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Report of the External Auditor for 2013

Efficiency gains achieved through the implementation of the Programme for Change and Organizational Renewal (PCOR)

Report by the Director General

In line with PBC conclusion 2014/2, the present report provides information on the efficiency gains, including savings in administrative costs, achieved through the implementation of the Programme for Change and Organizational Renewal (PCOR) with an emphasis on the introduction of the enterprise resource planning (ERP) system.

I. Background

1.   As stated in previous sessional documents, PCOR was established, among others, to realize efficiency gains by increasing productivity and improving the quality of UNIDO services, thus facilitating an increased delivery of services under a zero growth budgetary environment. The most recent report (IDB.41/9, paragraph 22) highlighted the expected efficiency gains under PCOR and the implementation of the ERP system.

2.   Furthermore, during the course of PCOR execution, savings in administrative costs have already been reflected in the programme and budgets for the bienniums 2012-2013 and 2014-2015.
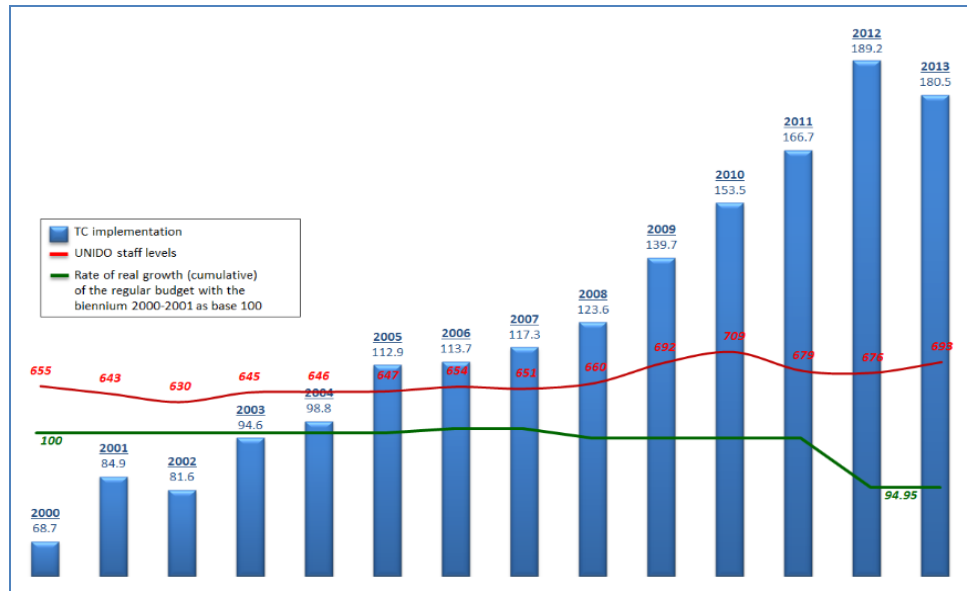
II. Key indicators

3.   In recent years, significant growth has been achieved in the volume of technical cooperation (TC) services, in spite of a declining regular budget and relatively static staffing levels, as presented in figure 1 below.

Figure 1
TC delivery, regular budget and staff levels

4.   In figure 1 above, the solid bars show the annual level of TC services delivered, in millions of United States dollars, the upper line shows the number of staff, and the lower line shows the relative level of the regular budget, the 2000-2001 biennium being the base. The chart clearly illustrates that UNIDO has achieved significant cost savings and realized even higher level of efficiency gains.

III. Savings in administrative costs

5.   Since a significant portion of administrative support is being provided by the Programme Support and General Management Division (PSM), savings in administrative costs will be demonstrated through the budgetary development of this division. For the biennial budget of 2012-2013, PSM has realized a resource reduction of €2.1 million. Additionally, the 2014-2015 PSM budget was further reduced by €1.1 million. The combined impact of these budgetary reductions for the four-year period of 2012-2015 is approximately €5.2 million. The administrative savings are summarized in table 1 for each of the PSM programmes.

