

UNHCR

Outposting Feasibility Study

Final Report

16 April 2007



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Final Report

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I Executive Summary

Introduction and Scope of the Study

This report is the final deliverable of the Feasibility Study of UNHCR's outposting proposals. It presents the findings and recommendations resulting from the work carried out by PwC in conjunction with UNHCR from December 2006 to March 2007. Prior to this study, UNHCR Management had committed to review and investigate options for outposting certain administrative and operational support functions that are currently performed at UNHCR headquarters in Geneva, Switzerland. These HQ functions include:

- Division of Human Resources Management (DHRM)
- Division of Financial & Administrative Management (DFAM)
- Supply Management Service (SMS)

There is also a requirement to include any necessary supporting functions for the above from the Division of Information Systems & Telecommunications (DIST).

To ensure independence and objectivity of any final decisions on outposting, and following a competitive tendering process, UNHCR appointed PricewaterhouseCoopers (PwC) as an external consultant to explore and conduct a review of UNHCR's outposting options, determine their viability and, as a result, provide a sound basis for a "go / no-go" decision for outposting and, if a "go" decision is viable, provide recommendations on the way forward. The precise scope of the PwC review was set out in UNHCR's Terms of Reference (ToR's) and also PwC's proposal documents. The ToR's and related PwC proposals were issued in two stages resulting in the following contracts:

- Feasibility Study on UNHCR's outposting proposals
 - contract reference UNHCR HQSMS 0000005469, dated 24.11.2006
- Extension of Scope: SMS
 - contract reference UNHCR HQSMS 0000005781, dated 09.02.2007

PwC proposed a collaborative approach with UNHCR stakeholders in order to maximise understanding whilst retaining its independent and objective opinion on the conclusions and recommendations reached. An integrated process was followed and this involved the following steps:

- Performing a desk review of available relevant documents (provided by management, staff and the Staff Task Force) and information including a review of experiences of outposting by other UN organisations.
- Conducting interviews with key stakeholders.
- Conducting an **As-Is Operations Review** for each function under consideration for outposting within DHRM, DFAM, SMS and appropriate support functions from DIST. The As-Is analysis was limited to understand the aspects of current activities relevant to outposting.
- Developing a tailored approach to the risks associated with such a project and conducting a UNHCR / PwC participative **Risk Analysis** to identify and assess the importance of the risks associated with outposting for each function. The Risk Analysis included several stages: first risk identification workshops were followed by

a risk rating survey, and additional sessions were used to further understand the risks and develop potential mitigation factors to arrive at a residual risk that would need managing.

- Carrying out a collaborative UNHCR / PwC **Location Analysis** of the outposting options – beginning with a long-list based on 20 locations drawn from UNHCR's previous work on outposting and PwC's recommendations. Through objective analysis, this long-list of 20 locations was further reduced to 10 locations and then to a short-list of 4 potential locations based on each location's cost and other qualitative factors plus taking account of the potential risks involved and appropriateness for outposting for UNHCR.
- Subsequently, a collaborative UNHCR / PwC 10-year **Cost / Benefit Analysis** of the 4 short-listed locations comprising a detailed multi-year modelling of the expected costs (quantitative) as well as related benefits and risks (qualitative) for each of the 4 short-listed locations was conducted.
- A **Readiness Assessment** was then performed by the PwC team based on their understanding and independent judgement of each UNHCR function considered for outposting.
- Joint UNHCR / PwC consideration was then given to the required **Organizational Structure** and Staffing Model in order to effectively structure activities at the new centre and manage the potentially outposted functions going forward.
- Finally, a collaborative UNHCR / PwC **Transition Analysis** was carried out to identify the implementation approach options to outposting – i.e. from a 'big-bang' approach to a step-by-step phased approach and the associated costs with the various approaches, in the event of a "go" decision being reached.

PwC interacted with UNHCR at many levels throughout the above mentioned process. This included:

- a) The UNHCR outposting **Project Management Team** on an ongoing basis
- b) The UNHCR **Reference Group** comprising the Heads of the targeted organization functions plus the Project Management Team
- c) The UNHCR **Stakeholder Group** comprising the Reference Group, other representatives from the targeted organization functions, the UNHCR **Staff Council** representative as well as the UNHCR **Staff Task Force** representative
- d) A broad range of **additional staff** contributed in interviews and with supporting documents to the analysis
- e) The **High Commissioner**

The project commenced in mid-December 2006 and was completed in mid-April 2007.

A more detailed analysis of the approach and findings from each of the above described steps is provided in sections III-1 to III-6 of this report and in the annexes provided for each sub-section.

Rationale of Outposting

UNHCR needs to remain relevant and credible. Like many other UN agencies and multilateral institutions, it is continuously having to compete for funding from its donor community and so is under continuous pressure to improve efficiencies. Given the

humanitarian nature of its mission, UNHCR has a particular “moral imperative” to minimise head office and administrative costs in order to maximize resources available ‘in the field’ for its beneficiaries.

With the advancing capabilities of modern technologies and communications, there are increasing opportunities for international organizations to re-locate some of their head office, administrative and operations support organization functions to other lower-cost locations whilst maintaining or even improving the levels of service provided by those organization functions. Outposting can drive and accelerate much needed change in the organization and its processes. The potential financial benefits can be very substantial and, by freeing funds for the beneficiaries, would give UNHCR more ‘breathing space’ in its operations.

This study has taken due consideration of the appropriate UN position on outposting or outsourcing options, including resolutions of the General Assembly and reports of the Secretary-General.

Prior to this feasibility study with PwC, UNHCR had already undertaken a preparatory study, assisted by another external consultant. This preparatory study yielded a preliminary list of possible outposting locations. An initial cost savings’ estimation had also been established, albeit on a very general basis. Additionally, prior to PwC’s study, the divisions and services of UNHCR had already proposed the scope of positions to be considered for outposting should a “go” decision be reached.

Independence & Objectivity

It is recognized that outposting is a very critical, albeit sensitive option for any large organization. Whilst it potentially represents a significant risk to the continuing smooth operation of normal daily organization activity if not executed professionally, it also has a very significant impact on current staff in the targeted organization functions. As a result, balancing the needs and wishes of affected staff with the pressure on management and donors considering the “moral imperative” is a very delicate but very important process.

Therefore, it is imperative that, not only is the optimum and operationally appropriate decision made in the end, but also it is critical that the process to arrive at that decision is objective, fair and independent and that these qualities are both visible and understood by all affected parties and stakeholders. PwC has carried out the current Feasibility Study with this need firmly set as the priority. This report is intended to provide all UNHCR stakeholders (staff, management, donors and beneficiaries) with a fair, independent and objective analysis of the relevant costs, benefits and risks of the outposting decision and of the various outposting location options so that the ultimate decision on a “go” or “no-go” for outposting can be made. Clearly, unless there are demonstrable cost savings to be made coupled with manageable risks, a “go” decision would not be in the best interest of any of UNHCR’s stakeholders. However, if there are significant cost savings and benefits, together with manageable risks, it is difficult for all UNHCR stakeholders not to consider making the investment in the initial transition costs in order to achieve the ongoing operational saving from outposting.

It is often stated that cost savings and other potential benefits can alternatively be

achieved in many organizations through ‘efficiency gains’ without necessarily having to consider outposting. Whilst efficiency gains can most certainly deliver cost benefits and are to be positively encouraged in most organizations, they are not necessarily a ‘substitute’ for outposting – but rather an additional element. Striving to achieve savings is the responsible and appropriate course of action for any organisation whether a function is located at headquarters or at an ‘offshore location’. Therefore, this study, in line with UNHCR’s ToRs, has not attempted to identify all possible current areas of efficiency gains that could be achieved within the targeted organization functions and has arrived at its conclusions independent of any such potential additional savings. Nonetheless, the study analyzed what level of efficiency gains would be needed to achieve similar cost-benefits as with outposting. The results show clearly that the same order of magnitude in savings as achievable by outposting cannot readily be reached with efficiency gains alone. It is recognized that UNHCR already has ongoing activities to achieve certain efficiency gains and other changes – most notably the continued roll-out of MSRP. These activities and their associated benefits should continue to be pursued regardless of the outcomes of the outposting decision.

Recommendation “Go / No-Go” & Next Steps

Having followed the process outlined above, ***PwC has concluded, in collaboration with the UNHCR Reference Group and Stakeholder Group, that there is a clear “Go” case for UNHCR to outpost all three of the targeted organization functions – DHRM, DFAM and SMS together with their appropriate supporting functions from DIST.*** The 4 short-listed locations emerging from the study are (in alphabetical order):

- Bucharest (Romania)
- Budapest (Hungary)
- Chennai (India)
- Kuala Lumpur (Malaysia)

All of the above 4 locations are considered viable options for outposting with clear net cost savings, including recovery of the investment in transition costs, over the next five years of \$ 18 to 28 million, depending on the location and the staffing option. For the preferred staffing option the expected savings in US Dollars are as follows:

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

In order to arrive at these conclusions PwC has performed a thorough and independent study. The final choice of an outposting location made from the above mentioned short-list of four however depends on one further critical process which UNHCR needs to conduct directly with the potential host government representatives of the viable option cities. With 4 (as opposed to 1) viable options, PwC has sought to provide UNHCR with an optimum ingoing negotiating position for such discussions. Whilst there are tangible differences between the highest and lowest cost savings and benefits, PwC believes that each of the 4 cities has viability for UNHCR. However, it is possible that certain of the host governments may be convinced to offer further benefits should UNHCR select their city location and this can only further strengthen the case for the eventual selected city.

