.d).
15. While discussions with staff representative bodies are ongoing, a range of potential staff impact mitigation measures have been identified, including:
 - Redeployment in HQ in other units/divisions on vacant positions or positions filled by temporary staff;
 - Temporary duty assignments in emergency operations;
 - Backfilling of staff deployed to emergency operations;
 - Voluntary separation packages;
 - Outplacement services; and
 - Allow special leave without pay for administrative reasons, including the ability to contribute to the medical and pension plans.

2.2 Interactive Business Case

16. The business case developed for existing WFP service centres was recognized as best practice in the report by the Joint Inspection Unit of 2009. WFP has therefore sought to replicate this approach during this recent process, in part by seeking pro-bono advice from the same consultants (The Boston Consulting Group) during the feasibility work. There are four distinct but inter-related elements to the business case:
 - an interactive financial model, which seeks to identify and capture all the estimated savings and costs arising from the move to a service centre;
 - a detailed assessment of the potential risks arising and the development and implementation of a series of mitigating measures to address these risks;
 - a structured process for identifying and assessing the most appropriate location of a service centre that meets WFP's needs;
 - the identification of non-financial costs and benefits and other opportunities to increase mission focus.

2.3 Risk management

17. WFP has used proven risk management techniques to manage the risks related to the creation of a service centre. WFP has identified and assessed risk across six broad categories:
 - staff-related risks (for example, impact on staff morale);
 - service delivery risks (for example, inability to meet operational requirements, reduction in the quality of services provided);
 - financial risks (for example, delays in meeting the break-even point);
 - political risks;
 - change management risks; and
 - reputational risks.
18. The earlier information paper presents these risks and also demonstrates how the cost of important mitigating measures has been fed into the financial model and the calculation of the investment needed to ensure a successful transition.

3. Additional Information sought by the membership

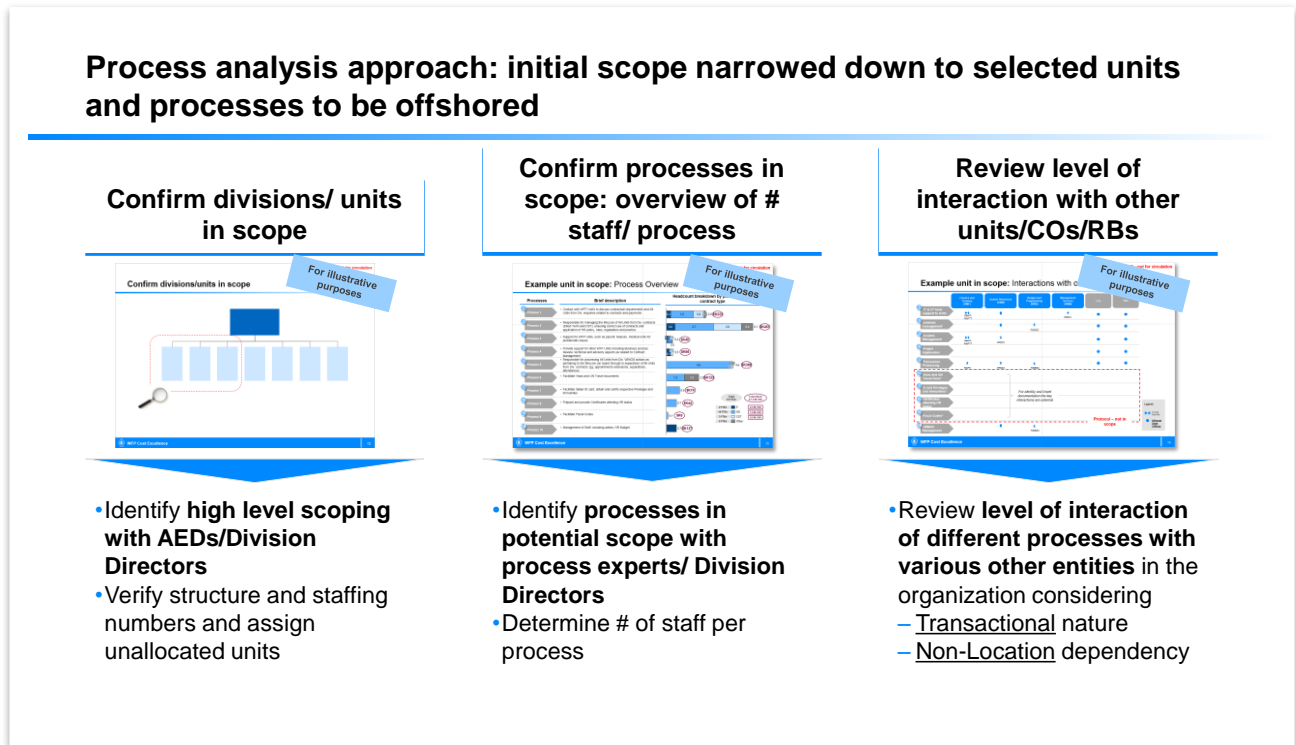
3.1 What functions and processes could be moved to a service centre?

19. The membership was interested in having more information on the scope of the functions and processes that could be moved to a service centre. This section comments on the methodology used and then explains which units and processes could be moved to a service centre.

3.1.a Methodology used to assess units and processes in scope

20. WFP has followed best practice by starting the feasibility work with a corporate-wide scoping exercise covering all WFP divisions and functions to identify areas with the potential for inclusion in a service centre. This has been done in four stages:
 - interviewing the Deputy Executive Director and all Assistant Executive Directors/ Division Directors to narrow down the scope, identifying six divisions which would be in a preliminary scope and specific units within each division as a next step;
 - conducting a process analysis in cooperation with Division Directors/process experts to obtain a detailed insight of the characteristics of each process at a unit level. This granular assessment helped to understand better which processes are transactional in nature and non-location dependent and could be transferred to a service centre; and
 - Completing the analysis with unit chiefs and process experts within the six divisions that would be in scope for further analysis and confirming the initial scope with the Division Directors concerned before presenting a set of proposals for validation by the Leadership Group.

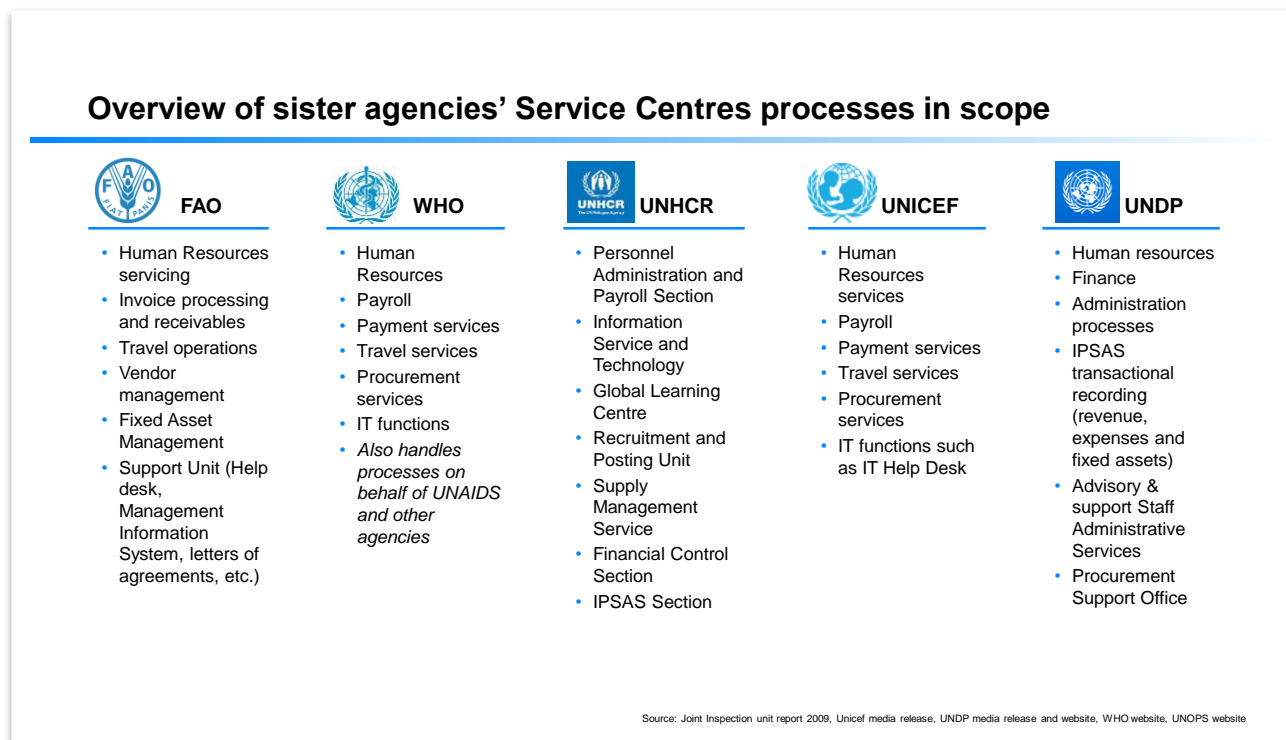
Figure 1: Corporate-wide approach to scoping



21. Working closely with process experts, all the processes involved were documented and the feasibility of including these processes in a service centre was verified. This involved:
 - Confirming the high-level scope with Assistant Executive Directors/Division Directors;
 - Verifying structure and staffing numbers;
 - Confirming processes in potential scope with Division Directors/process experts;
 - listing all processes in scope and assessing the number of staff and time involved by staff contract type (professional staff, General Service grade staff and consultants);
 - identifying interdependencies with other units/processes in and outside of WFP, as well as the level of interaction required;
 - conducting a risk assessment with each unit to understand any limitations or considerations for offshoring; and
 - reviewing level of interaction of different processes with various other entities in the organization.
22. There are two main drivers that impact decisions on process location: the need to be physically present to engage with others during the process; and the type of processes involved.