Table 1
PSM budgetary savings by programme for the period 2012-2015

PSM programmes	2012-2013 million €	2014-2015 million €	Combined[1] million €
Human Resource Management (HRM)	0.32	0.44	1.08
Financial Services (FIN)	0.44	0.29	1.17
Operational Support Services (OSS)	1.03	0.34	2.40
Office of the Managing Director (OMD)	-0.12	0.33	0.09
Information and Communications Management (ICM) and Business and Systems Support (BSS)	0.40	-0.31	0.49

6. Table 1 shows that savings occurred in the PSM services of HRM, FIN and OSS. Additionally, in the area of ICM, the information technology (IT) and systems budgetary costs were lower due to the extrabudgetary funding of PCOR during 2012-2013 and savings achieved by discontinuing the use of legacy systems. The resulting annual savings of €0.6 million were offset by the initial service costs of the new ERP system, resulting in an overall net saving of €0.2 million per annum.

7. Over 90 per cent of the total PSM budget pertains to personnel costs. The above budgetary savings are therefore primarily realized through the reduction of administrative posts.

IV. Reduction in PSM posts

8. The aforementioned savings in the 2012-2013 PSM budget mainly relate to staff costs and posts, with a net reduction of 8.25 full time equivalent (FTE) posts. The 2014-2015 PSM budget was reduced further by 14.25 FTE posts, in total this equates to approximately 15 per cent of the posts in 2011.

9. In aggregated terms, out of the total net reduction of 22.5 posts, 21.5 were in the General Service category. This pattern shows that the capacity reduction took place in administrative and clerical support areas, whereas the Professional capacity of the support services was maintained.

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[1] Combined savings comprise (a) four years of savings from measures introduced in 2012 and (b) two years of savings from measures introduced in 2014.

Table 2
PSM post reductions by programme for the period 2012-2015

PSM programmes	2012-2013 (FTE)	2014-2015 (FTE)	Combined (FTE)
Human Resource Management (HRM)	2	3.25	5.25
Financial Services (FIN)	3	3	6
Operational Support Services (OSS)	2.75	2	4.75
Office of the Managing Director (OMD)	-1	2	1
Information and Communications Management (ICM) and Business and Systems Support (BSS)	1.5	4	5.5

10.   Table 2 shows that the administrative support services in PSM, namely the programmes HRM, FIN and OSS, discontinued between five and six posts in the reporting period without any substitution arrangement. In ICM and BSS the reduction in positions represents a shift towards outsourcing some of the support functions, which in turn required additional budgetary provisions under non-staff expenditure items starting from 2014 onwards.

V.   Efficiency gains in procurement and contracting services

11.   With the introduction of the SAP supplier relationship management (SRM) module, efficiency and transparency gains have been noted in several key areas of the Organization's procurement and contracting processes.

Procurement timelines

12.   With most of UNIDO's procurement processes now being online, automated and paperless, Procurement Services (PRS) has been able to coordinate with and serve both internal (project managers) and external clients (bidders and contractors) at a faster rate than prior to the implementation of SAP. SAP SRM has allowed PRS to review and process requisitions and issue solicitations straight to the market using UNIDO's new eProcurement portal, which is unique within the United Nations system.

13.   Overall, the procurement periods have been reduced markedly. This is the result of being able to process internal documents in a digitized form almost completely through the system.

14.   SAP's reporting tools provide the Organization with an excellent feedback mechanism to continuously analyse the durations between different procurement and contracting processes and find areas where further intervention may be required.

Increased productivity

15.   The below figure illustrates the development of the core staffing situation in PRS compared to the increase in the number of internal clients (i.e. project managers/allotment holders) and total procurement volume. Since 2011 the number of core staff in PRS has decreased while the Organization's procurement volume remains steady.

