

UPDATE ON THE COST EXCELLENCE INITIATIVE



Informal Consultation

25 July 2016

World Food Programme
Rome, Italy

Executive Summary

With 795 million hungry people in the world and with humanitarian emergencies at an unprecedented level, WFP – and its field offices in particular – needs to be agile, efficient and effective if it is to confront the challenges of fulfilling its mandate and contributing to the Sustainable Development Goals.

Cost excellence is crucial to ensuring that WFP reaches the poor and vulnerable, and is central to helping WFP contribute to achieving zero hunger by 2030. In July 2014, WFP launched the Cost Excellence Initiative to find ways to reduce costs and improve efficiency while sustaining investments in key strategic priorities. Since then, the Cost Excellence Initiative has analysed global support costs to identify potential savings; studied the feasibility of launching a WFP service centre; and re-engineered, realigned and standardized certain processes.

In 2015 WFP management promised the Board to identify USD 3 million in savings in global support costs; to date USD 3.8 million has been redirected towards priority areas, particularly field support.

Regarding the service centre feasibility review, the Board approved an allocation of USD 3 million from the Programme Support and Administrative budget to: i) seek savings from process re-engineering, realignment and standardization, which initially focused on finance, travel, human resources and information technology; and to finalize the business case for a potential service centre.

While analysis showed that a service centre could deliver financial benefits, these were not compelling enough to justify a physical relocation. At the same time, potential efficiency and effectiveness gains through process transformation were identified, which management will pursue to help reduce the burden of transactional tasks, particularly on field offices. Outsourcing and inter-agency collaboration will also be explored.

The Board would be asked to approve any necessary financing for this work at the 2017 First Regular Session. Management will inform the Board of the expected financing needs at the 2016 Second Regular Session.

Introduction

1. To contribute the most it can to achieving the Sustainable Development Goals, WFP needs to build capacities enabling it to respond to existing challenges and confront emerging ones. Increased efficiency and effectiveness are critical to ensuring WFP is able to respond to emergencies while continuing to perform core functions.
2. To do this, WFP is improving its work in partnerships, including through inter-agency coordination; fostering innovation and better use of new technology; improving core processes; and working in greater alignment with governments.
3. WFP has an obligation to donors, the Board and the people it serves to maximize its use of resources. The Grand Bargain made at the World Humanitarian Summit in May 2016 highlighted the importance of using aid more efficiently, cost effectively and transparently, ensuring that contributions reach the people who need them the most.
4. In July 2014 WFP launched the Cost Excellence Initiative to further reduce costs and improve efficiency by improving processes while investing in key strategic priorities. Two previous documents on the initiative were discussed at informal consultations in September 2015, and an Information Notice was distributed in October 2015.¹
5. Cost excellence work has involved:
 - **Analysis of global support costs:** Non-payroll costs such as travel, facilities and utilities were analysed to identify ways of achieving better value for money.
 - **Service centre feasibility review:** Options were explored for creating a service centre that would reduce costs; re-engineer, realign and standardize processes; and ultimately reduce workloads in field offices.