23. As mentioned in the previous background document, the need for physical presence can be determined by the extent to which processes are conducted primarily through meetings or are dependent on interactions with entities outside WFP but in a particular location. Processes where the interaction is mainly by email, phone and video (for example interactions with country offices) are usually not location dependent.
24. The type of processes involved can be determined by assessing the balance between: Conceptual processes, which typically involve issues that must be thought through on a case-by-case basis and are not usually automated; and transactional processes, which are typically standardized and repetitive and are automated to a certain degree.
25. Processes identified for a service centre can rely on virtual communication via email and phone with other divisions at HQ and are mainly focused on interaction with WFP staff outside Rome.
26. As the previous background paper underlined, remote working as well as offshoring is not new to WFP. For instance, in the period 1998–2001 WFP decentralized a major proportion of its support work by the creation of six Regional Bureaux. In 2007 when facing significant funding shortfalls, WFP offshored services to India (IT support) and Dubai (Global Vehicle Leasing Programme, GVLP), two of the four smaller service centres.
27. Similar functions as in WFP’s preliminary scope are commonly placed in service centres established by United Nations sister agencies, for instance in FAO’s service centre in Budapest (see Figure 2 below).

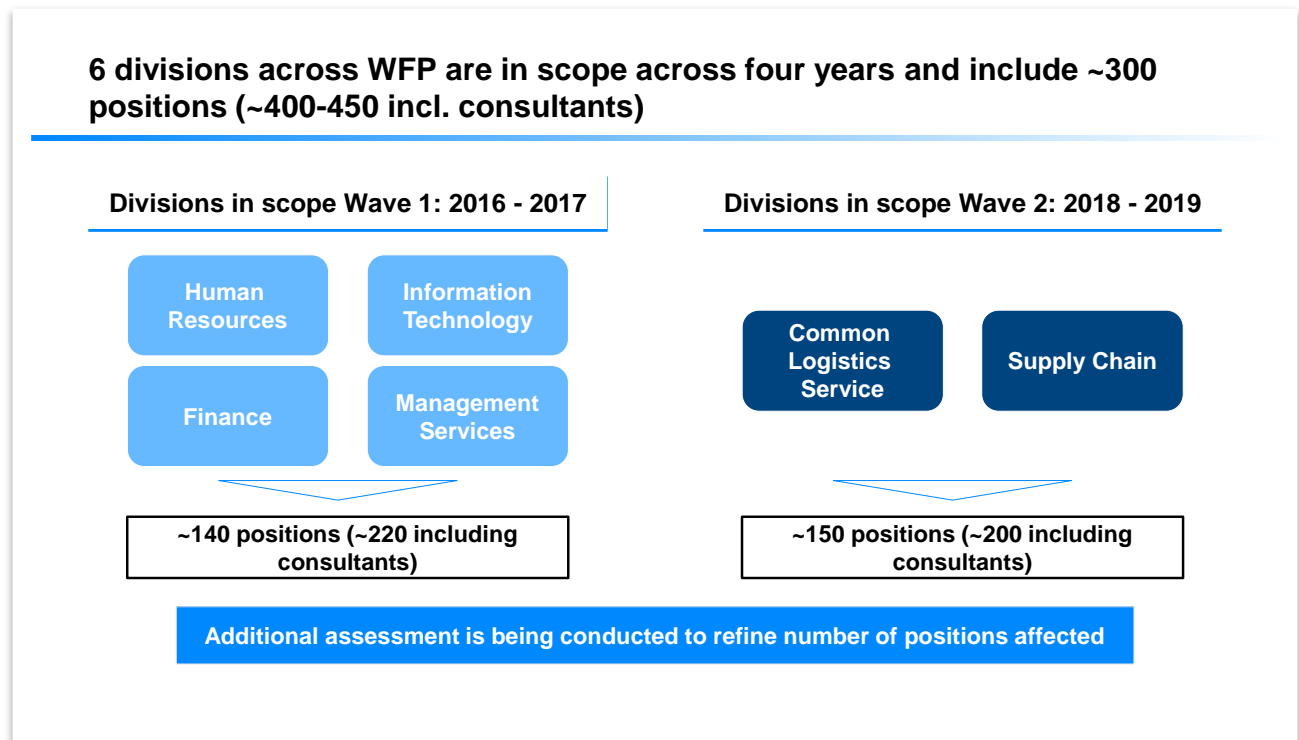
Figure 2: Overview of scopes of sister agencies’ service centre



3.1.b The units in scope for a service centre

28. The results of the corporate-wide review and detailed process analysis is that units from six HQ divisions have been included in the scope of a service centre.

Figure 3: Divisions impacted by a service centre

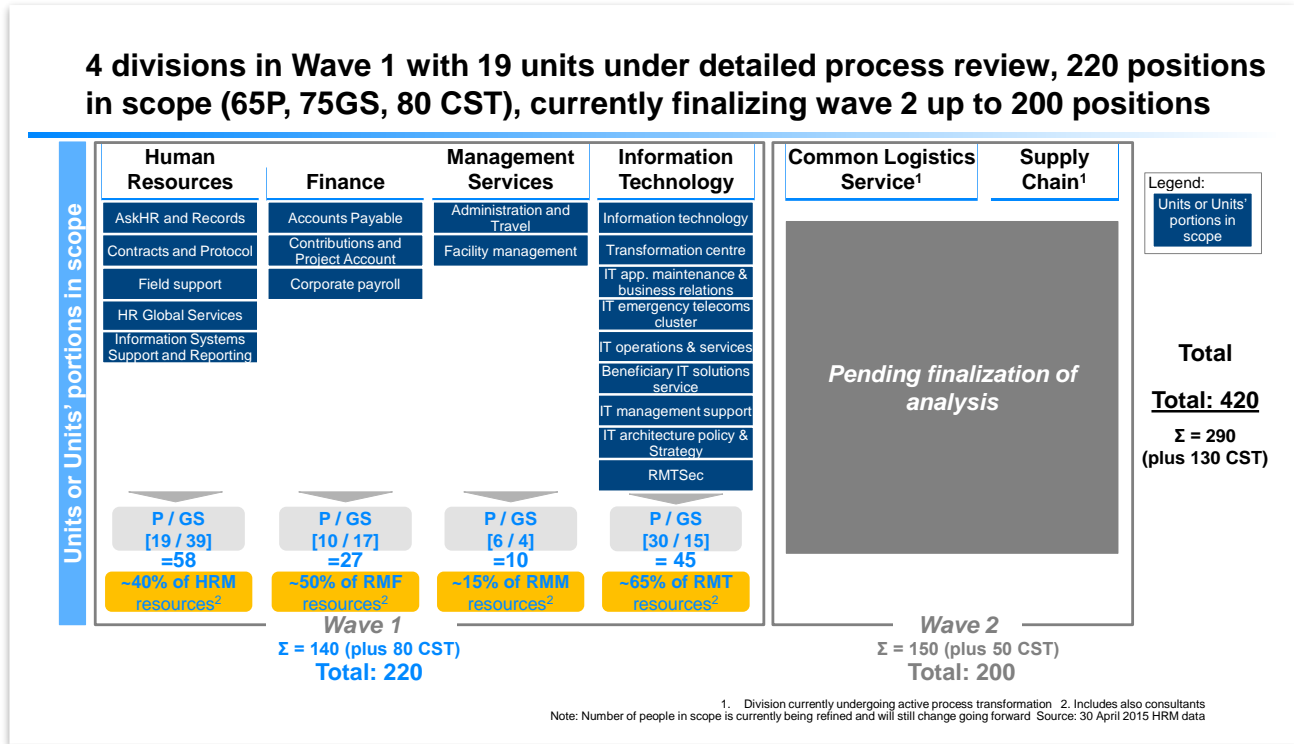


29. The Secretariat has completed an extensive analysis of processes related to Wave 1 and identified 129 processes. This results in 19 units in scope in the four divisions included for Wave 1. The number of units and processes in scope is still preliminary and could potentially increase or decrease, as it is currently validated by the Division Directors.
- The scope for the Human Resources Division (HRM) includes around 40 percent of the division's overall resources and the following units or portions of these units:
 - AskHR and Records Unit
 - Contracts and Protocol
 - Field support
 - HR Global Services
 - Information Systems Support and Reporting
 - The scope for the Finance and Treasury Division (RMF) includes around half of the division's overall resources and the following units or portions of these units:
 - Accounts Payable
 - Contributions and Project Account
 - Corporate Payroll

- The scope for the Management Services Division (RMM) includes 15 percent of the division's overall resources and the following units or portions of these units:
 - Administration and Travel
 - Facility Management

 - The scope for the Information Technology Division (RMT) includes around 65 percent of the division's overall resources and the following units or portions of these units:
 - Information Technology
 - Transformation centre
 - IT Applications Maintenance and Business Relations
 - IT Emergency Telecoms Cluster
 - IT Operations and Services
 - Beneficiary IT Solutions Service
 - IT Management Support
 - IT Architecture Policy and Portfolio
 - IT Security
30. It is important to note that the Wave 1 proposals do not involve the move of whole divisions. The support service processes in these four divisions that require extensive interaction with other HQ divisions will not be moved to a service centre.
31. In sum, these processes reflect the work of 140 staff positions (65 professionals and 75 General Service grade staff) and approximately 80 consultants, which could be transferred to a service centre during Wave 1:
- The Human Resources division would transfer 58 staff positions (19 professionals and 39 General Service grade staff);
 - The Finance and Treasury division would transfer 27 staff positions (10 professionals and 17 General Service grade staff);
 - The Information Technology division would transfer 45 staff positions (30 professionals and 15 General Service grade staff); and
 - The Management Services division would transfer 10 staff positions (6 professionals and 4 General Service grade staff).

Figure 4: Divisions and units impacted by a service centre



32. The Common Logistics Services (OSX) and Supply Chain Divisions (OSC) form part of a proposed Wave 2 that would commence in 2018, after a Wave 1 lessons-learned review in late 2017. As the re-engineering of the Supply Chain division is still ongoing, the scope of staff members to be potentially transferred to a service centre still needs to be confirmed. The current working assumption is that approximately 150 staff positions and approximately 50 consultants could feature in the second wave of implementation.
33. As noted in the risk analysis of the previous background paper, risks to service delivery will be mitigated through actions such as extensive work-shadowing and back-filling during the transition period. More details on the costs related to these measures are covered in section 3.2.d.