Figure 2
**Core staffing in procurement service**
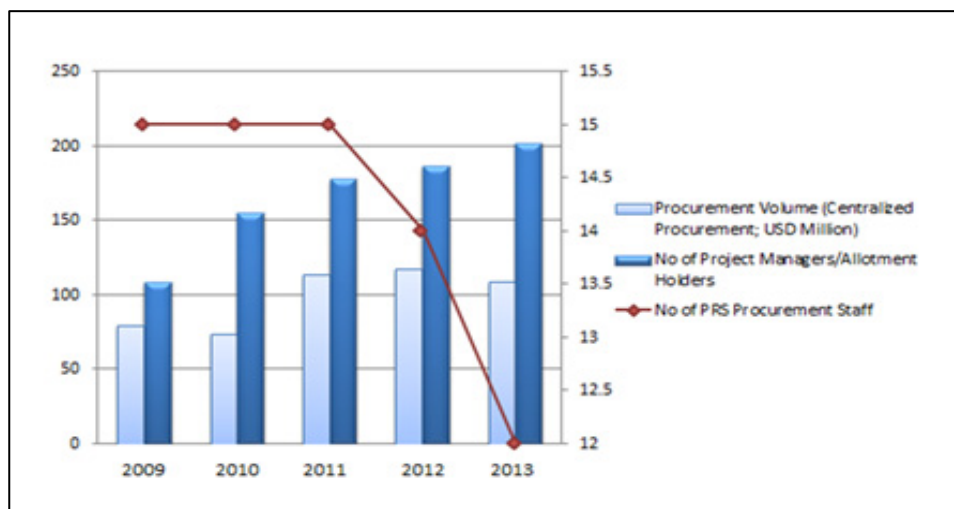
Rapid expansion and increased transparency of the supplier database

16.   SAP SRM has allowed UNIDO to greatly expand transparency and the size of its supplier database from what it was prior to the introduction of SAP. This was facilitated by allowing a more user-friendly creation and approval procedure in respect of suppliers in SRM. The end result has been a 145 per cent increase in the number of suppliers in UNIDO's SAP-SRM database.

17.   Not only are there more suppliers overall, huge increases in the number of suppliers per supplier country are also evident. On average, there are approximately 27 more suppliers per country in SAP than there were in Agresso, the system previously used. In particular, there are more suppliers being registered in the system from regions with least developed countries (LDCs), with the largest growth in Africa, at a seven-fold increase in SAP compared to Agresso.

Figure 3
Supplier increase by geographical regions
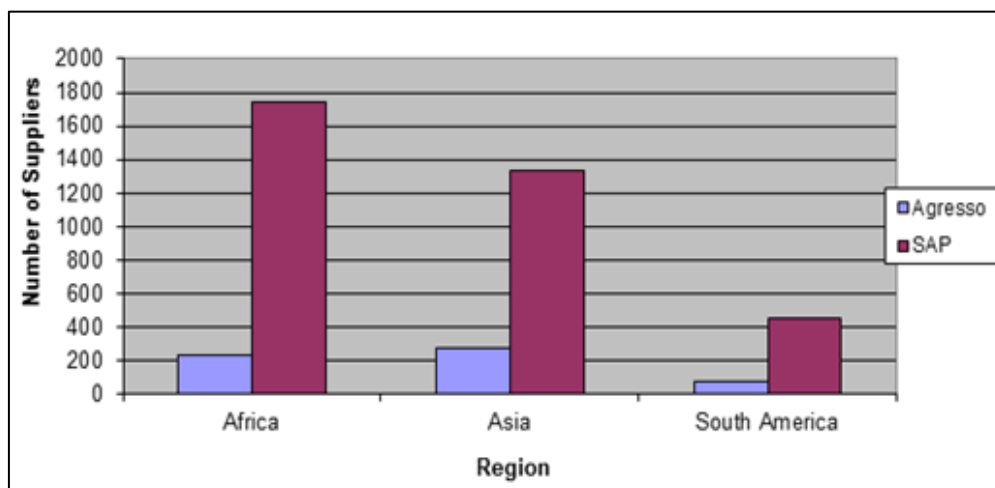
VI. Additional efficiency gains realized through PCOR and the ERP system

18. One of PCOR's major objectives was to enhance the efficiency and cost-effectiveness of the Organization, and to enable it to deliver more with the same regular budget resources, i.e. improve productivity. PCOR and the integrated ERP solution have had a significant impact throughout the Organization in achieving efficiency gains in major business processes. The following are the highlights where efficiency gains are being realized and acknowledged.