Way Forward

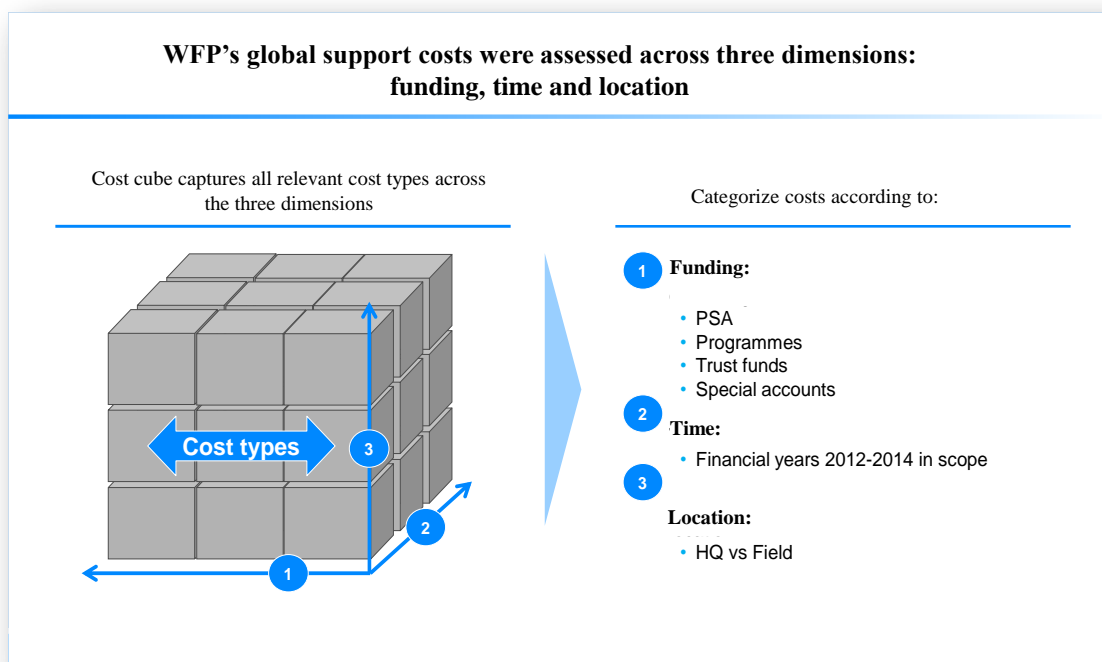
6. Management reviewed the benefits, costs and risks of establishing a service centre for WFP. Proposals received from potential host countries indicated that a service centre could provide financial benefits, but those benefits were not found to be compelling enough to justify the measure.
7. However, it was found that process re-engineering, realignment and standardization could provide significant financial savings, improve service delivery and free offices to focus on more significant work, without requiring moving offices to a lower-cost location. Taking into consideration economic trends and depreciation of the Euro against the US dollar as well, the financial benefits of moving to a lower-cost location combined with process work did not significantly exceed the benefits of process transformation alone.
8. Therefore, management will pursue cost excellence through an ambitious plan to transform its processes by streamlining and reducing costs embedded in a range of functional areas. It will review the potential for outsourcing selected functions as appropriate, and engaging in more inter-agency collaboration.
9. Process transformation will require additional financing, which the Board will be asked to approve at its 2017 First Regular Session. The Board will be apprised of the expected financial requirements during the presentation of the Management Plan (2017–2019) at the 2016 Second Regular Session.

¹ Cost Excellence: Proposals for Developing a Service Centre in WFP. Information Paper by the Executive Director (2 September 2015); Cost Excellence: Proposals for Developing a Service Centre in WFP. Additional Information Paper (21 September 2015); Information Notice: Consideration of a Host Country for a WFP Service Centre (October 2015).

Analysis of Global Support Costs

10. To analyse global support costs, senior managers and those responsible for costs in various units identified potential savings across funding, time and location dimensions (Figure 1). This is the first time such a comprehensive mapping of all WFP's support costs had been undertaken.

Figure 1: Extensive mapping of WFP's global support costs



11. In 2015, WFP spent USD 386 million on direct and indirect non-payroll support costs overall. Major cost categories included facility management, duty travel, information technology (IT) service and equipment, and commercial consultancy services. The amount funded from the Programme Support and Administrative (PSA) budget for these categories was USD 56.5 million; they were identified for cost optimization. Measures being implemented include advance booking for air travel, and a corporate hotel programme.
12. WFP management made a commitment to the Board to identify USD 3 million in savings in global support costs; USD 3.8 million in PSA savings were identified which became available for reinvestment. Of these savings, 39 percent were in Headquarter Departments, 47 percent from IT central allocation and 14 percent in regional bureaux. The Strategic Resources Allocation Committee reviewed proposals for use of the extra-budgetary funding and endorsed proposals totaling USD 3.8 million, with USD 1.9 million to be redirected to a contingency fund for country offices and USD 1.9 million to other priority areas, most notably to support the maintenance of the cash-based transfer platform.