3.2 Estimated savings and investment costs

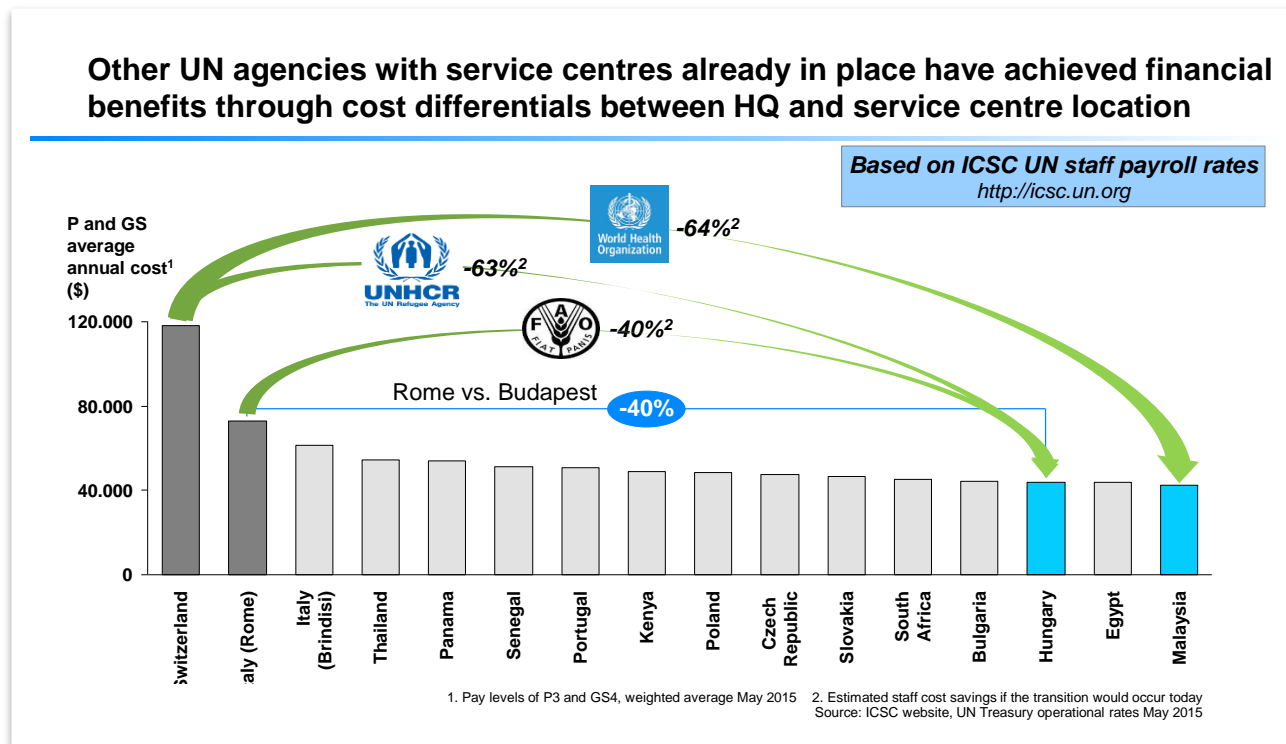
34. The membership wished to have more information about the savings to be realized and the investments needed to achieve these savings. The membership also sought additional information on the way that changes in exchange rates impacted estimated savings and investments as well as examples of savings realized by other United Nations agencies.
35. Throughout this paper, the financial range for both estimated savings and investment costs is based on a global basket of currencies/locations², grouped to produce one value against which the respective other currency is measured (Euro and US dollar).

² Egypt, Hungary, Malaysia, Panama, Romania, all weighted equally with 20% each.

3.2.a Savings made by other United Nations agencies

36. Other United Nations agencies, such as FAO, the Office of the United Nations High Commissioner for Refugees (UNHCR) and the World Health Organization (WHO), have achieved significant savings on staff costs by transferring a portion of their HQ-based staff members from Geneva/Rome to Budapest and Geneva to Kuala Lumpur (Figure 5 below).

Figure 5: FAO, UNHCR, WHO staff cost reduction at service centre location



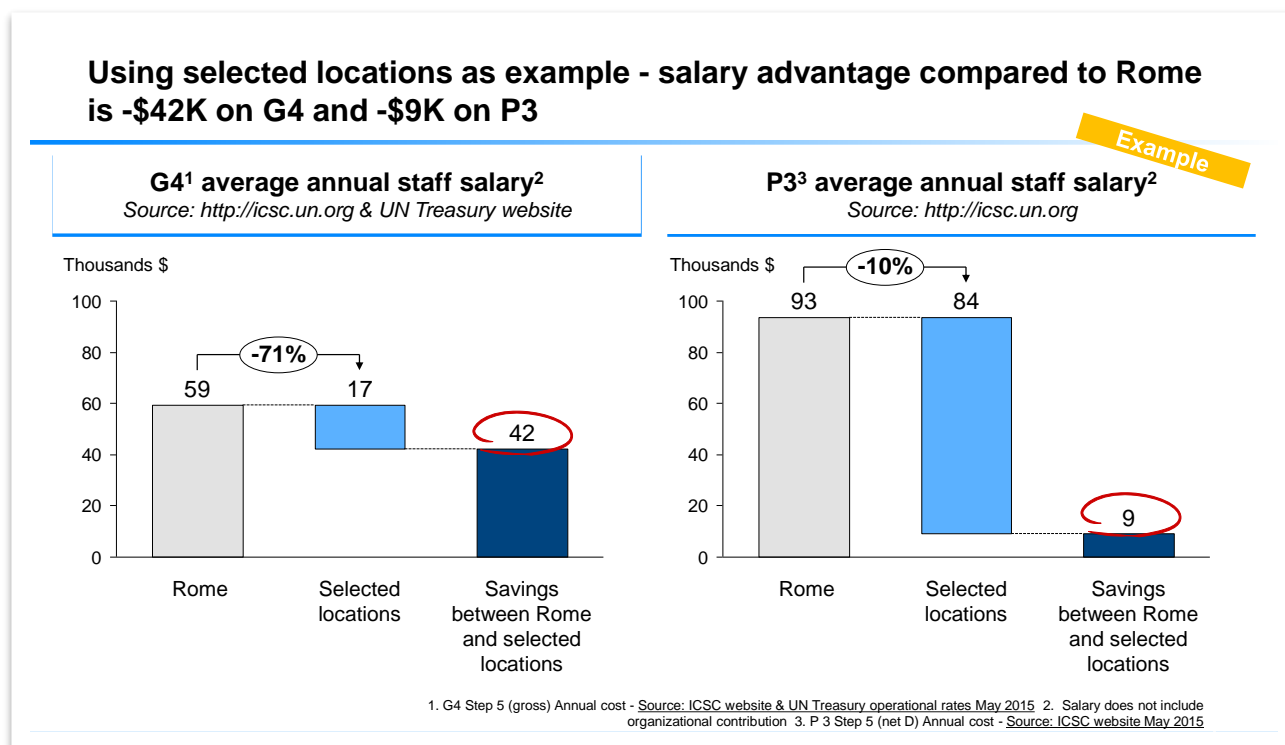
3.2.b How savings in staff costs arise from the move of staff to a service centre

37. For international professional staff, staff costs consist of two elements: a base salary and a post-adjustment multiplier to reflect the cost of living in different parts of the world. For General Service grade staff, the International Civil Service Commission (ICSC)³ establishes salary rates for each duty station, which reflect local employment conditions. This means that United Nations salary rates for both professional and General Service grade staff are different in each country.
38. When comparing the average annual salary of a General Service grade staff (G4) of USD 59,382 in Rome with the annual salary of a General Service grade staff (G4) of USD 17,190 in selected locations, the cost difference is 71 percent, based on ICSC rates.

³ The ICSC is the United Nations body that has the mandate to establish compensation and related conditions of service for United Nations Common System organizations, such as UNHCR, FAO and WFP (<http://icsc.un.org>).

39. When comparing the average annual salary of a professional staff (P3) of USD 93,476 thousand in Rome with the annual salary of a professional staff (P3) of USD 84,362 thousand in selected locations, the cost difference is 10 percent, based on ICSC rates.
40. Figure 6 below breaks up further the salary differentials of Rome compared to selected locations.

Figure 6: Example of salary difference between Rome and other location



41. Please refer to the annex (page 31-38) for salary differentials for all shortlisted locations compared to Rome. The shortlist of countries will be further explained in section 3.3.

3.2.c Estimated savings for a WFP service centre

42. Currently, the business case shows total annual savings of USD 8.5–10.5 million with USD 4.5–5 million in Wave 1 and USD 4–5.5 million in Wave 2. These savings arise mainly from differences in salary costs between Rome and a potential service centre location for the number of staff that are likely to be transferred.
43. There is a range of potential savings to reflect the fact that salary costs and exchange rates will differ for each potential service centre location.
44. Savings are calculated based on the potential difference in payroll costs (for professional and General Service grade staff), less recurrent operational costs (such as security and management and administration support).

45. A common way of expressing the relative benefits of an investment is the amount of time it will take to recoup the additional investment costs – the payback period. The model currently results in a payback period of three years, as referred to in Figure 7. One of the impacts of recent changes in exchange rates is to lengthen the time it will take to recoup investment costs from 2.9 years to 3.1 years.