Based on the detailed cost/benefit results, **it is further recommended that UNHCR opens negotiations concurrently with each of the 4 governments concerned.** The main aim of these negotiations is to determine if any further incentives are available and/or to establish if there are any disincentives which may become apparent and which would further refine the current cost/benefit analyses and the risk profile. Based on this final analysis, UNHCR can then make a clear, final “go / no-go” decision and, if “go”, to a specific location knowing that it has sought to clearly optimize the benefits and identify all material risks.

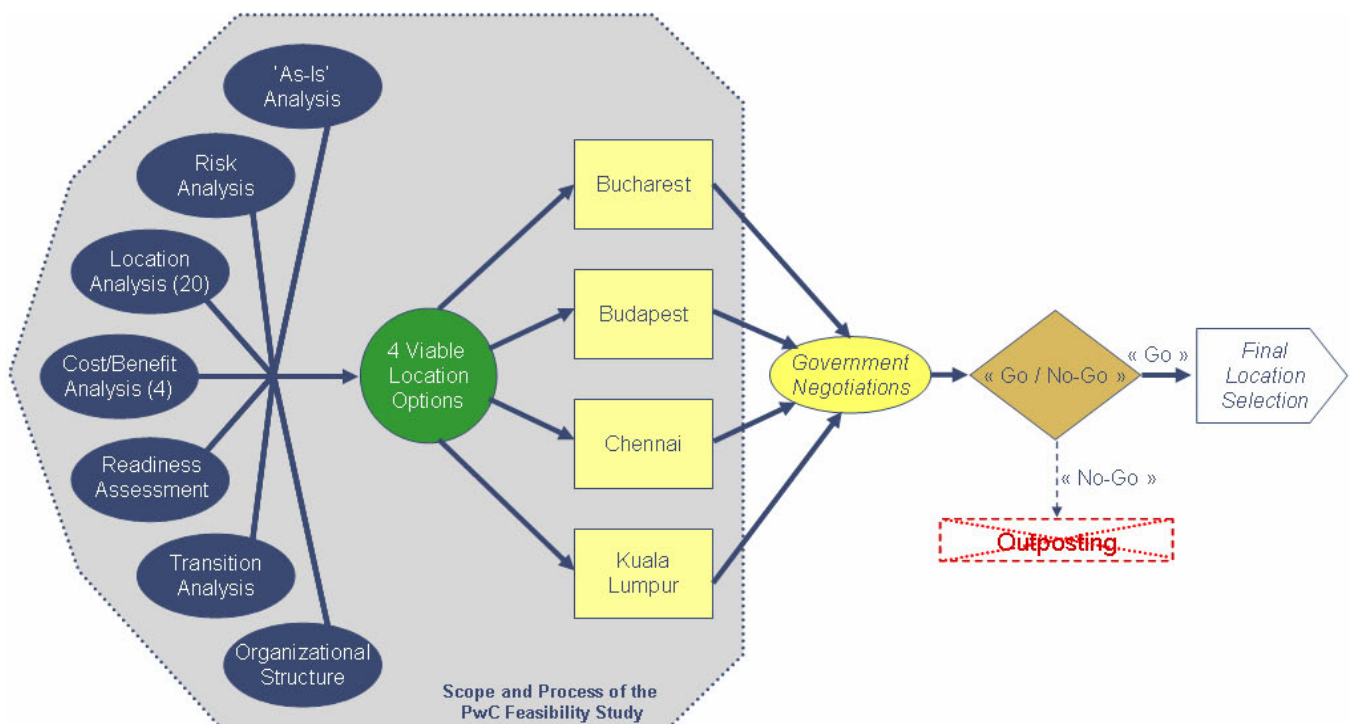
SMS and other procurement and supply activities across UNHCR play a very material role in handling a major part of UNHCR’s total budget (36% in 2005 based on estimates by SMS). **Therefore, with regard to outposting SMS, additional steps to increase oversight, guidance and monitoring of these activities are advised.** Please see section III-1 of this report and its annex for further recommendations in this area.

Having selected the preferred viable option, UNHCR then needs to plan for the optimum **Organization Structure** for DHRM, DFAM and SMS together with the appropriate **Transition Plan and Approach**. PwC considers this could be achieved over a period of six to nine months and adopting the following approach to transition to the new location:

- Centre Management as a first phase
- DFAM and SMS complete as a second phase
- DHRM in a gradual transition in phases three and four

Further details and recommendations on these phases are provided in section III-5 and III-6 of this report. Careful planning and execution of this transition plan represents the next critical step for UNHCR.

A summary of the process, the outcomes and the way forward is illustrated below.



Conclusion

PwC considers that outposting its DHRM, DFAM, SMS and supporting DIST functions to any of the 4 proposed locations is a viable and beneficial way forward. UNHCR would profit financially and culturally by such a move, which would prove that the organization is not only committed but also capable of delivering high value to beneficiaries with the funds it receives from its donors. Not taking the opportunity would potentially give a negative signal to internal and external stakeholders of UNHCR.

We consider that, based on these independent and objective results, UNHCR has a solid basis for such decision and, by following the recommended actions on transition and organization structure together with pro-active management of the identified risks, a successful initial result is achievable within a maximum of twelve months – with further significant cumulative savings in the years to come.

PwC wishes to thank UNHCR for both the opportunity to support this important process and for the pro-active collaboration of all stakeholders involved in reaching these conclusions.

II Introduction

1 Context and background of the study

UNHCR has initiated a project to determine the viability of outposting some of its administrative and operational support activities from its Geneva headquarters to an alternative location with the objective of achieving sustainable cost-savings whilst maintaining and improving the levels of service provided by the affected functions.

In the context of this study, outposting and outsourcing are defined as set out in the Terms of Reference:

- “Outposting means transferring certain organization functions/organization processes to another, lower cost location while keeping them inside UNHCR.”
- “Outsourcing means transferring certain organization functions to an outside entity rather than carrying them out in-house.”

The objective to save costs is driven not only by the continued challenge of limited availability of resources, but also by the “moral imperative” principle, which demands that the maximum possible proportion of UNHCR’s funds be used for activities ‘in the field’ which directly benefit refugees and IDPs.

In addition to cost savings, other benefits would reasonably be expected to accrue from any outposting commitment such as streamlining of processes and, where possible, improving the quality of service.

UNHCR had already undertaken a preparatory study, assisted by an external consultant. This study yielded a preliminary list of possible locations suitable for UNHCR to consider for outposting. An initial high level cost savings’ estimation was also established.

In November 2006, PwC, along with other bidders, responded to UNHCR’s Request for Proposal (RfP) which described the need for a further, more profound, “feasibility study” phase of the outposting project. The PwC proposal was accepted by UNHCR.

Its purpose is for PwC to independently review and assess the UNHCR’s proposals for outposting, giving consideration also to any alternatives proposed by staff, against the background of international best practices and the experience of other organizations, to expand and detail the cost-benefit analysis, test the shortlist of locations against certain agreed criteria and, where appropriate, add other, more suitable locations to the list, and arrive at specific and analytically validated recommendations for a “go” or “no go” decision and for potential outposting location or locations.

The UNHCR Terms of Reference for this study also make it clear that the decisions to be made regarding outposting of the targeted functions are to be based on the existing organizational processes within those functions. It is not the objective of this study to review and re-engineer the processes prior to any decision on outposting. However, if, during the course of the outposting study, certain process improvements are identified, appropriate recommendations will be made. Any existing process re-engineering and improvement activities already initiated by UNHCR should continue but, should outposting prove to be a viable and recommended option, any such improvements will need to take full account of the impact of outposting.

UNHCR operates in a highly sensitive humanitarian environment. The PwC team understands that some territories under consideration for outposting have not yet signed the UN Convention on Refugees. It is ultimately for UNHCR to decide on the appropriateness of potential outposting to such a territory.

In parallel with this study, UNHCR is also carrying out other reform and improvement initiatives which are not directly part of this study but which the PwC team has considered. These include other reform processes that the Director for Structural and Management Change is undertaking whose aims are described as being to align UNHCR's structures, processes and workforce management with current needs and challenges. The decentralization and regionalization of functions and structures are being examined to determine which functions need to be retained at headquarters and which have potential to be better placed in the field, and which can be more cost-effectively performed elsewhere. In addition, other projects aim at refining and strengthening UNHCR's objective setting, which is central to results-based management, and at reforming the resource allocation process. Adjustments to UNHCR's appointments and postings procedures are also being finalized to ensure their responsiveness to operational needs. Underpinning the reform initiatives is the ongoing MSRP systems implementation (based on PeopleSoft) which is essential for the ongoing support and efficiency of the targeted functions for outposting.