Service Centre Feasibility Review

Rationale for Considering a WFP Service Centre

13. General Regulation Article V11.7. makes clear the responsibility of the Executive Director in relation to efficient and cost-effective services: "The Executive Director shall keep the cost of management and administration of WFP to a minimum consistent with the maintenance of efficiency and accountability and shall use the most efficient and cost effective services, including in the field."

14. WFP has an obligation to ensure that it limits overhead costs and functions as effectively as possible. The regional bureaux work to streamline operations and enhance support for country offices. Streamlining administrative support and other services would further reduce the burden on country offices of performing tasks of a transactional nature.
15. WFP explored the concept of a service centre as one way to support this reorientation, improve delivery and management of services, and reduce routine tasks. Shifting certain transactional processes to a lower-cost location could allow WFP to focus on core work and strategic activities and free resources to build capacity for new priorities.

Service Centre Feasibility Review

16. A comprehensive feasibility review was undertaken to analyse the benefits and risks for WFP of re-engineering certain routine operations and transferring them to a service centre at a lower-cost location. An Advisory Group comprising Headquarters directors and representatives from regional bureaux, country offices and staff associations served as the main body for consultation and information-sharing throughout the process.
17. The feasibility review included:
 - review of best-practices of private-sector companies and United Nations agencies that had offshored work to service centres, along with WFP's own experience with offshoring;²
 - review of the scope for reorganizing and offshoring functions and processes;
 - development of a business case, with a comprehensive risk assessment and review of options for possible locations for a service centre; and
 - evaluation of proposals from potential service-centre host governments.

Scoping Exercise

18. Reviews determined that a critical component of a service centre was to re-engineer, realign and standardize selected processes that are routine and not dependent on location.³ A corporate-wide scoping exercise helped determine the functional areas and processes that would benefit from such changes. The exercise involved having the Deputy Executive Director and the Assistant Executive Directors and Division Directors identify five potential areas for change; having Division Directors and process experts conduct process analyses at a unit level; and having unit Chiefs and process experts in the five functional areas confirm with the Division Directors the initial processes to undergo transformation.
19. Two main criteria were the type of processes involved and whether it was necessary to be physically present during the process. The five functional areas identified to undergo process transformation – prior to a potential move to a service centre – were finance, travel, human resources, information technology and supply chain.⁴

Business Case and Financial Model

20. The Boston Consulting Group helped design a financial assessment of the costs and benefits of a service centre that included:
 - an interactive financial model to identify the estimated savings and costs associated with moving to a service centre;
 - assessing the potential risks arising and designing of mitigating measures to address them;

² See Cost Excellence: Proposals for Developing a Service Centre in WFP. Information Paper by the Executive Director (2 September 2015).

³ More detail on the types of processes considered is provided below.

⁴ Supply chain was originally considered to be two separate functional areas, logistics and procurement.

- identifying and assessing potential locations of a service centre that would meet WFP's needs; and
- identifying non-financial costs, benefits and opportunities to focus more on WFP's core mission.

Evaluation of Country Proposals

21. A public information notice posted on the WFP Executive Board website invited WFP's 193 Member States to submit expressions of interest for becoming a location for a service centre.
22. Six potential host countries expressed interest: Costa Rica, Hungary, Italy, Jordan, Poland and South Africa.⁵ Analysis of the projected benefits and costs of each proposal showed that there was not a compelling enough case to shift location to a service centre.

Benefits of Process Transformation

23. In the Management Plan (2016–2018) the Board approved USD 3 million to pursue re-engineering and realignment.⁶ WFP has begun to transform selected WFP processes, which is expected to contribute to improved service delivery, savings and greater mission focus. Outsourcing and inter-agency collaboration will continue to be considered.
24. The processes in both Headquarters and field offices that will undergo reorganization, consolidation, simplification, automation and/or standardization are under the functional areas of finance, travel, human resources and information technology. Supply chain, and potentially other functional areas, will be included in the future.
25. Both financial and time savings are expected to arise from efforts towards improved processes. These changes are likely to affect staff positions, in which case mitigation measures including early separation packages will be put in place.