Figure 7: The main figures on costs and savings

Service Centre installation recap: \$8.5-10.5M annual savings with \$26.5-30.0M investments and ~3 years simple payback

Exchange rate assumption: July 2015 (rolling 3 months), EUR:USD 1.112 Preliminary

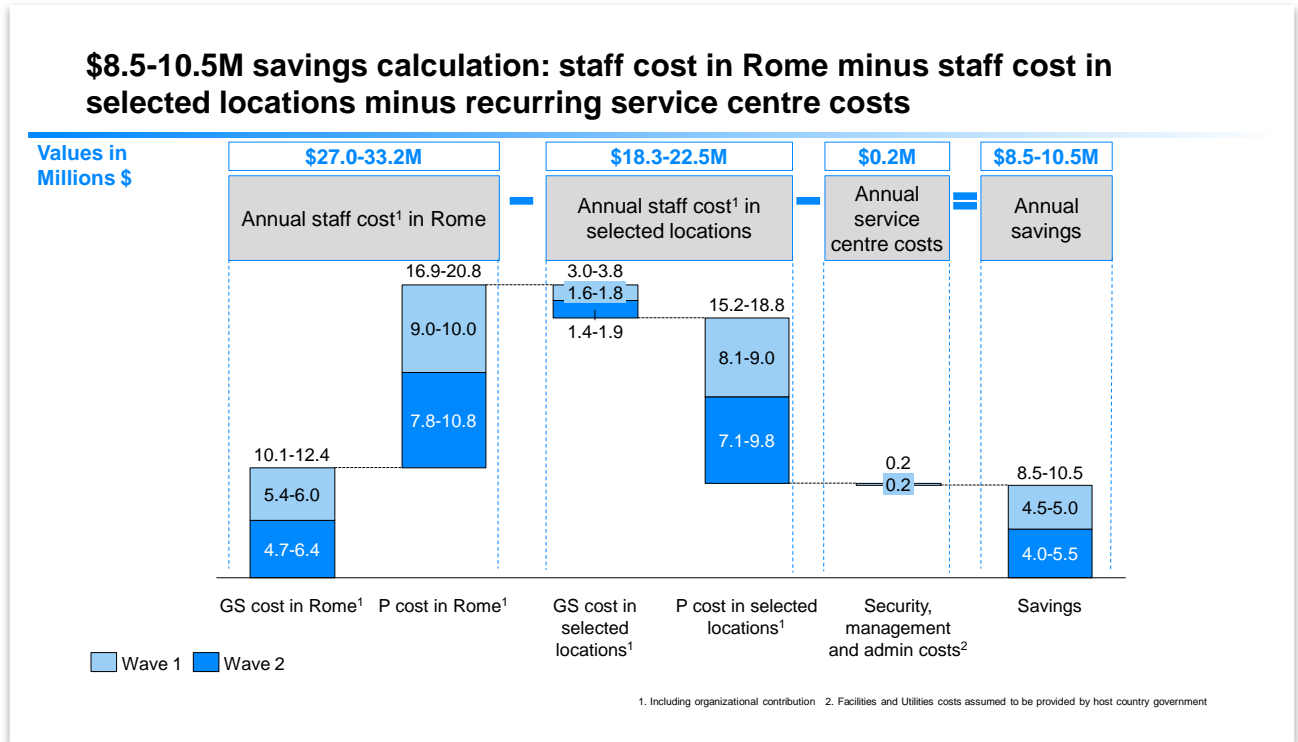
	Description	Wave 1 (\$M)	Wave 2 (\$M)	Total (\$M)
Estimated Savings	P Savings ¹	0.8 - 0.9	0.7 - 1.0	1.6 - 1.9
	GS Savings ¹	3.7 - 4.1	3.3 - 4.5	6.9 - 8.6
	Total Savings¹	4.5 - 5.0	4.0 - 5.5	8.5 - 10.5
Estimated Investments	Staff mitigation measures	2.5 - 2.6	3.3 - 4.0	5.8 - 6.6
	Relocation fees	3.5 - 3.9	3.0 - 3.4	6.5 - 7.3
	Process re-engineering/ consolidation	2.7 - 2.9	0 ²	2.7 - 2.9
	Workshadow, Backfill & Training	2.9 - 3.3	3.3 - 3.8	6.2 - 7.1
	Other Investments	2.4 - 2.8	2.9 - 3.3	5.3 - 6.1
	Total investments	14.0 - 15.5	12.5 - 14.5	26.5 - 30.0
Payback	Payback	3.1	3.1 - 2.6	3.1 - 2.9

1. Net of recurring costs 2. Supply Chain re-design already initiated with separate funds

46. Figure 8 below reflects the following factors:

- At a service centre, WFP would pay United Nations salary rates for its staff, based on the ICSC rates as noted in section 3.2.b.
- General Service staff salaries are calculated based on the Euro value of Rome salaries and the local currency value of salaries of a potential service centre location.
- Payroll costs include full staff costs (for instance salary, post-adjustment multiplier, entitlements and benefits).
- The actual savings available will depend on the country selected for the location of a service centre and the Euro to local currency exchange rates.
- Since the final scope of the units and staff positions is still to be confirmed, WFP has chosen to give a savings range.





Figure 8: The main assumption for calculating the savings



47. The estimated annual savings of the business case of USD 4.5–5 million in Wave 1 take into consideration a number of recurring costs, such as staff payroll, management and administration support as well as security measures.
48. The current business case assumes that facility costs including rent are to be provided by the host government, as this is currently the case in HQ and existing service centre locations (see Figure 9 below).

Figure 9: The main assumptions for calculating savings

Saving assumptions: four items to be compared between Rome and lower cost locations

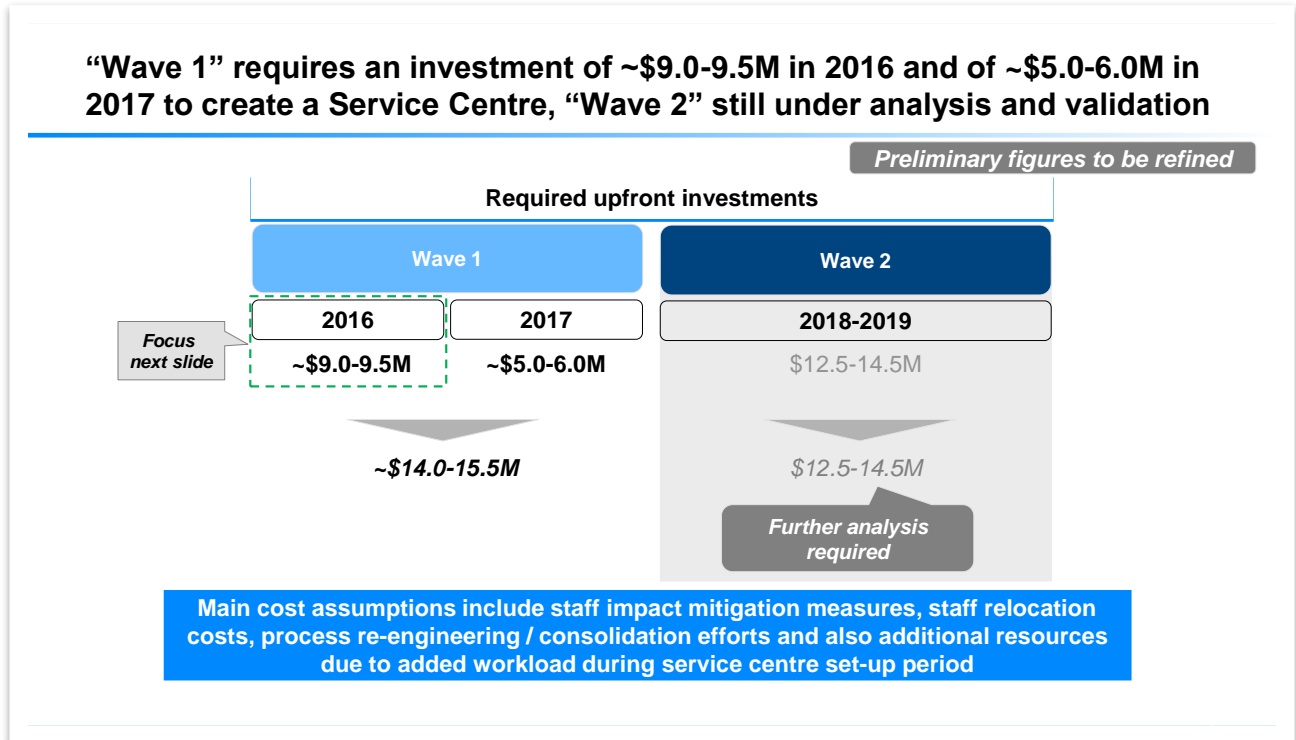
Cost items	Cost description	Assumptions
 <p>Staff payroll</p>	Total payroll cost of all staff	<p>Differential staff cost between Rome HQ and selected locations (HQ payroll cost¹ less location payroll cost¹ equals potential payroll savings)</p> <ul style="list-style-type: none"> Number of staff in scope is multiplied by payroll cost by employee category to represent total payroll cost <p>Consultant are considered as cost/saving neutral</p>
 <p>Security</p>	Local security guards needed at new Service Centre location	Security guards for the new location from when work-shadowing starts (recurring cost)
 <p>Management & Administration support</p>	Management & Administration support to	Administration, HR, Finance, and Budget from when the first staff members move to new location (recurring cost)
 <p>Facilities, Utilities & other costs</p>	Facilities including rent, utilities and other costs	Assumed to be provided by host country government

1. Including organizational contribution

3.2.d Estimated investment costs










- 49. Currently, the business case shows a total investment of USD 26.5–30 million, with USD 14–15.5 million in Wave 1 and USD 12.5–14.5 million in Wave 2.
- 50. Only the investment for the first tranche of Wave 1 (USD 9-9.5 million), which would happen in the second half of 2016 (see also section 3.4.a on implementation), is currently to be approved by the Board as part of ongoing discussions around the Management Plan.