(a) **Integrated ERP solution:** All business processes and operations within the integrated ERP solution are now managed and supported end-to-end on a single IT platform, following best practices — this has led to shorter processing times, elimination of complex interfaces and reduction of duplication in data entry.

(b) **Simplified processes and electronic approvals:** Electronic processes with far fewer approval steps were introduced following the four-eyes principle, including electronic signatures and approvals that have replaced the previous paper-based systems for all major business processes.

(c) **Increased delegation of authority and accountability:** Within the ERP system, delegation of authority is an embedded feature in many areas. Examples for these are the new procurement thresholds, individual service agreements (ISAs) for the recruitment of consultants, travel management and TC project formulation and budget revisions. The new thresholds have enabled more streamlined self-service processing with increased accountability and transparency.

(d) **Further decentralization:** The ERP system and its processes, which are now accessible at both Headquarters and field locations, have led to reduced processing times and improved collaboration.

(e) **Online dashboards and reporting:** The online dashboards and reports available to staff and stakeholders have reduced the effort of producing such information, while contributing to "one version of the truth".

19. The following describes in further detail the major processes/areas, in which efficiency gains are already being achieved.

(a) **TC activities/core business**

The Portfolio and Project Management (PPM) module supports all stages of UNIDO's core business of TC services. The module enables the Organization to manage the full lifecycle of its TC activities/projects more efficiently, based on results-based management (RBM) principles at all stages in an integrated system. In addition, the new TC programme and project formulation and approval process, introduced in June 2014, has further improved the efficiency and effectiveness of TC delivery, allowing for faster, more transparent and collaborative formulation and approval phases, while strengthening the design quality, and ensuring compliance with donor standards.

(b) **Recruitment and management of individual service agreements/consultants**

The ISA policy and process allows a manager to select a consultant from a resource pool and initiate an electronic request for the recruitment. Upon approval by the supervisor, the ERP system automatically generates a contract. Managers are also able to approve payments for the consultants/experts directly in the system. These electronic workflows have significantly reduced administrative processes and accelerated the recruitment and management of consultants.

Additionally, consultants now form part of the human capital management (HCM) talent pool, ensuring that all resources can be administered, managed and reported in a consistent manner. These improvements have been recognized by the External Auditor (IDB.42/3, para. 87).

(c) **Streamlined travel management processes**

The whole travel cycle is processed electronically in the ERP system and is therefore fully integrated with the finance and leave management modules. Administrative savings have been achieved through reduced processing fees for flights booked through the Headquarters travel agent reservation system.

The new streamlined travel process has also been acknowledged by the External Auditor (IDB.42/3, para. 88) and the Organization was commended for significantly simplifying the process and reducing the time of approvals.

(d) **Holistic solution for HCM**

All HCM processes, inter alia e-recruitment, personnel administration, payroll for staff and consultants, employee and manager self-service, 360 degree performance appraisal, recruitment and management of consultants, and time management, are running in a single integrated ERP system. The business processes have been simplified and optimized, resulting in staff empowerment, clear responsibility and accountability for results, less administrative effort, efficiency and effectiveness, and effective tools for decentralization.

(e) **Integrated finance, procurement and logistics modules**

Examples of the aforementioned simplification and optimization include, inter alia, financial management, procurement and asset management. The processes were streamlined with fewer approval steps and increased delegation of authority to achieve more efficiency, effectiveness and transparency and to foster accountability. The financial modules and processes are also fully compliant with International Public Sector Accounting Standards (IPSAS).