Finance

26. Following the successful implementation of the Treasury Management System,⁷ the finance team focused on invoice management, payments and disbursements. Two process re-engineering projects are under way: the Bank Communication Management functionality, which supports standardized communication of payment instructions to banking systems; and the Invoice Tracking System, a web-based tracking tool for invoice verification and approval. Both tools support online communication between WFP offices, significantly improving efficiencies and enhancing control procedures.
27. The tools will free up time dedicated by field staff to invoice management and payment processing and will allow for consolidation of activities. A case study conducted in Pakistan helped confirm the feasibility of a Global Payment Factory; a three-month pilot will be launched later in 2016 to measure the benefits of the service.

Travel

28. Management Services concentrated initially on travel because of its high volume and costs. A review of travel processes was conducted in Headquarters and some country offices, and a travel process map was prepared. Potential process improvements identified included a comprehensive trip management system with a traveller self-service facility integrated with other travel-related needs such as security clearances, guesthouses and fleet management; it also included enhanced

⁵ Panama originally expressed interest but later withdrew.

⁶ The draft decision includes as point v “**approved** the allocation of USD 3 million, in 2016, as a critical corporate initiative from the PSA Equalization Account, i) for investment in the re-engineering and realignment of processes to deliver further savings and improve mission focus at the field level and ii) to finalize during 2016 the business case for the proposed global service centre”.

⁷ Annual Performance Report 2015 (WFP/EB.A/2016/4*), Box 10, page 90.

reporting and approval functions. This system would serve as a client interface to the existing WINGS travel system, which is used for managing expenses.

29. Process enhancements are being analysed by the Travel Unit and business cases prepared outlining the requirements and associated costs, benefits and risks. Pilot versions of an online flight search tool and automated support for trip verification/invoice reconciliation are planned for release to a limited set of users. A review of internal travel policies is underway to identify opportunities for further savings.

Human Resources

30. Human resources focussed on contracts, global services, information systems and reporting, and talent acquisition. Five improvement streams were identified, including transfer and entitlement management, and expansion of self-service for some core processes.
31. Next steps will be implemented in two phases. Phase one will focus on “quick wins” requiring minimal time and effort. Phase two will involve feasibility studies for longer-term improvements.

Information Technology

32. The Information Technology Division is pursuing a three-fold approach to increase effectiveness and efficiency. As a first step, analysis of IT costs identified staff costs as the largest share; they were seen as a potential longer-term change. The second largest share was vendor contract costs in data centres and application maintenance support; they were seen as viable for short- to medium-term change, and hence are the focus of optimization efforts through vendor contract negotiations. Four measures to optimize vendor contract costs have been implemented and have returned immediate and recurring savings.
33. The second and third steps will be to review the global IT operating model to optimize processes, supported by an external consultant for eight weeks; and to focus on decommissioning selected systems to free up resources and generate potential savings, enabling both greater mission focus and the reinvestment of savings in new priority areas.

Conclusion

34. While in-depth analysis and host-country proposals indicated that a WFP service centre in a lower-cost location could yield benefits, these were not found to be compelling enough to move forward with a service centre under the current circumstances.
35. There is potential for WFP to improve its efficiency, effectiveness and overall agility in meeting challenges. Benefits from process transformation could be significant in terms of cost savings, improvements in service delivery and greater mission focus. Taking into consideration economic trends and depreciation of the Euro against the US dollar, the financial benefits of moving to a lower-cost location combined with process work did not significantly exceed the benefits of process transformation alone. Management therefore intends to focus Cost Excellence on a concentrated process transformation effort.
36. Supply chain, and possibly other functional areas, will be included in this work. The potential for outsourcing selected functions as appropriate, and for inter-agency collaboration in the provision of services, will be explored.
37. Process transformation will require additional financial investments. Management will present the Board with any additional financing requirements for this work at the 2017 First Regular Session. Tentative financial requirements for cost excellence and other critical corporate initiatives will be presented to the Board during the presentation of the Management Plan (2017–2019) at the 2016 Second Regular Session.