Figure 10: Investment figures for Wave 1 and 2



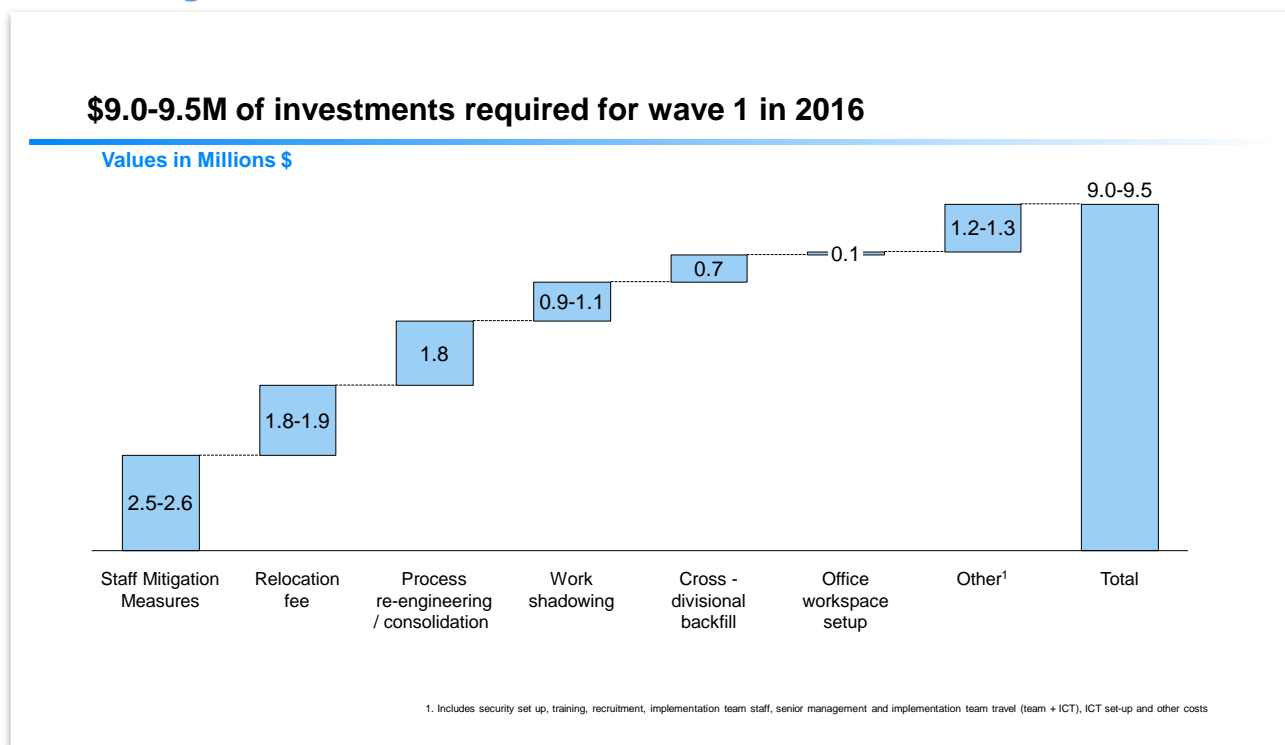
51. It should be noted that the investment case is currently underpinned by working assumptions. The business case has been developed with the support from The Boston Consulting Group.
52. The sum includes the below mentioned one-time costs such as severance payments and other mitigation measures which will be available for affected staff, relocation fees, a support team for the implementation and funds needed to ensure a continuous delivery of service during the transition phase, such as a parallel work-force for the units affected (see Figure 11).
53. The sum also includes the estimated costs for the reorganization and optimization of selected processes in scope prior to the transition to a service centre.

Figure 11: Main one-time costs for the creation of a service centre

Investment assumptions: different one time costs to set up a service centre and guarantee a smooth transition	
Main investment items	Investment description
 Staff mitigation measures	<ul style="list-style-type: none"> Severance payments and other staff mitigation measures for staff-members
 Relocation fees	<ul style="list-style-type: none"> Cost of moving staff, their families, and their possessions to new location
 Process re-engineering / consolidation	<ul style="list-style-type: none"> Costs related to process re-engineering /consolidation including change management support and systems improvement related to re-engineering /consolidation
 Workshadowing	<ul style="list-style-type: none"> Parallel work force (HQ+ SC) during set up phase to ensure smooth delivery of services, over the 3 months before the first staff members move to new location
 Cross divisional backfill	<ul style="list-style-type: none"> Support from 4 months before a unit starts in the new location and for the following 8 months
 Office workspace setup	<ul style="list-style-type: none"> Costs to set up and equip workspace, e.g. desks
   Other	<ul style="list-style-type: none"> Costs for team that supports the implementation of a service center and change management Minimum operating security standards initial setup Costs to set up ICT hardware, software and installation at service center location Recruitment and training costs to onboard new employees Senior management and implementation team travel expenses (e.g. flights, DSA) during Service Centre setup / IT equipment

54. Figure 12 details the financial figures for the different one-time cost categories, which would need to be covered for the first wave in 2016.

Figure 12: The main items included in the investment case



55. The investment costs required are directly linked to the detailed risk assessment to ensure that there is adequate funding for the mitigation measure needed to address major risks (see Annex 2 of previous background paper for the Executive Board).

3.2.e Exchange rate fluctuations

56. Throughout the feasibility review, the Secretariat has monitored closely the exchange rate between the US dollar, the Euro and the basket of other currencies where a service centre could potentially be located. The flexibility of the business model has been crucial in tracking the impact of a reduction in the value of the Euro against other currencies.
57. Most investment costs are payable in US dollars and thus the dollar value of the investment amount will remain relatively stable going forward if other assumptions in the model remain the same. However, severance payments for General Service grade staff are estimated in Euros. This reduces the dollar cost of total investments as the Euro has weakened against the US dollar.
58. In terms of savings, the weakening of the Euro against the US dollar has reduced the level of savings that can be expected from offshoring. For example between August 2014 and July 2015 the Euro dropped in value from USD 1.36 to USD 1.11 reducing the US dollar value of staff costs in Rome and thus the savings that can be generated from offshoring.

59. The main impact of the reduction in the value of the Euro against the US dollar has been a lengthening of the time it will take to recoup the investment required. The Leadership Group will continue to base decisions on the latest estimates of costs and savings as derived from the financial model.

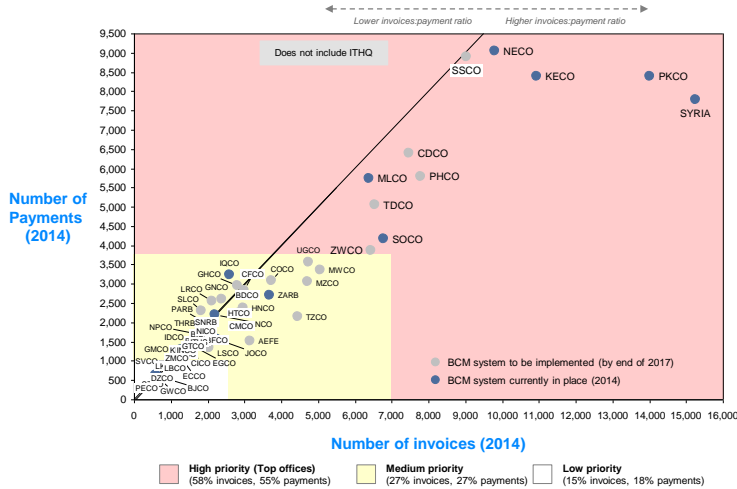
3.2.f Process re-engineering and consolidation efforts

60. Part of the service centre concept is to reorganize, consolidate and optimize some of the key processes in the areas in scope. These process improvement efforts are likely to result in time (and potentially cost) savings that will enhance service delivery and free up staff time at the field level for mission-focused activities.
61. An example of the approach that has been adopted involves the finance area. The methodology used to identify which processes could be reorganized followed three main steps:
- Together with process experts and process owners all common functional areas of a country office were reviewed to estimate the potential for consolidation.
 - Working closely with Finance Officers at HQ, staff from Regional Bureaux and country offices, invoice processing and invoice payments were identified as the major tasks that could be eligible for global consolidation. The assessment included a visit to the Syria emergency response in Jordan. An additional field assessment in Pakistan is currently planned. The interviewees concluded that if the processes are non-location dependent, transactional and time-consuming, a consolidation could add value and save time.
 - Deep-dive analyses have revealed that in 2014 WFP handled approximately 300,000 invoices with over 240,000 payments, which represents a significant time burden on staff in Regional Bureaux and country offices.
62. With an analysis taking into account the number of invoices and the number of payments made by all country offices, the findings were that the top offices eligible for required IT systems (Bank Communication Management, BCM and Invoice Tracking Systems, ITS) account for over 50 percent of the total number of invoices and payments (see Figure 13 below).
63. These country offices are Pakistan, Syria (Regional Emergency Coordination, Syria country office, Jordan country office), Kenya, Zimbabwe, Democratic Republic of Congo, Somalia, Mali, Philippines, South Sudan, the Niger and Chad, in order of volume. Therefore creating a solution for only these top offices would cover over 50 percent of the total invoices and payments.

Figure 13: Top ten country offices by number of invoices and payments

Invoice process consolidation will start focusing on top offices by number of invoices and payments which account for over 50% of total WFP invoices

Overall in 2014 WFP processed ~300K invoices & ~240K payments, with concentration:



Top offices include:

- PKCO: Pakistan CO
- SYRIA: Syria REC + Syria CO + Jordan CO
- KECO: Kenya CO
- ZWCO: Zimbabwe CO
- CDCO: Congo CO
- SOCO: Somalia CO
- MLCO: Mali CO
- PHCO: Philippines CO
- SSCO: South Sudan CO
- NECO: Niger CO
- TDCO: Chad CO

Creating a solution starting with the top offices would support over 50% of the total invoices/payments

Source: CO/RB bank access data from RMFT; Invoice/payment data from RMXS

64. The ability to process invoices centrally could also increase WFP’s preparedness by aiding the scale up of activities in an emergency situation. WFP will continue to explore this particular opportunity amongst others to increase the mission focus of field offices.
65. The payment process consolidation would require the further roll out to country offices of required technical systems (ITS and BCM in SAP), which is currently ongoing.
66. The Secretariat is currently assessing the potential for several other processes to be reorganized and optimized, including travel management, IT and human resources processes.