(f) **Knowledge management and collaboration (KMC)**

The new KMC tools, once fully institutionalized, will facilitate organization-wide collaboration and knowledge sharing, and management of all documents relating to TC activities, HCM, finance, procurement, logistics and other operations in a single global integrated system.

(g) **Dashboards and reporting**

The online dashboards and reports provide information through a user-friendly graphical interface, accessible at Headquarters and in the field. These tools

provide real-time information on the Organization's major operations and processes, including TC activities, HCM, finance, procurement and travel. Out of these areas, TC activities, HCM, finance, and procurement dashboards and reports are currently available online to Member States.

Table 3 illustrates the situation before and after the introduction of PCOR and of the ERP system, for some of the major processes/areas in which efficiency gains are being achieved.

Table 3
Examples of efficiency gains "before" and "after" PCOR and the ERP system

Process/area	Before ERP and PCOR	After ERP and PCOR
TC project formulation and approval process: concept to project approval	5 paper-based approval steps	Up to 4 approval steps and new thresholds
TC budget revisions	2 to 5 approval steps and paper based	2 to 3 approval steps with increased thresholds
Recruitment of ISAs/consultants	3 approval steps with 4 weeks processing lead time via HRM	2 approval steps with a 1 week processing lead time
Travel request Travel expense settlement	6 approval steps 4 approval steps	2 to 3 approval steps 2 approval steps
Procurement	3 approval steps and paper-based via PSM support services	2 approval steps and self-service with increased thresholds
Staff performance appraisal	Paper-based process	Online with 360° feedback
Staff payroll	Mainframe-based process, paper distribution of payslips	Online payslips and update of personal and bank details
Member States dashboards and reporting	Manual process	Online reports for TC activities, HCM, assessed contributions and procurement
Knowledge management and collaboration	Several systems, i.e. Infobase, Agresso, network drives, intranet	A global integrated solution based on one IT platform

VII. ERP survey on users' current satisfaction and experiences

20. During May and June 2014, an Organization-wide survey was conducted that included staff and Member States, with the aim of gauging the level of ERP users' satisfaction and identifying areas for improvement in the system implementation and business processes. The survey was also intended to provide a snapshot of users' current perception of ERP's impact and the benefits achieved from PCOR.

21.   Two hundred and eighteen (32 per cent) responses were received from staff, over 92 per cent of whom use the ERP system every week. The feedback received from staff is that the ERP system has had a positive influence in improving efficiency with an overall approval rating of 66 per cent.

VIII.   Conclusions

22.   Substantial efficiency gains have already been achieved through the implementation of PCOR. Savings in administrative costs have been reflected in the programme and budgets for the bienniums 2012-2013 and 2014-2015, totalling approximately €5.2 million. Furthermore, as illustrated above, significant achievements were made under PCOR and the introduction of the ERP system, leading to productivity gains in UNIDO's business processes. Some of these have been highlighted by the External Auditor (IDB.42/3) and confirmed by the results of the ERP survey.

23.   Additionally, since the establishment of the Business and Systems Support Unit (BSS) in January 2014, over 120 ERP improvements and optimization of business processes have been implemented, with more planned for the future. In this regard, BSS will continue its close cooperation with PTC and the business community to systematically address the key business processes where the ERP can yield further efficiency gains and greater transparency in enhancing TC service delivery and operations. These include, inter alia, a fully integrated workflow for project design, appraisal and approval; a streamlined TC budget revision and funds checking mechanism; simplified processes to support field-based travel and the delivery of training services for TC projects; and further standardization of finance processes.

24.   Therefore, in order to sustain the efficiency gains continuous efforts will be needed to improve the ERP solution, which will require further investments. Both the costs of regular maintenance and system enhancements will be included in the Director General's proposals for the programme and budgets, 2016-2017.

IX.   Action required by the Board

25.   The Board may wish to take note of the information provided in the present document.

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