The conclusions and recommendations arising from this study have been determined in the context of these other above initiatives.

2 UNHCR's reasons for outposting

Apart from the "moral imperative" to use as much as reasonably possible of donor's funds for the beneficiaries, UNHCR can benefit in additional ways from outposting. The potential benefits include:

■ Strategic benefits:

- Accelerate and facilitate change in processes and culture of the organization, and provide a clear signal of real commitment to change
- Increase the credibility with donors and other external stakeholders by proving the willingness and the ability to improve its organization for the sake of the beneficiaries
- Create a sustainable cost structure: Build a cost effective support platform to help ensure a stable operational state which can be used to provide operational support activities
- Increase management team focus on critical UNHCR objectives and reduce time spent on daily, routine operational issues

■ Improvement in service delivery:

- Renew skills and competency base to take advantage of new technologies
- People and process specialization can lead to improvements in quality and efficiency
- The ability to quickly and efficiently implement best practice based on more standardized and focused processes

- Provide an increase in service levels through unified processes and leveraging the benefits offered by modern technology, including a force to accelerate necessary standardization
- Improved controls through increased focus on functional tasks
 - Cost benefits:
- Significant savings in staff costs can be used to fund UNHCR programs and field operations
 - Cost efficiency:
- Deploy resources effectively to focus on critical UNHCR issues while potentially moving appropriate activities to more cost effective locations
- Redefine the processes to use less management time on transactional or standardized activities

3 Objectives and scope of the review

- The feasibility study is intended to answer the question whether or not there are adequate financial and other benefits that would enable UNHCR to decide whether to outpost the targeted functions from its headquarters in Geneva to another less costly location. Until the results of this study were known, such decisions could not be objectively made by any stakeholder.
- In the view of the potential impact of this study, due account was taken on alternative proposals brought forward by the Staff Task Force.
- The study aims to identify potential risks that could occur through outposting, propose mitigation strategies for these risks, and assess the residual risks after mitigation.
- Should outposting prove to be a viable option with clear potential to achieve the desired reduction of costs, the study then focused on the short-listing of suitable locations for consideration.
- Cost reduction is a necessary and very important driver but only one of at least 10 criteria that PwC has assessed to identify optimal locations.
- The study finally includes a transition plan for outposting which secures an optimal transition strategy and the best possible securing of know-how.

The Terms of Reference and the “Frequently Asked Questions” based thereon (as published to the Stakeholder Group and staff in January 2007, see annex II) define and explain the scope of the feasibility study. This scope emphasizes that the present study does not include re-engineering. PwC is to examine the processes for the targeted functions that are within the scope of the study as they are at the moment, in order to objectively understand the possible impacts and benefits of outposting. Analyzing the “as-is” situation may include making suggestions about how to streamline processes. Finally, outposting alone, does not necessarily solve any existing operational problems that UNHCR may be currently facing.

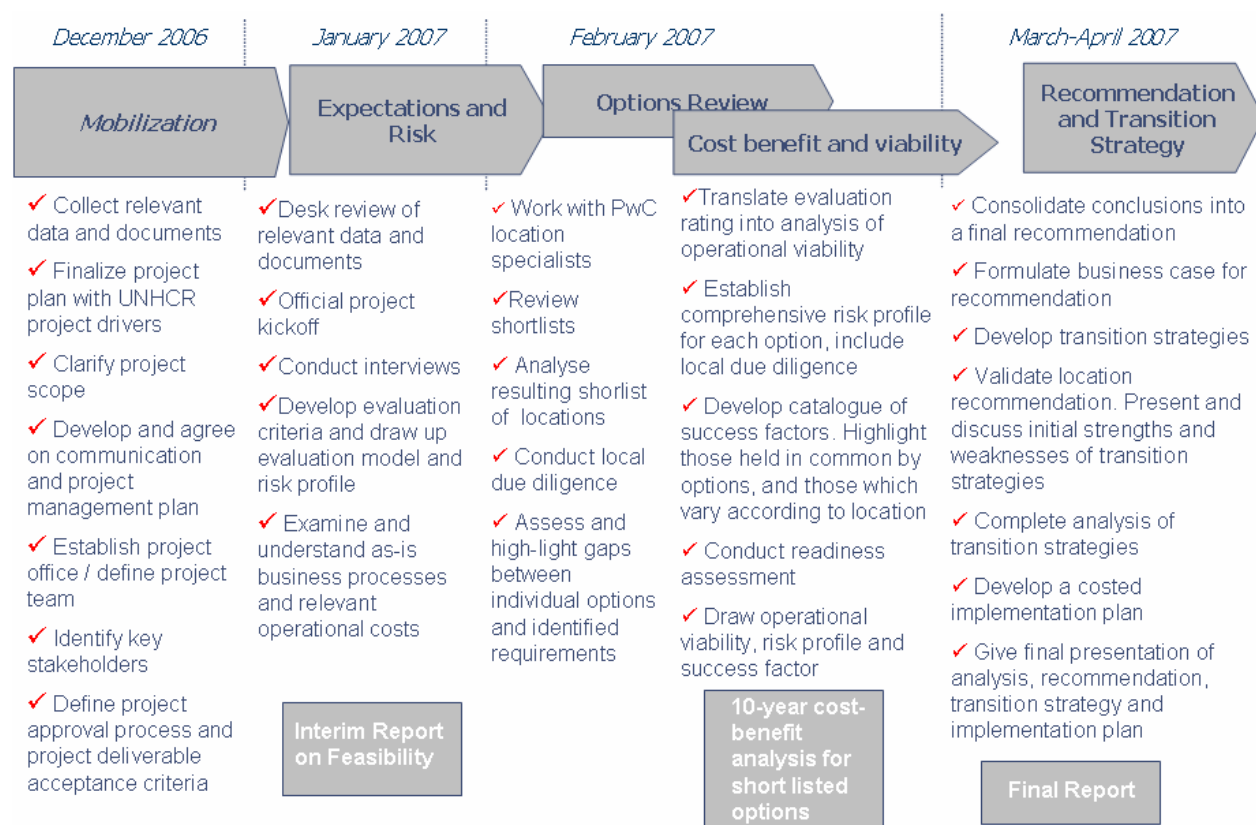
4 Deliverables

As per the agreed Terms of Reference and proposal for the project, PwC has delivered to UNHCR the following:

- An interim report which included the findings of a review of documentation, interviews and various workshops and a long-list of possible outposting locations.
- As-Is operational analysis related to outposting of DHRM, DFAM, SMS, and DIST.
- A 10-year cost-benefit analysis of 4 short-listed locations.
- The final report including an executive summary, introduction and background to outposting, methodology and findings and an annex with supporting evidence for each sub-section

5 Project schedule and activities carried out

As per the original accepted PwC proposal, the project tasks and schedule is illustrated in the diagram below:



The review process consisted of the following five phases, each serving different purposes:

- **Phase 1:** Mobilization: to collect and analyze relevant data and documentation from management and staff, to identify key stakeholders, to clarify the project scope and time plan, to agree on communication and deliverables.
- **Phase 2:** Expectations and Risks: Review of relevant documentation, official kick-off, to conduct interviews with stakeholders, including representatives of the staff, to develop evaluation criteria and risk model and to examine the As-Is organization processes and relevant operational costs.
- **Phase 3:** Options review: to review long-list, to analyze resulting short-list of locations, to conduct local due diligence and to identify gaps between options and requirements.
- **Phase 4:** Cost benefit and viability: Translate evaluation rating into analysis of operational viability, establish comprehensive risk profile for each option, include local due diligence, to develop catalogue of success factors, to highlight those held in common by options, and those which vary according to location, to conduct readiness assessment, to draw operational viability, risk profile and success factors.
- **Phase 5:** Recommendations and Transition Strategy: Consolidate conclusions into a final recommendation, to summarize business case for recommendation, to develop transition strategies, to validate location recommendations, to present and discuss initial strengths and weaknesses of transition strategies, to complete analysis of transition strategies, to develop a costed implementation plan, to give final presentation of analysis, recommendation, transition strategy and implementation plan.

The success of the outposting exercise ultimately depends on continuous top management support and diligent planning and implementation of the change process. This includes attentive communication to internal and external stakeholders to ensure their continued support.

III Approach and Findings

1 As-Is analysis

An As-Is analysis has been conducted for each of the UNHCR's business functions targeted for outposting. In the following paragraphs, for each of these functions in turn, there is a summary of the following:

- The approach taken
- The main findings
- Where appropriate, any recommendations for improvements

As the scope of the review of SMS was significantly amended through an extension of the mandate given to PwC, the As-Is analysis for this function used a more in-depth approach.

DFAM

Approach

Interviews have been conducted within DFAM management and staff representatives in order to examine and understand the “As-Is” organization processes within DFAM. Consultations included the Treasury, Finance and Budget section heads in addition to the Controller and DFAM Director.