3.2.g Efficiency savings by other United Nations agencies

67. With regards to other United Nations agencies, the membership was interested in the level of efficiency savings achieved by other UN service centres. Most of the service centres have evolved over time, making it difficult to compare current costs with baseline costs. However, FAO’s service centre is reported to have saved USD 8 to 10 million per biennium, in line with the expected savings,⁴ while the WHO service centre

⁴ Source: FAO Finance Committee 128/16

⁵ The improved operational efficiency of WHO’s service centre is measured and confirmed by a set of key performance indicators and quality metrics (e.g. turnaround time, rejection rates, transactions per staff), which are regularly reported to major clients and to the Directors of Administration and Finance (DAF) meetings. Source: WHO EXECUTIVE BOARD EB132/5 Add.6. Review of management, administration and decentralization in the World Health Organization, report by the Joint Inspection Unit.

is reported to have increased the average number of transactions processes each month by 40 percent in the first three years of implementation.⁵

3.3 Location analysis

3.3.a Methodology and approach

68. This section outlines the main selection criteria that have been taken into account as part of a three-stage process for considering the possible location of a service centre. While the selection criteria and ranking system described below have been produced to assist the process, they are only intended to inform the decision-making on the most appropriate location for a service centre.
69. All 193 United Nations Member States were considered as a starting point for the location analysis with a three-stage selection process:
 - Stage 1: Identify countries to be excluded from detailed analysis because of UN sanctions.
 - Stage 2: Carry out an initial ranking of the remaining 182 countries based on a series of indicators related to five main criteria to identify the top 15 countries and/or locations for further analysis (see section 3.3.b).
 - Stage 3: For the 15 locations identified during stage 2, invite governments to express interest and initiate discussions with potential host governments where appropriate to identify likely costs and benefits (for example the willingness of potential host governments to provide offices and office services at no cost to WFP).
70. While stage 3 involves locations identified by the Secretariat as having the most potential for hosting a service centre, other United Nations Member States may also indicate their interest in being considered as a potential location.

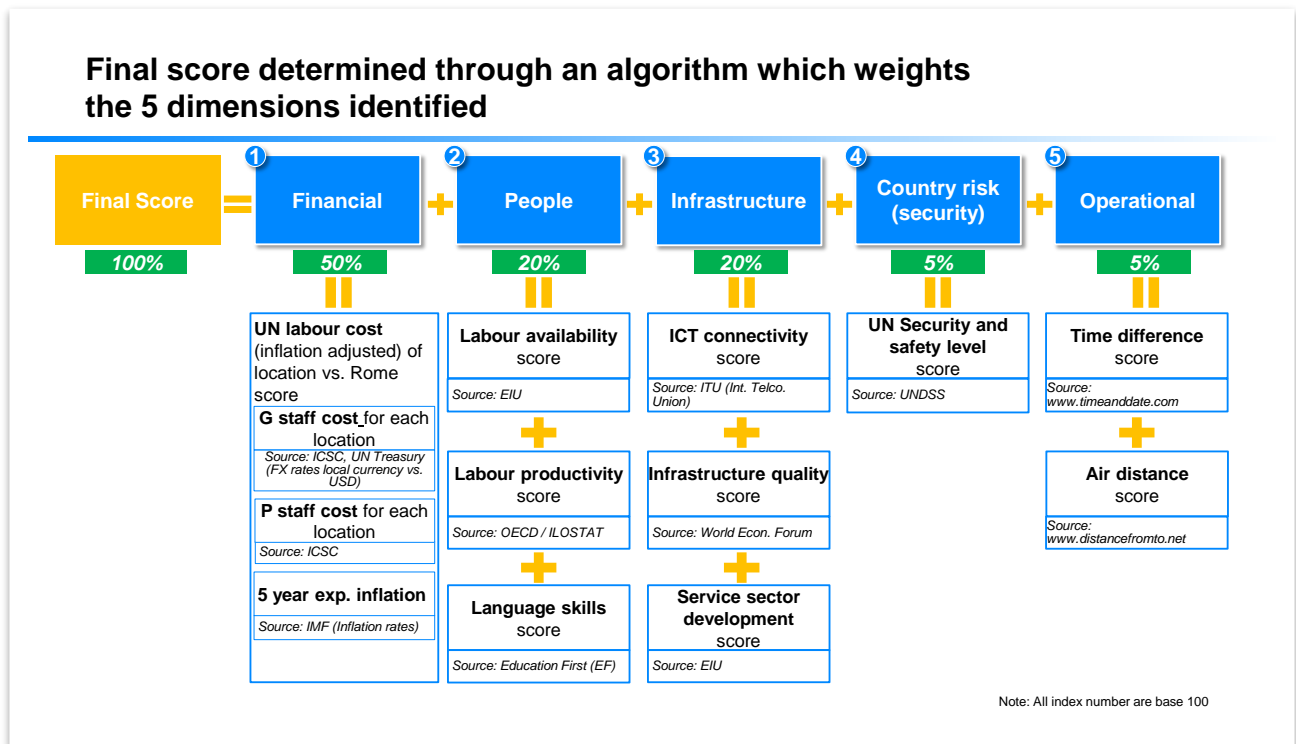
3.3.b The five main selection criteria

71. The WFP model takes into account five selection criteria⁶ which have been combined by using a weighting factor determined by the Leadership Group to reflect the relative importance of each criteria to WFP (Figure 14). The criteria and weighting factors are:
 - Financial – the level of staff costs in the country concerned which is a key factor in the ability of WFP to generate savings in payroll costs (weighting of 50 percent).
 - People – the extent to which skilled and productive labour is available to meet WFP needs, including language skills (weighting of 20 percent).
 - Country infrastructure – the extent to which key infrastructure, including ICT connectivity and reliability and the service sector, is available in the country to meet WFP’s needs (weighting of 20 percent).

⁶ As noted in the earlier background paper, this model follows the model used by WFP in 2007, which was recognized by the JIU as best practice.

- Country risk – the need to limit the location of a service centre to those countries where WFP is able to operate with an acceptable level of security. The data is based on United Nations Department of Safety and Security (UNDSS) indications for the capital city (weighting of 5 percent).
- Operational factors (WFP specific) – key factors identified by WFP Management that should be taken into account, for example ease of connectivity with Rome, the existence of other United Nations service centres, current regional office location (weighting of 5 percent).

Figure 14: Break-down of criteria and weighting to rank potential countries



Criteria/sub-criteria	Indicator	Source of data
Staff costs		
<ul style="list-style-type: none"> UN staff cost differential of location vs. Rome, weighted average of Professional and General Service grade staff 	United Nations labour cost of respective location compared to Rome <ul style="list-style-type: none"> Professional staff cost: <ul style="list-style-type: none"> USD per year, inflation-adjusted General Service grade staff cost: <ul style="list-style-type: none"> Local currency converted to USD per year, inflation-adjusted 	<ul style="list-style-type: none"> Professional staff cost <ul style="list-style-type: none"> International Civil Service Commission (ICSC) salary rates and post adjustment multiplier. Inflation rates based on data from International Monetary Fund (IMF) General Service grade staff cost <ul style="list-style-type: none"> International Civil Service Commission (ICSC) salary rates converted to USD <ul style="list-style-type: none"> United Nations Treasury exchange rates http://treasury.un.org/ Inflation rates based on data from International Monetary Fund (IMF)
Labour force		
<ul style="list-style-type: none"> Skilled labour availability 	<ul style="list-style-type: none"> Quality of labour force available 	<ul style="list-style-type: none"> Economist Intelligence Unit Business Environment Rankings
<ul style="list-style-type: none"> Labour productivity 	<ul style="list-style-type: none"> Hours worked per year 	<ul style="list-style-type: none"> Organisation for Economic Co-operation and Development (OECD) and ILOSTAT data
<ul style="list-style-type: none"> Language skills 	<ul style="list-style-type: none"> English language skills 	<ul style="list-style-type: none"> English Proficiency Index produced annually by Education First (EF)
Infrastructure		
<ul style="list-style-type: none"> Information technology 	<ul style="list-style-type: none"> ICT network connectivity and reliability 	<ul style="list-style-type: none"> ICT Development Index by International Telecoms Union
<ul style="list-style-type: none"> Physical infrastructure 	<ul style="list-style-type: none"> Relative levels of physical infrastructure 	<ul style="list-style-type: none"> Global Competitive Index by World Economic Forum
<ul style="list-style-type: none"> Services sector 	<ul style="list-style-type: none"> Level of service sector availability 	<ul style="list-style-type: none"> GDP composition per sector, based on EIU data
Country risk (note the automatic exclusion of countries under United Nations sanctions)		
<ul style="list-style-type: none"> High levels of insecurity 	<ul style="list-style-type: none"> UNDSS security ranking 	<ul style="list-style-type: none"> UNDSS
Operations		
<ul style="list-style-type: none"> Time zone differences to Rome 	<ul style="list-style-type: none"> Time difference of a location's capital to Rome 	<ul style="list-style-type: none"> Index number developed by WFP (assigning index from 100 to 0 for locations with 0 hrs to 12 hrs time difference compared to Rome, based on www.timeanddate.com)
<ul style="list-style-type: none"> Travel accessibility from Rome 	<ul style="list-style-type: none"> The air distance of a location's capital to Rome 	<ul style="list-style-type: none"> Index number developed by WFP (assigning index from 100 to 0 for locations with 0 km to max. 9,000 km distance from Rome, based on www.distancefromto.net)

3.3.c Shortlist of potential locations

72. Based on the five criteria, the preliminary shortlist includes the following 15 locations (in alphabetical order):

- Bulgaria,
- Czech Republic,
- Egypt,
- Hungary,
- Italy (other locations),
- Italy (Rome),
- Kenya,
- Malaysia,
- Panama,
- Poland,
- Portugal,
- Senegal,
- Slovakia,
- South Africa,
- Thailand.