Existing UNHCR documentation received during the interviews has also been considered in the analysis. The main documents were:

- Detailed organization charts of the division and sections
- Presentations and other process documentation on the ongoing improvement initiatives (budget structure and control, resource allocation, TMS system architecture)
- Presentations and statistics on other key activities

Findings

The scope of positions under consideration for outposting outlined in the UNHCR's consolidated proposal seems appropriate.

The following key findings, including - where appropriate - potential benefits, have been identified during the DFAM “As-Is” analysis of the current processes and activities:-

- Many functions and processes are in the process of being aligned to the new version of MSRP; this is not yet completed and outposting could accelerate this process.
- The benefits of MSRP are not yet being fully realized as the current MSRP version does not utilize system controls and automation to manage the budget, income and resource allocation processes; further enhancement of MSRP to bridge these gaps is a high DFAM priority and outposting does not necessarily restrict this process.

- There are some fragmented and duplicative roles within and across organizational units (sections and divisions). Rationalization is required in conjunction with MSRP optimization (above); outposting could provide an impetus and opportunity to accelerate this process.
- Structural and functional fragmentation has resulted in a multi-layered and largely manual offline control environment lacking any significant and effective added value. The MSRP-based control framework should be expanded to eliminate non value-added controls.
- TMS implementation will enable more automated linkages with payroll, banks and other accounts, providing better liquidity and risk management, and permitting more comprehensive outposting than currently envisaged,
- Headquarters support for MSRP in field offices is resource-intensive and time consuming. Responsibility for support between DFAM and DIST needs clarification; better co-ordination and MSRP-based tools are required for less staff-intensive support, and outposting of training.
- Finance and accounting knowledge in field offices is often limited, making them more dependent on accounting knowledge from headquarters. More qualified recruitment, more specialized posts, and strengthened functional training in conjunction with MSRP implementation are required.
- A strengthening of transparency and controls is needed on certain processes (in particular the segregation of duties in small field offices, and for the review of the expenditure processes of the Implementing Partners); depending on the associated risks, additional control/validation at a regional level would be an option to better mitigate such risks.

DHRM

Approach

An “As-Is” HR review was carried out through:

- Review of available documentation and process maps. Best practices for HRM have been also taken into account.
- Interviews conducted with 15 representatives from DHRM. Please see annex III-1 for details.

The main findings of the analysis were then validated with DHRM management.

Findings

The scope of positions under consideration for outposting outlined in the UNHCR’s consolidated proposal seems appropriate.

Additionally UNHCR might want to consider analyzing the possibility of outposting the post classification section. Due to the nature of these functions (analytical, routine, IT supported work, communication mainly via e-mail or telephone with internal customers all over the world), location must not necessarily be Geneva.

The results of the analysis show certain key considerations that will require attention in the area of HR processes, staff training & development, knowledge and performance management in the context of outposting.

One of the key findings is that HR processes generally tend to be overly complex, quite repetitive in some cases and too administration and resource intensive. Recruitment, staff rotation and payroll processing are examples of this. It should be acknowledged however that the full implementation of

MSRP will address some of these weaknesses and indeed HR is on the cusp of a significant change. In this respect the outposting project can be viewed as an opportunity to help define, redesign, streamline, document and automate HR processes. At the same time, roles, responsibilities and accountabilities of the roles under consideration for outposting should be clearly defined and well documented. Currently the impact of the introduction of MSRP on processes, workload, roles and responsibilities is unclear to some staff.

During the analysis, the following areas were identified as in need of attention:

1. **Competency management:** through staff rotation in a range of programme areas, there is a perception that specialist roles might in some cases be filled with generalists who may not possess the right skills or appropriate experience in order to execute the role correctly. It is therefore recommended that special attention be paid to the required competencies and experience required at the new location, and, in particular, those of the management of the outposting centre.
2. **Knowledge management:** a high level of institutional knowledge tends to be concentrated in staff and has been found not to be fully documented, partly due to the high number of special cases dealt with - but also due to the manual processing of tasks and lack of task standardization and centralization. UNHCR is hence advised to fully understand and capture appropriate and required organizational knowledge in order to secure knowledge transfer to the outposted centre.
3. **Performance management** emerged as a key concern. The current performance management system appears to lack certain credibility and trust within the organization. Appraisal ratings show 41% of staff have attained superior performance while, 52% has fully effective performance. No single case of unsatisfactory performance was recorded for 2005. Disagreements with poor ratings and rebuttal also represent an administrative burden to staff managing this process. In addition, no sanctions or corrective action for under-performance are apparently being enforced. Such findings are understood not to be uncommon within the UN System. Under-performance is a complex subject, which would require further analysis but needs very specific attention. Finally, a lack of any systematic mechanism coupled with a reluctance to reward good performance seems to be tied to the widespread notion of fairness. As a consequence, and in view of the productivity gains to be achieved at the outposted centre, an active and strategically embedded performance management system needs implementing and is strongly recommended. This involves finding ways to strengthen the link between performance management and other HRM processes (training and management development, non-financial reward, promotion, development measures, etc.), which actively deal with under-performance and systematically (non-financial) reward exceptional performance.
4. **Staff development:** training and development appear to have more of an operational and administrative focus only. No systematic management development, succession planning, talent or competency management could be concretely identified. Being a key element of any retention strategy, it is therefore recommended that staff development gains more strategic focus as well as management commitment, since it could be a strong mitigating measure for retention efforts at the new location.

SMS

Approach

The outposting feasibility study was also extended to include a more specific evaluation of the suitability of Supply Management Services (SMS) for outposting in view of the emphasis currently being put by UNHCR on enhancing the operational support role of this function. This function has only recently been re-assigned from DFSM to DOS to with the primary aim of bringing it functionally closer to the field operations it supports. Due to the impact that the activities of SMS may have on the essential ongoing efficiency of UNHCR supply chain, the current and potential future roles of SMS needed to be well understood and carefully analyzed. Additional information on the SMS analysis and findings is outlined in annex III-1.

Several sources were examined to provide the basis for a sound analysis of SMS, including an initial 'As-Is' analysis, SMS-oriented risk workshops and assessment (given that the risk profile for SMS has important differences to the other functions considered for outposting), additional interviews within DOS and SMS with management and staff, and further specific documentation reviews. Best practices for logistics and supply chain activities have also been considered.

To fulfill the objective of a cost-efficient delivery of goods and services, UNHCR has to effectively and efficiently balance the supply with the demand arising from its operations. On an order level this means to supply goods and services in the required quantity, quality, and timeliness to the requesting location. This is one of several reasons why SMS and effective supply chain management is very important for an organization like UNHCR.

Findings

Untapped opportunities

In 2005 UNHCR spent 36% of its total budget on procurement (\$419 Mio) (UNHCR Budget 2005 and SMS Procurement Statistics 2005). UNHCR has direct control over only 27% of this spending, and limited to no visibility over the rest (see the External Auditor's Report on Financial Statements 2005). UNHCR only has readily available procurement statistics for the goods purchased through SMS. For our analysis, it was not possible, with reasonable effort, to find out on what commodity groups the estimated \$314 Mio of purchasing done by field operations and implementing partners were spent. Savings of 5%, which are the minimum that are generally achieved in procurement optimization projects, would amount to \$15 Mio per year, which are savings in the same order of magnitude as the basic savings to be expected from outposting.

Any outposting of SMS needs to take account not only of the direct costs of SMS personnel, but also of the ability of SMS to influence procurement and logistics costs, either directly or indirectly. While PwC is by no means advocating central purchasing for all of UNHCR's spending, we believe that UNHCR should have a better visibility and control over its spending. Each percentage point that can be saved on procurement would free around \$4 million to UNHCR operations every year.

Organizational constraints for SMS to restructure and strengthen in Geneva

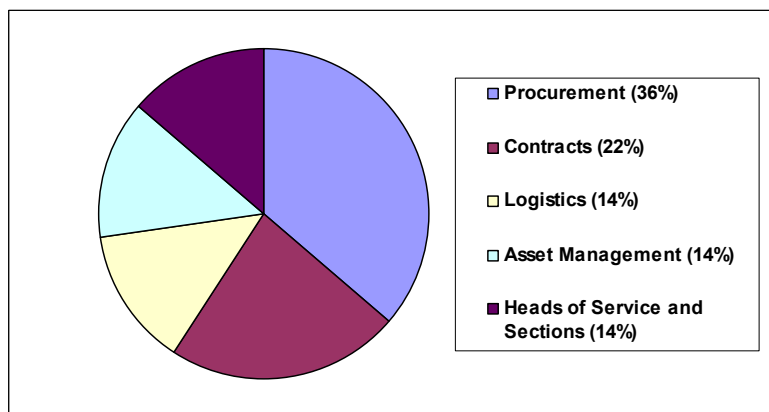
The growth of SMS in Head Office is limited by the need to reduce headcount at Head Office. Even if the need for strengthening the Supply Management functions is recognized, it is not possible to do this by

increasing SMS staff at Headquarters. This constraint was a very important consideration for the analysis of SMS options, as the SMS function can only be strengthened if it is moved a location with lower staff costs

SMS Role

The Supply Management Service in Geneva is responsible for international procurement of goods and services and monitoring of procurement by field offices and implementing partners. Regional supply units are established on an ad hoc basis to serve major programmes. Supply units are now operating in several regions around the world. All UNHCR field offices are authorized to undertake local or regional procurement. Implementing partners, such as governmental, non-governmental organizations and other UN agencies, also make purchases on behalf of UNHCR. (SMS Procurement Statistics 2005).

SMS is currently executing activities in procurement of goods, in procurement of services (contracts), in logistics, and in asset management. The allocation of staff (from the total of 22 posts overall in SMS) to these activities is outlined below.



The current role of SMS focuses on transactions, especially in procurement. The overall setup of UNHCR's supply activities does not allow for a strong coordination role for SMS to create visibility on demand, supply and stocks across the key players (SMS, Field Offices, IPs). In addition, the current role and capacity of SMS in establishing objectives, standards, roles, and procedures to guide and monitor the supply activities across UNHCR is unsatisfactory. The UNHCR Evaluation and Policy Analysis Unit summarized the key issues for the logistics part of SMS very clearly: "In its current mode it [logistics function in SMS] lacks the human resources and tools to be accountable". (EPAU, 2006/02)

Improvement Opportunities

In UNHCR's supply activities various initiatives are currently undertaken to improve the delivery of appropriate quality products or services, at the specified time and place, in a cost-effective manner to the beneficiaries. However, the conditions for an effective and efficient balance of supply and demand in UNHCR are not yet fully met and the last Report of the Board of Auditors (September 2006, page 55) shows that the oversight of UNHCR over its procurement is limited.

Potential Savings

The analysis of UNHCR's current setup shows that the potential synergies are not yet fully optimized. Although frame contracts and volume bundling are partly used, the lack of overall visibility on demand

and stocks is obvious. This insufficient transparency causes numerous unutilized synergies. Transparency over demand and stocks would help to reduce wastage in UNHCR's supply activities.

Comparable situations show that savings of 5% or more on supply chain related expense (purchasing, transport, inventory management) is realistic. For UNHCR (not including the direct SMS spending) this would be equivalent to savings over \$15 Mio per year. The benefits can be generated without affecting the authority of the operating entities and would strengthen the overall objective of delivering to the beneficiaries. Although UNHCR is not a pure logistics operation, there is a strong business case to strengthen the supply chain capabilities of the organization whilst understanding that the ongoing tasks and maintenance of SMS service delivery levels – especially in times of extreme emergencies – will always be challenging for any organization.

Potential actions

The first step toward higher synergies in the supply chain is to achieve better transparency over stocks, flows, demand and current sources of waste. Improvements would include the reduction of unnecessary “hot shipments” (air freight), the reduction of unused stocks (increasing stock turnover and avoiding obsolete stocks), the reduction of non cost-effective procurement arrangements on different levels, together with the reduction of potential fraud risks.

But down the line more is both needed and possible. Most important is the determination and commitment of the key players to get UNHCR to the next level of performance. Once this commitment is secured, the next steps would be to jointly define clear objectives, roles and procedures including all major players in the supply activities so that their effective and efficient interaction can be achieved.

UNHCR should consider moving further towards an integrated supply chain concept, and to try integrating emergency supply into the concept. This issue goes beyond the scope of this project, but it has to be highlighted that it should be possible to realize the responsiveness in emergencies in an integrated supply chain concept. This would be a more efficient use of resources than the creation of parallel supply chain activities.

Consequences for SMS

SMS should be able to establish clearer objectives, standards, and procedures for all supply activities. It should be assigned the objective to increase the transparency on supply, demand, and stocks across the key players and coordinate the balancing of these.

Conclusions and Recommendations

1. UNHCR can free significant amounts of funds through effective supply chain management. Every percent saving on procurement would free \$4 million for operations and the beneficiaries. A requirement is increased visibility over the procurement spending of field operations and implementation partners. Today detailed statistics only exist for 27% of total headquarters' procurement spending
2. SMS can play a pivotal role to help UNHCR realize the saving potentials in the supply chain, while maintaining or even improving services levels. In order to achieve such improvements, SMS needs to be empowered with certain oversight, standard setting functions and capacity
3. To play this role SMS must be able to influence key supply chain related decisions. This requires the function to be well connected to the decision making functions. As the function can only grow if it is

transferred an outposted location, measures must be taken to ensure the required exchange of information. This can be done by regular periodic meetings and increased use of modern communication technology.

4. SMS should minimize the transactional part of its activities, but not the strategic part. The ability to influence strategic supply chain decisions will depend inter alia on personal missions between Geneva and a potential new location, as key decisions cannot only rely on information technology-based methods alone for communication with decision makers
5. SMS should support and empower field operations, but limit direct operational interventions only to value added activities that are to be coordinated centrally (e.g. activation of airlift capacity).
6. Synergy with other operational support functions (in DOS and elsewhere) needs to be ensured (e.g. technical support on product development and enhancement, Emergency Preparedness and Response)
7. Combined efforts, both from the headquarters and from the potential new location, are required to avoid a disconnection of the new location

The recommendations presented here are based on the following principles:

- Transparency in the supply chain should be improved to enable the realization of synergies and to reduce possible waste of precious resources. This transparency can only be achieved if there is an organizational unit responsible for it. SMS can play this important role.
- The supply chain competencies at UNHCR should be strengthened at all levels. SMS should focus on those areas where it can add most value. Supply chain matters that make sense to be handled centrally should be handled by SMS
- Clear accountability however needs to be established at operational level for supply chain management and delivery. This needs to be effectively monitored through a professional capacity in the organization that moreover has the role and capacity to advise and support operations in this regard.

Options for SMS

Given the above analysis and taking into account the potential implementation of the recommendations, there are different options for the way forward regarding outposting for SMS:

Option A: Outpost whole SMS with the exception of the Contracts Unit

Description	Outpost with other functions to the same location as the other functions (complete scope of staff affected as proposed by SMS)
Benefits (in addition to general outposting benefits):	Relocating the whole service gives SMS the opportunity to establish new and more efficient processes with new staff. The possibilities offered by MSRP can be exploited. The integrity of the service can be maintained, while giving it an opportunity to be strengthened and thus fulfill the required oversight role.
Issues to consider	Interaction with functions that will continue to be HQ based (resource mobilization, strategic planning, senior management, Bureaux) would rely heavily on technology and on visits of SMS staff to headquarters where appropriate. Regularly scheduled meetings would be an effective way to ensure the required interaction between SMS and policy making units, be they located in HQ or in other locations.

Option B: Outpost only transactional activities and keep rest close to decision-making at HQ

Description	Shift staff from transaction activities within SMS to coordination/strategic activities (in addition to contracts unit) -> split SMS into strategic and transactions group -> outpost transactions and leave coordination/strategic part in HQ
Benefits (in addition to general outposting benefits):	Coordination/strategic role could be played Interfaces that need to be done via technology are SMS-internal and can be handled within line of command
Issues to consider	A split of the already small team could be problematic. With this option it is not guaranteed that SMS could maintain its status as a Service and may be reduced to a Section in ETSS. This, together with inferior change possibilities and non existing growth potential of the function in HQ would lead to a weakening of SMS and the Supply Chain Management within UNHCR.

Recommendation:

Option A is the only option which preserves the integrity of SMS and gives it a possibility to grow and is therefore the recommended way forward. Option B is could likely lead to an overall weakening of the Supply Chain Management across UNHCR and to also limit the possibilities to achieve an improved oversight and co-ordination of these activities.

Final remarks on the question of proximity for SMS

For SMS, the need to be closer to field operations was considered an important criterion for its future location. With most of UNHCR's operations being in Africa, an African location for SMS may seem an 'obvious choice'. Due attention has been paid to the importance of proximity to operations. However, this factor is not considered to be finally determining, as proximity to operations is in many ways, by definition, not possible for a 'central function' supporting multiple and globally-dispersed field activities. 'Africa' is also on its own a vast area. If the function is close to one operation, it will be far away from many others, even in Africa. In addition, the connection to headquarters and also to the other functions being considered for outposting, plays an equally important role. So, although careful consideration was given to the option to outpost SMS to a separate location in Africa, it was eventually not adopted after carefully balancing risks and benefits in the location selection process.

DIST

Approach

While IT is not a main focus activity for consideration for outposting, DIST is critical in the support and organization enablement to the main activities under consideration for outposting of DHRM, DFAM and SMS. An “As-Is” assessment of IT and its activities was made as part of the outposting feasibility study. This review was undertaken through:

- Interviews with key IT professionals from DIST
- Detailed review of the “As-Is” assessments conducted for DHRM, DFAM and SMS
- Review of critical documents from DIST including plans and timelines.

Findings

The data gathered from the IT “As-Is” assessment has shown that there are no significant issues that would impact the viability of outposting. This is partially due to the fact that DIST is pro-actively looking at and implementing efficiency options including centralization / decentralization and relocation, they are thus ideally positioned to help enable the outposting of DHRM, DFAM and SMS.