3.3.d Engagement with potential host governments

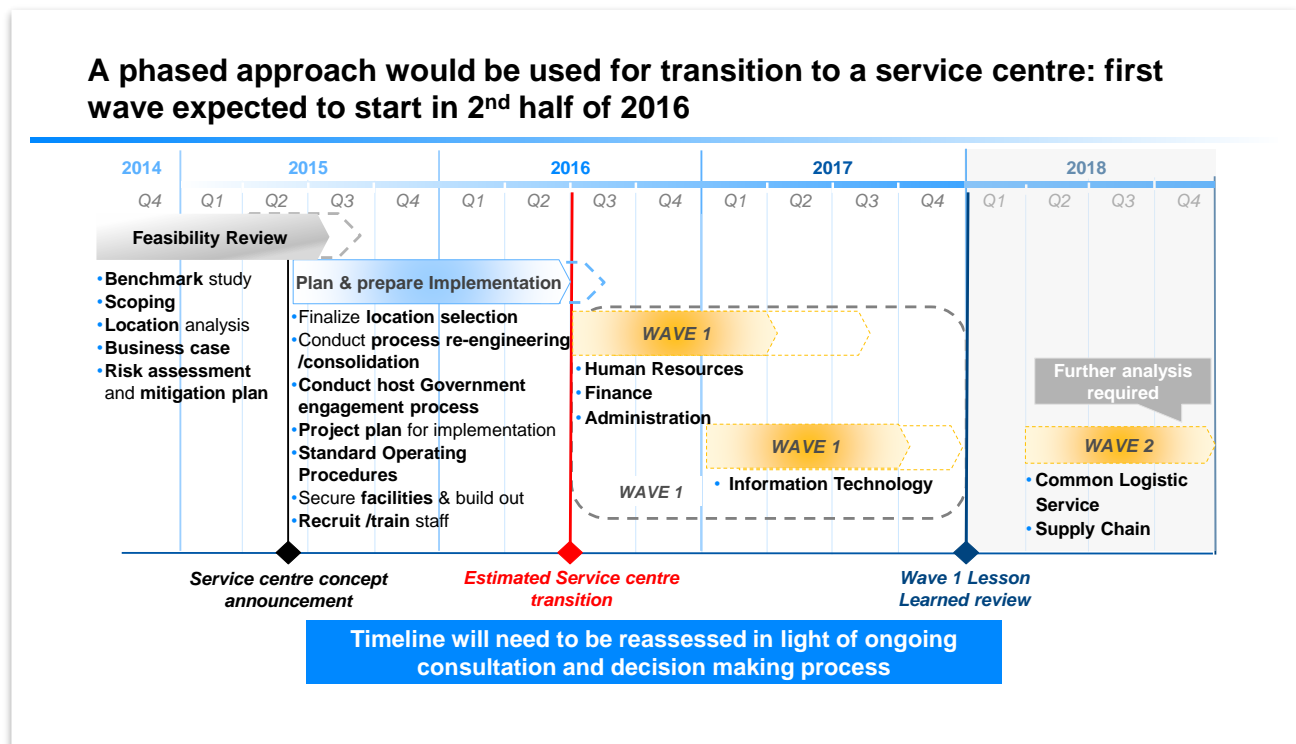
73. The Secretariat has yet to begin a dialogue with potential host governments identified under stage two, to explore other factors relevant to the overall business case, for example, the extent to which the host country is willing to support some of the costs of establishing a service centre. The Secretariat will seek the views of the Executive Board regarding the proposal during the Informal Consultation on 21 September 2015 before proceeding further.

3.4 Implementation

3.4.a Timeframe for implementing a service centre

74. Consistent with best practice, WFP has adopted a phased approach to service centre transition, as opposed to a “big bang” approach. This has been done:
- to allow the Supply Chain division to complete its re-engineering process and to stabilize the dependencies with other functional areas, particularly Budget and Programming; and
 - to include a “check-point” after Wave 1, allowing WFP to learn from best practices made during the early phases of implementation.
75. WFP aims for the first wave of implementation to start in the second half of 2016. Current plans are to move staff in Wave 1 in two tranches, with the move of Information Technology staff beginning approximately six months after other divisions (see Figure 15 below).
76. In light of ongoing consultations and decision making, the timeline is however subject to potential shifts.

Figure 15: Details in implementation timeline



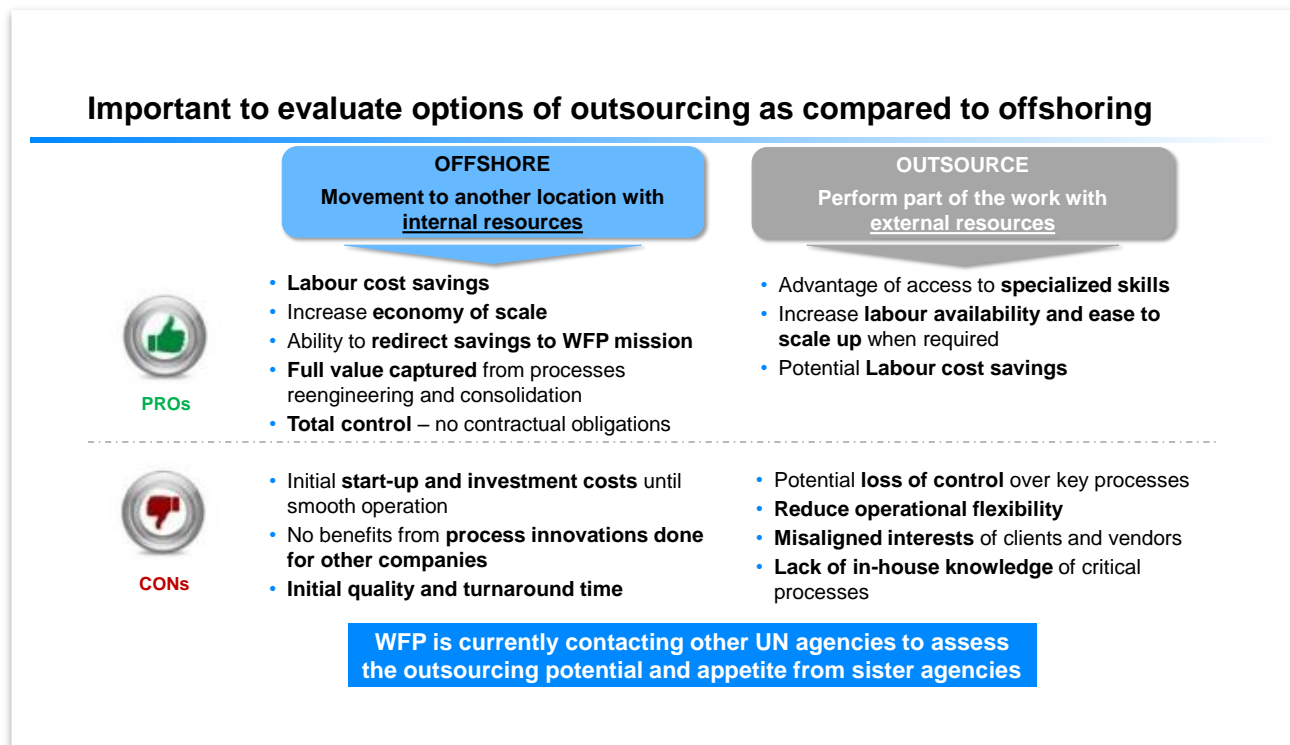
77. Concerning already existing service centres within WFP described in the first paper, there are currently no plans to combine the existing service centre with this proposal for a global service centre. However, WFP would consider this option in the future.⁷

3.4.b Potential for outsourcing within the United Nations

78. WFP already outsources certain support services, including through other United Nations system agencies. For example, 60 percent of WFP's payroll is outsourced to UNDP while the International Computing Centre (ICC) manages a significant portion of WFP's IT infrastructure.
79. As part of the search for improvements in its services, it is important for WFP to consider whether the services identified for offshoring can be carried out more cost effectively by outsourcing this work to another United Nations organization.
80. WFP has assessed in general the benefits and drawbacks of outsourcing – defined as hiring another company or organization to perform part of the work with external resources – compared to offshoring – defined as moving processes or functions to another location with internal resources (see Figure 16 below).

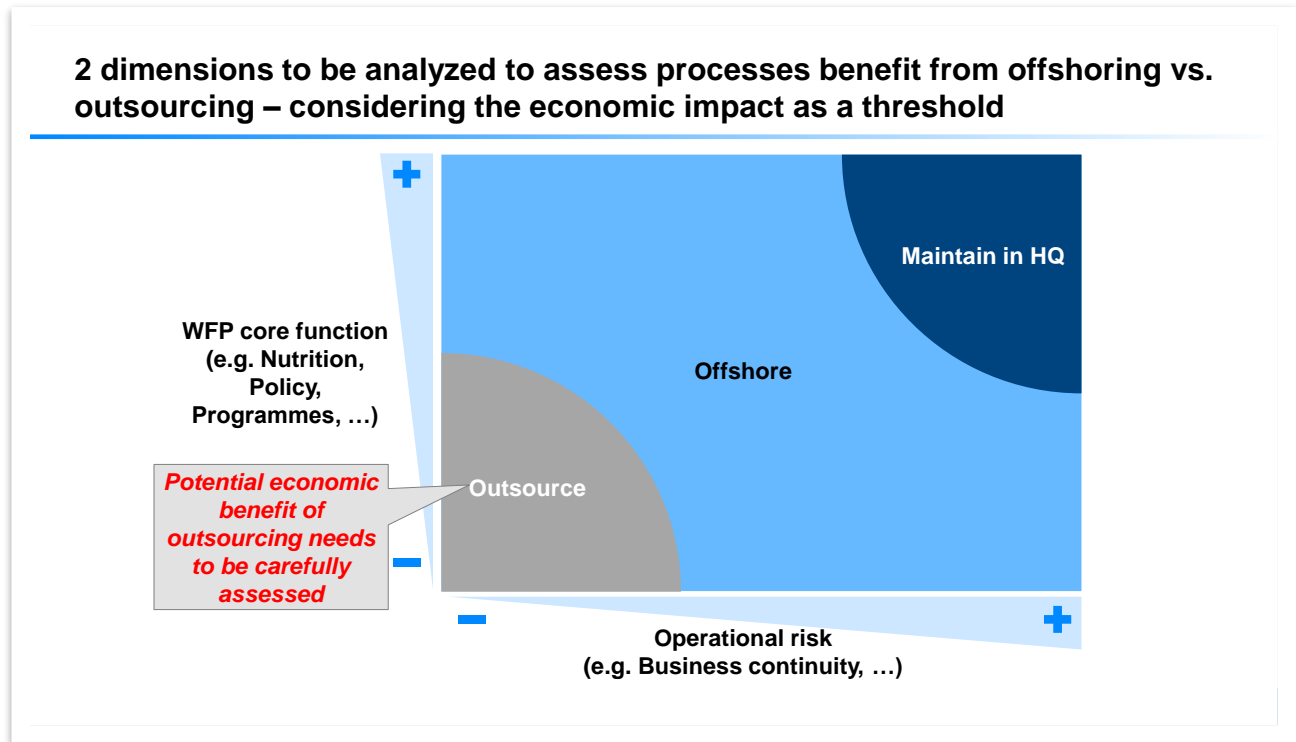
⁷ With regards to WFP's decision to offshore the IT Helpdesk, cost was not the deciding factor for offshoring this particular function. The IT Helpdesk was a service initially outsourced to the International Computing Centre (ICC), and then brought in house in 2007 primarily to improve the service provided and also to generate costs savings of up to 10% over the ICC contract. The flexibility of this model in New Delhi has proven to be useful as it allows WFP to adjust the services and number of staff in India, as the needs have evolved over the years.