A detailed “As Is” assessment can be found in annex III-1.

IT is driving a technology change at UNHCR and in part is contributing significantly to an overall improvement in process and task efficiency drive. Initiatives led by IT are enabling functions to provide a better defined and more efficient service to the organization. As UNHCR is considering the feasibility of outposting activities from DHRM, DFAM and SMS, IT would play a key role in supporting and enabling this initiative. The IT function is currently undergoing a transformation itself. IT is looking at decentralizing substantially from Geneva with activities being moved to regional offices and some off-shore centralization in Kuala Lumpur (KL) in the form of support.

IT has indicated a very strong willingness to be flexible and to support outposting in any way it can recognizing the best practice of the organization requirements driving the IT need and direction and not the other way round.

IT is currently enabling a number of initiatives that would work well with the outposting initiative. The most important is the roll-out of MSRP/PeopleSoft and leading that initiative with strong links into DFAM

IT has set up a facility in KL for helpdesk and support. This would provide potential for synergies should KL be selected as the location for outposting. Centralizing in one facility provides for a number of benefits, including facilities, costs and operational synergy.

A key consideration to manage for the functional outposting will be ensuring that the defined UNHCR’s plan for IT roll-outs does not collide with functional roll-outs of the outposting. Co-ordination will be critical to ensure the correct functional transfer from Geneva to the new location. This element will be captured in the transition and organization establishment phases of the outposting exercise.

It would appear that the most important consideration will be to ensure that the phasing and timing of IT and functional roll-outs is aligned to the phased approach of the transition so that the necessary IT

support is in place to accept and support the functions into the new location. However, the MSRP roll-out is currently in a stage where outposting of the functions in scope is feasible from the IT point of view. Given adequate IT-connectivity, the web-based PeopleSoft-platform can be operated regardless of the global location.

While IT is currently undergoing development and change, the only issue to manage with the proposed outposting is to ensure sequencing of events. There is no need to wait for a 100% stable IT environment, it is important though to ensure the minimum IT support and connectivity is in place to support the lifecycle of the outposting.

With regard to organizational structure, the outposting initiative will have two IT components:-

- The first will be local IT support which will essentially be the new location's IT support centre playing host to managing local desk tops, networks and desktop applications and general local systems maintenance.
- The second will be the IT needs for the organization. Each of the user functions will need to have dedicated IT support for the specialist application needs – both current maintenance and future upgrade and development. This IT function will sit as separate organization unit – please see section on organizational structure. This IT function will report directly to both the head of the new outposted centre as well as to central IT in Geneva.

Should the outposting of DHRM, DFAM and SMS choose KL as a location then synergy in the form of current DIST outposting of a part of its global help desk function could be obtained by situating both elements in the same facility. If KL is not chosen then establishing strong links between the location in KL and the new location for DHRM, DFAM and SMS will be an important consideration.

2 Risk Analysis

Approach

Risk is present in all changes as well as in ongoing operations. When an organization considers outposting parts of its operations, risk is a key component that not only needs defining, it also needs managing – as in any operational situation.

In line with UNHCR's Terms of Reference and the PwC proposal, a detailed and collaborative risk analysis has been conducted by the PwC team with appropriate UNHCR representatives of the targeted functions for outposting as outlined in the *Key Steps* below.

Basis for Risk Analysis

The basis for the risk analysis has evolved as the feasibility of outposting project has advanced. The initial risk assessment was based on the basic question of “If we outpost, what are the likely risks to UNHCR?” This question was posed from an overall organization perspective. Initially, the risk assessment did not focus on specific locations and so was not location specific. As the shortlist of location options evolved from 20 to 10 and then from 10 to a final short-list of 4, the risk analysis continued to focus on risk from an organization perspective, but additionally started to consider risk from a location specific perspective and focus on the surfaced risks in light of locations being short-listed.

The process and steps for the risk analysis are described below. The first steps of the risk analysis were conducted in the beginning of the feasibility study as discussed from the overall organisation perspective as described above. Steps 1 to 8 were conducted to identify initial risks. Subsequently, after the Reference Group concluded on a short-list of 4 locations, step 9 was used to review, consider and adjust the risks and their ratings with the knowledge of the 4 potential new locations. It should also be noted that this risk analysis process does not end with the conclusion of this Feasibility Study. The residual risks have to be effectively managed and this needs to continue throughout the life of the outposting transition and ongoing operation, assuming a “go” decision is adopted.

Key Steps

1. Risk category identification –. This is the process of defining the overall operational *risk categories* under which individual specific risks will be identified. The *risk categories* were agreed between the PwC Team and the Reference Group for DHRM, DFAM and SMS. It was agreed the *risk categories* were the same for DRHM, DFAM and SMS..

2. Individual risk identification – This was then conducted through four steps:

- Group dialogue with key functional and operational heads and staff
- Interviews with stakeholders and staff
- Analysis of documentation submitted to PwC and analysis of the Staff Reports on outposting
- PwC input based on experience of risk in outposting projects

The risk categories and individual risks were all identified based on the following basic question: If UNHCR outposts, what are the risks the organization will need to manage?

3. *Initial risk rating* – This is the process of applying a rating to each identified risk. The rating process is based on two scales:

- Likelihood – To assess how likely the risk is to occur, using a rating scale of rare to almost certain.
- Impact on operations – To assess what the impact would be if the risk occurred, using a rating scale of low to high

The individual UNHCR and PwC evaluation of the ranking of the risks was facilitated through the use of an electronic questionnaire. Stakeholders and staff were able to vote individually on their assessment of the ranking of the risks. The individual rankings of the risks were then collated to give an overall ranking of each risk to produce the initial profiles. These rankings, depending on where their ranking leads them to be placed on the risk graphs (see annex III-2) has meant that individual risks have been overall rated according to three gradings:

Low Importance to UNHCR

- Risks that are categorized as low importance to UNHCR - will need only some monitoring and are likely considered not very important or mission critical. This does not mean to say they will be ignored. However it is likely that with good operational oversight the chance of these risks causing a problem is low.

Moderate Importance to UNHCR

- Risks that are categorized as moderate importance to UNHCR - are risks that are important though not critical. They will need monitoring but with less frequency. Nonetheless they represent significant issues to be managed with care to ensure that during critical phases of the ongoing process, these risks and their attributes are well covered.

High Importance to UNHCR

- Risks that are categorized as high Importance to UNHCR - risks that will need pro-active consideration in mitigation and will need focused attention with regard to how they are managed and mitigated. There will have to be active ongoing risk management and ongoing review to ensure effective mitigation. During critical phases such as location selection, transition planning and migration, assuming a “go” decision, the attributes of these risks will need to be actively incorporated into execution and an active, consistent mitigation will need to be applied.

4. *Category Profile Generation* – Separate organization profiles were generated for the SMS functions and for DHRM and DFAM to reflect the different nature of their operations on the organization.

5. *Initial Mitigation Generation* – Once the risks were identified and ranked, the process of mitigation development began. These were suggested by PwC and then aligned through workshop sessions with UNHCR.

6. *Initial UNHCR review and revision of risks and risk mitigators* – Initial risk categories, risks and mitigators were reviewed by the reference group with separate focus on DHRM / DFAM and SMS to reflect the separate studies of each.

7. *Risk Register creation*– A risk register was drawn up to act as an ongoing risk management tool to log and rank risks as the project proceeds. Please see annex III-2 for this document.

8. *Risk Mitigation and Residual Risk*

Risk mitigation for UNHCR deals with managing and reducing potential impact of identified risks. Risks can never be 100% eliminated. They can however have mitigation actions defined that will help reduce the impact and serve as a management action point. PwC has taken steps to develop risk mitigators for each of the defined UNHCR risk. The mitigators consider the possible needs of both SMS and DHRM / DFAM. The risk mitigators have been validated by UNHCR and will be taken into consideration in the development of the operations and transition plans. The risk registers that have been developed will serve as working documents to be used to document, record and manage risk through the life cycle of the outposting operation.

9. *Revised risk rating*

Once an initial review and rating of the risks was completed, a second revision and rating review was undertaken with the extended Reference Group. As the location analysis yielded a short-list of 4 potential locations, this workshop re-assessed the risk situation in the light of these locations. The workshop affirmed:

- Risk categories
- Identified risks
- Risk ratings

The above was conducted in the context of having further, enhanced organization knowledge and understanding and after initial review with the Reference Group. The result of the revision is shown in the risk tables in the annex III-2. For SMS, this risk workshop considered the additional interviews that were undertaken with the whole management and staff of SMS. In addition, the UNHCR's OIOS Risk Register for SMS was used to verify that all previously highlighted risks were considered. Following this workshop the risk registers for SMS and DHRM/DFAM were refined to include residual risk.

Residual Risk

A risk, even if mitigated is never completely eliminated. There is still some probability that the risk could occur. This is called residual risk. Residual risk in outposting is managed by the risk being monitored and incorporated into ongoing operational plans. Please see annex III-2 for the risk registers with the appropriate residual risk listed.

Residual risk will always be present, but depending on its nature and category could well be short lived. For example risks associated with transition would have minimal long-term impact as transition itself is a one time event with a limited and fixed duration. Providing the transition is correctly planned and rolled out there is less long-term residual risk.

Risk has been factored as a key consideration for the new organization design and the transition approach design stages.

Findings

The risk analyses performed on SMS and DHRM / DFAM has produced a number of risks that vary in importance to UNHCR with regard to outposting.

Please see annex III-2 for the detailed risk graphs and registers, including the steps of the risk assessment for DHRM/DFAM and SMS, as well as the mitigation strategies, and residual risks.

As a result of the UNHCR risk assessment and management process the overall risk ratings for DHRM / DFAM and SMS are presented in the summary tables below. Further reference on individual risks and their ratings can be drawn from annex III-2.

DHRM and DFAM Assessment – Category Summary

Risk Category	Revised Rating	Initial Rating
Infrastructure / Location	 MODERATE	 MODERATE
Operations *	 HIGH	 HIGH
Financial	 HIGH	 HIGH
Transition	 MODERATE	 HIGH
People	 HIGH	 HIGH
Environment	 MODERATE	 MODERATE
Reputation	 LOW	 MODERATE
Alignment	 HIGH	 HIGH

Risk ratings of High / Moderate / Low

All risks, whether High, Medium or Low, are important to UNHCR. The shows each risk category's relative importance.

* The term “Operations” was used in the risk analysis to cover issues such as service delivery and local governance of the new environment. For more details on the risk categories please refer to annex III-2.

Risk profile for DHRM / DFAM

Overall, the above risk profile points to Operations, Financial, People and Alignment being of highest concern and importance to UNHCR with respect to DHRM and DFAM. This would reflect the current organization environment with respect to people, current culture and work climate and the impact of the possible outposting. “Alignment” reflects the expressed concern around the outposting alignment with both other entities that work with the UNHCR and timing of the outposting and organization alignment to UNHCR needs.

The risk ratings here present no significant surprises, meaning that normally in major organization transitions such as this, these are the areas that usually present the greatest concern and the greatest set of issues to manage.

These areas will all need active and ongoing management both during the transition phase and during the ongoing operations. Please see annex III-2 for mitigation and residual risk for DHRM and DFAM.

There is no indication in the risk profile for DHRM / DFAM, coupled with the fact that the scope for these activities under consideration is mainly transactional, that there is any reason why outposting should not proceed.

SMS Risk Assessment – Category Summary

Risk Category	Revised Rating	Initial Rating
Infrastructure / Location	 LOW	 MODERATE
Operations	 MODERATE	 MODERATE
Financial	 MODERATE	 MODERATE
Transition	 MODERATE	 MODERATE
People	 MODERATE	 MODERATE
Environment	 LOW	 LOW
Reputation	 LOW	 MODERATE
Alignment	 MODERATE	 HIGH

Risk ratings of High / Moderate / Low

All risks, whether High, Medium or Low, are important to UNHCR. The above shows each risk category's relative importance.

Risk profile for SMS

Overall, the above risk profile points to Operations, Financial, Transition, People and Alignment being of the highest concern and importance areas to UNHCR with respect to SMS. Specialists from SMS have ranked the risks somewhat lower than the counterparts for DHRM and DFAM in the first rating. The revised rating was compiled by the UNHCR Reference Group in a collaborative workshop and reflects a thorough understanding of the SMS organization and possible risk mitigators. This risk workshop considered the additional interviews that were undertaken with the entire management and staff of SMS. In addition, the OIOS Risk Register which was compiled previously by UNHCR for SMS was used to verify that all relevant risks, previously highlighted with a view to outposting, were considered. Transition risk is usually an area of concern because it is the period of critical change between activities being carried out in one location and then starting in another. If the transition deviates from the plan for any reason, this could be extremely problematic with the likely result of service disruption. Transition risk has been factored in the transition approach development.

Further analysis and review of SMS has highlighted an operational issue to manage that presents some risk, however this risk is manageable. This issue is that outposting from Geneva may involve disconnection from policy making at Geneva HQ. However this is manageable by ensuring there is a robust management framework in place. The risk is managed by establishing a quarterly update and meeting process between key SMS and HQ staff. This could even work to advantage by ensuring that key meetings happening quarterly are meant to focus on SMS and policy issues. This would replace any ad hoc and infrequent meetings that may not always be sufficiently focused.

The risks identified and the ratings given for SMS present no significant barriers to outposting of SMS.

The key risk categories identified will need active management during the lifecycle of outposting, if a “go” decision is reached. The risk tables above summarize the overall rating for each risk category.

Assigned risk ratings give an indication of the importance of the risk to UNHCR as discussed. It should be stated that a risk with a high rating does not necessarily mean that this should prevent the UNHCR from outposting. A risk with a high rating however does need close monitoring and has to be managed actively during the lifecycle of the outposting. All risks regardless of importance need managing.

Risk Management – Ongoing Process

Risk management for UNHCR outposting will fall under the responsibility of the UNHCR governance team during the lifecycle of the outposting. More specifically, it is essential that responsibility for risk management resides with senior management and should not be delegated downwards.

Our recommendation is that the senior most functional heads for SMS, DHRM and DFAM should be the people assigned with responsibility for risk management. The rationale for this is that they have the most operational knowledge and the most operational oversight and visibility on a day-to-day basis. This would be in conjunction and close collaboration with the designated functional heads in the new location. Risk management would form a detailed and strong part of governance. As operational issues arise – which they will - they will be assessed from an operational impact and a risk management standpoint. Where needed the appropriate and pre-defined mitigation steps will be actioned.

Two important principles for a risk management model for adoption by UNHCR are as follows:

- The new location manager has oversight over organization continuity risk for DHRM / DFAM and SMS with respect to disaster and any social unrest.
- Headquarters assumes primary responsibility for risks such as financial risks and reputational risks. This remains the responsibility of the appropriate HQ functional heads

The above principles are currently employed by the World Bank for its outposted centre in Chennai.

As part of the regular governance reviews and governance process, and in line with the High Commissioner's mandate, risk management is a key component and consideration of any outposting decision. While PwC has identified that there are no risks that would prevent the decision of outposting of the considered functions, it would be prudent to very actively manage the risk through regular reviews as part of the operational review cycle and additional risk review sessions.

The risk of doing nothing for UNHCR

Sometimes inaction itself can be a risk. It is important to emphasise the risk for UNHCR of doing nothing with regards to outposting.

The potential cost savings of outposting look to be relatively substantial when considering the number of people performing the assigned roles. These cost savings could give UNHCR additional flexibility in future resource allocation for programmes and operations that it currently does not have the resources to implement, and would be a strong signal to internal and external stakeholders. It is important that UNHCR takes full consideration of the advantages of having this additional flexibility.

Readiness Assessment

Organizational readiness refers to the assessment of an organization's ability to change at all the levels necessary to make the change successful. It therefore encompasses an assessment of the culture and values of the organization as well as the ability of the organization's leadership to lead the change and the willingness and ability of the workforce to embrace it.

Part of the risk process has focused on conducting a readiness assessment for UNHCR. This Readiness Assessment considers key elements of the organization and identifies how prepared or how ready it is to go through the execution of the outposting exercise. This Readiness Assessment was developed around five key considerations by PwC that are considered important in the process of significant organization change. The objective of the Readiness Assessment is to identify key areas of concern and risks that need to be considered for UNHCR to move beyond any "go" decision.

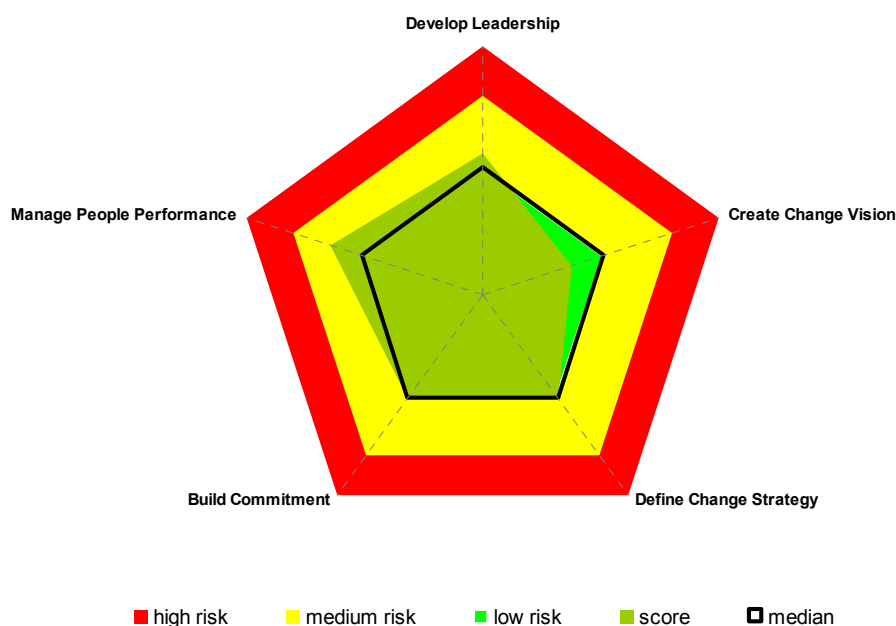
For this purpose, a questionnaire was designed and completed by the PwC team in order to identify areas where readiness for outposting and the associated change need careful consideration with the objective to identify the required steps to achieve an appropriate level of readiness. Annex III-2 contains the questionnaire used. The questionnaire was then completed based on:

- Experience of outposting and the change required for the organization to successfully execute the transition
- Understanding of UNHCR's organization, its culture, dynamics and operating environment

The Readiness Assessment focuses on the following areas:

- 1 Develop leadership for change
- 2 Create change vision for the organization
- 3 Define change strategy
- 4 Build commitment with all stakeholders and affected parties
- 5 Manage people performance pre, during and post the transition

The results of the readiness assessment show that all assessed areas were rated at either low or medium risk (see chart overleaf).