Figure 16: Advantages and disadvantages of outsourcing and offshoring



81. The two main criteria under consideration are first, the extent to which the process is a core function that needs to be under WFP’s control; and second, the level of operational risk involved with regards to a potential disruption of services (see the vertical and horizontal axis of the matrix in Figure 17 below). Initial results of this examination suggest that the majority of the processes in scope would not be suitable for outsourcing, given the particular nature of WFP processes and the operational risk that needs to be taken into account.
82. Nevertheless, WFP will continue to review potential outsourcing opportunities within the context of the proposal for a service centre, in parallel with the ongoing location analysis. Other United Nations agencies are being consulted as part of this effort.

Figure 17: Matrix on outsourcing vs. offshoring



83. While the analysis for Wave 2 is ongoing and the scope of a service centre finalised, WFP is currently engaging with FAO and other United Nations agencies' service centres to assess the potential for outsourcing as appropriate.
84. Furthermore, WFP continues to remain engaged with inter-agency processes related to joint service centers. As part of the service center feasibility review, consideration was given to possible partnerships with other United Nations entities.

4. Concluding comments

85. WFP has sought to respond to the various questions raised during the Informal Consultation through the provision of the additional information provided above. This information is meant to contribute to ongoing discussions with the membership regarding the overall service centre proposal.
86. The Secretariat is keen to share further explanations during additional meetings with the membership.

5. Annex

Location Analysis - Salary difference between Rome and short-listed countries

Salary cost differentials between Rome and selected locations

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Selected locations	Selected locations vs Rome
P5	4%	132	120	-10%
P4	4%	112	101	-10%
P3	36%	93	84	-10%
P2	3%	78	70	-10%
P1	0%	63	57	-10%
<hr/>				
G7	2%	90	33	-64%
G6	6%	78	26	-66%
G5	11%	67	21	-68%
G4	16%	59	17	-71%
G3	15%	53	14	-74%
G2	2%	49	12	-76%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Sofia (Bulgaria)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Sofia	Sofia vs Rome
P5	4%	132	113	-14%
P4	4%	112	96	-14%
P3	36%	93	80	-14%
P2	3%	78	67	-14%
P1	0%	63	54	-14%
<hr/>				
G7	2%	90	34	-63%
G6	6%	78	28	-63%
G5	11%	67	24	-64%
G4	16%	59	20	-66%
G3	15%	53	17	-68%
G2	2%	49	14	-71%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Prague (Czech Republic)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Prague	Prague vs Rome
P5	4%	132	119	-10%
P4	4%	112	101	-10%
P3	36%	93	84	-10%
P2	3%	78	70	-10%
P1	0%	63	57	-10%
G7	2%	90	38	-58%
G6	6%	78	32	-59%
G5	11%	67	28	-59%
G4	16%	59	23	-61%
G3	15%	53	19	-64%
G2	2%	49	16	-67%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Cairo (Egypt)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Cairo	Cairo vs Rome
P5	4%	132	125	-6%
P4	4%	112	105	-6%
P3	36%	93	88	-6%
P2	3%	78	73	-6%
P1	0%	63	59	-6%
G7	2%	90	29	-68%
G6	6%	78	22	-71%
G5	11%	67	18	-74%
G4	16%	59	14	-76%
G3	15%	53	11	-79%
G2	2%	49	9	-81%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Budapest (Hungary)

Values in Thousands \$

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Budapest	Budapest vs Rome
P5	4%	132	115	-13%
P4	4%	112	97	-13%
P3	36%	93	81	-13%
P2	3%	78	68	-13%
P1	0%	63	55	-13%
G7	2%	90	32	-65%
G6	6%	78	27	-66%
G5	11%	67	22	-66%
G4	16%	59	19	-67%
G3	15%	53	17	-69%
G2	2%	49	15	-70%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Brindisi (Italy)

Values in Thousands \$

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Brindisi	Brindisi vs Rome
P5	4%	132	126	-5%
P4	4%	112	107	-5%
P3	36%	93	89	-5%
P2	3%	78	74	-5%
P1	0%	63	60	-5%
G7	2%	90	58	-36%
G6	6%	78	52	-33%
G5	11%	67	47	-29%
G4	16%	59	43	-28%
G3	15%	53	39	-28%
G2	2%	49	35	-28%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Nairobi (Kenya)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Nairobi	Nairobi vs Rome
P5	4%	132	131	-1%
P4	4%	112	111	-1%
P3	36%	93	93	-1%
P2	3%	78	77	-1%
P1	0%	63	62	-1%
G7	2%	90	38	-58%
G6	6%	78	31	-61%
G5	11%	67	24	-63%
G4	16%	59	20	-67%
G3	15%	53	14	-73%
G2	2%	49	11	-78%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Kuala Lumpur (Malaysia)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Kuala Lumpur	Kuala Lumpur vs Rome
P5	4%	132	126	-5%
P4	4%	112	106	-5%
P3	36%	93	89	-5%
P2	3%	78	74	-5%
P1	0%	63	60	-5%
G7	2%	90	26	-72%
G6	6%	78	20	-74%
G5	11%	67	15	-77%
G4	16%	59	12	-80%
G3	15%	53	9	-84%
G2	2%	49	7	-87%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Panama City (Panama)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Panama City	Panama City vs Rome
P5	4%	132	131	-1%
P4	4%	112	110	-1%
P3	36%	93	92	-1%
P2	3%	78	77	-1%
P1	0%	63	62	-1%
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G7	2%	90	54	-41%
G6	6%	78	43	-44%
G5	11%	67	35	-48%
G4	16%	59	28	-53%
G3	15%	53	23	-58%
G2	2%	49	19	-62%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Warsaw (Poland)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Warsaw	Warsaw vs Rome
P5	4%	132	117	-12%
P4	4%	112	98	-12%
P3	36%	93	82	-12%
P2	3%	78	69	-12%
P1	0%	63	55	-12%
<hr/>				
G7	2%	90	48	-47%
G6	6%	78	38	-51%
G5	11%	67	31	-53%
G4	16%	59	26	-56%
G3	15%	53	23	-58%
G2	2%	49	20	-59%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Lisbon (Portugal)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Lisbon	Lisbon vs Rome
P5	4%	132	120	-10%
P4	4%	112	101	-10%
P3	36%	93	85	-10%
P2	3%	78	71	-10%
P1	0%	63	57	-10%
G7	2%	90	44	-51%
G6	6%	78	38	-51%
G5	11%	67	33	-51%
G4	16%	59	28	-53%
G3	15%	53	24	-55%
G2	2%	49	20	-58%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Dakar (Senegal)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Dakar	Dakar vs Rome
P5	4%	132	144	9%
P4	4%	112	122	9%
P3	36%	93	102	9%
P2	3%	78	85	9%
P1	0%	63	69	9%
G7	2%	90	31	-65%
G6	6%	78	26	-67%
G5	11%	67	22	-68%
G4	16%	59	17	-71%
G3	15%	53	14	-73%
G2	2%	49	12	-76%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Bratislava (Slovakia)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Bratislava	Bratislava vs Rome
P5	4%	132	116	-12%
P4	4%	112	98	-12%
P3	36%	93	82	-12%
P2	3%	78	69	-12%
P1	0%	63	55	-12%
G7	2%	90	42	-53%
G6	6%	78	35	-56%
G5	11%	67	28	-58%
G4	16%	59	23	-61%
G3	15%	53	19	-65%
G2	2%	49	15	-69%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Pretoria (South Africa)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Pretoria	Pretoria vs Rome
P5	4%	132	113	-14%
P4	4%	112	96	-14%
P3	36%	93	80	-14%
P2	3%	78	67	-14%
P1	0%	63	54	-14%
G7	2%	90	40	-56%
G6	6%	78	32	-59%
G5	11%	67	26	-60%
G4	16%	59	22	-63%
G3	15%	53	18	-65%
G2	2%	49	16	-68%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website

Salary cost differentials between Rome and Bangkok (Thailand)

Values in Thousands \$

As of 25th May 2015

Level ¹	Wave 1 - Distribution of staff (46% P, 54% GS)	Rome	Bangkok	Bangkok vs Rome
P5	4%	132	136	2%
P4	4%	112	114	2%
P3	36%	93	96	2%
P2	3%	78	80	2%
P1	0%	63	65	2%
<hr/>				
G7	2%	90	48	-47%
G6	6%	78	40	-49%
G5	11%	67	33	-51%
G4	16%	59	27	-54%
G3	15%	53	22	-60%
G2	2%	49	17	-65%

1. GS Step 5 (gross) Annual cost - Source: ICSC website & UN Treasury website
P Step 5 (net D) Annual cost - Source: ICSC website