Creating a Change Vision is the area with the lowest level of concern. This area covers topics such as clear compelling needs, clear implications, clear end vision and understood vision scope, which seem all to be present in the outposting project.

Developing Leadership suggests that UNHCR needs leaders of the outposting change to demonstrate resolve to support change and drive through a successful conclusion and have no conflicting or distorting personal agendas. It is considered that the current leadership of the outposted functions have the potential capabilities to achieve this.

Managing People Performance is the area with the highest concern. It is therefore recommended that UNHCR ensures that:

- Internal processes should not be allowed to inhibit the change
- Cross-functional co-operation has to be fostered, developed and maintained
- The change process should be supported by:
 - appropriate incentive systems
 - career development programmes
 - performance management
 - people, technical and change management skills
- Management style and behaviour should support the change and demonstrate the behaviour required of all affected people in the organization

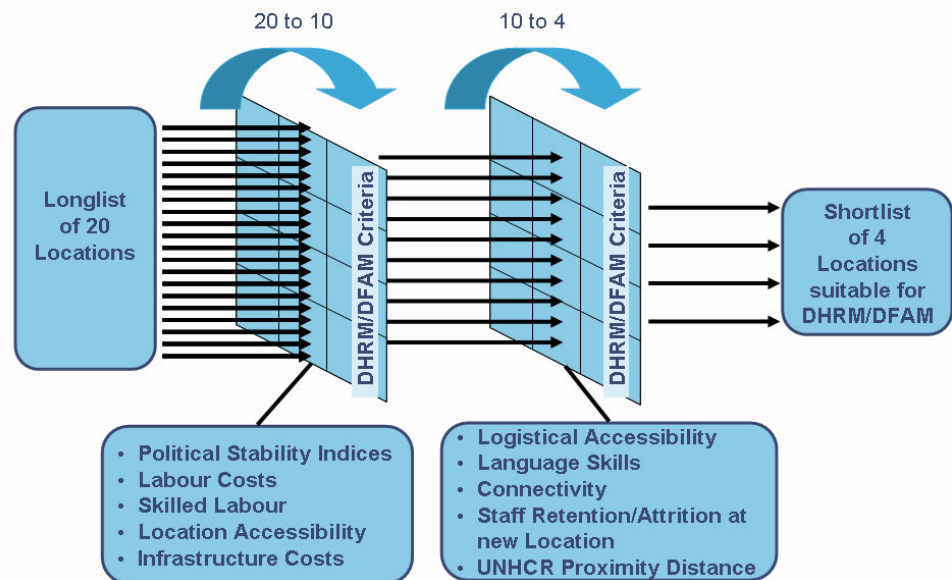
Managing people's performance is one of the key elements of the current UNHCR change process. DHRM's contribution has been to formulate an integrated human resources strategy that responds strategically to operational and organizational concerns involving workforce issues over the short, medium and long term, in order to provide an effective basis for the pursuit of the organization's priorities and objectives. PwC encourages UNHCR to continue to examine the linkages between DHRM's strategy, processes and structure and the change initiatives, including outposting.

3 Location Analysis

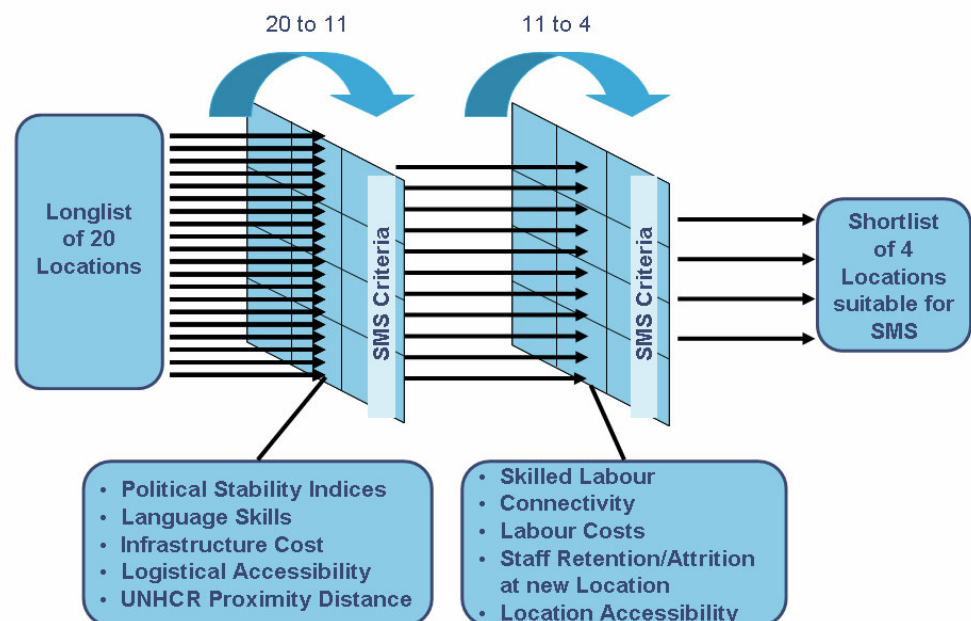
Approach

The location selection was carried out in two steps. The first step was to reduce the initial long-list of 20 cities to an initial short list of 11 (SMS) and 10 (DHRM/DFAM). This was completed through analyzing the *top five selection criteria*, taken from the stakeholder interviews, to eliminate initial non-optimal cities. For the second step, the number of cities was reduced again with the *next five criteria* to arrive at a final list of four locations. It was agreed that SMS required a different order of criteria to be analyzed, thus the location process was executed for DFAM/DHRM and SMS separately. The diagram below shows the reduction process and the application of the criteria at the key elimination stages.

Location Selection Process for DFAM & DHRM



Location Selection Process for SMS



Long-list of 20 Locations

Based on UNHCR's initial study and PwC's experience, the following twenty cities were chosen for location analysis during the workshops performed together with UNHCR's Reference Group.

City	Country
Krakow	Poland
Warsaw	Poland
Budapest	Hungary
Bucharest	Romania
Timisoara	Romania
Prague	Czech Republic
Cairo	Egypt
Nairobi	Kenya
Pretoria	South Africa
Johannesburg	South Africa
Dakar	Senegal
Manila	Philippines
Cebu	Philippines
Chennai	India
Hyderabad	India
Kuala Lumpur	Malaysia
Johor	Malaysia
Bangkok	Thailand
Singapore	Singapore
Dubai	United Arab Emirates

Based on a survey performed by the UNHCR Stakeholder Group, the following criteria were selected as core to the basis of selecting an optimal location. The weighting and thus order of the criteria were as follows. Significant change in staff is considered inevitable with outposting and so staff retention is therefore rated quite low as a criterion for location analysis.

Order of Importance	SMS	DFAM + DHRM
1	Political Stability Indices	Political Stability Indices
2	Language Skills	Labour costs
3	Infrastructure costs	Skilled Labour
4	Logistical Accessibility	Location Accessibility
5	UNHCR Proximity Distance	Infrastructure costs
6	Skilled Labour	Logistical Accessibility
7	Connectivity	Language Skills
8	Labour costs	Connectivity
9	Staff retention/attrition at new location	Staff retention/attrition at new location
10	Location Accessibility	UNHCR Proximity Distance

For the location analysis, each of the proposed criteria was operationalized into several separate sub-criteria which were researched in detail. In total, 109 sub-criteria were used, specifically covering the needs of a potential new location for UNHCR. The data for these criteria was drawn from well-established reports and studies, from desktop research and from local PwC experts in these locations. For instance, the criteria “Political Stability Indices” is composed of the ratings from the following public available reports and studies:

- Transparency International’s Corruption Perception Index, using the 2004 and 2005 study
- Global Competitiveness Report 2006-2007 from the World Economic Forum
- Economic Freedom of the World Report 2006 from the Florida State University
- Kaufmann Report on Political Stability 2002 from the World Bank Policy Research
- Failed States Index 2006 from the Foreign Policy and Fund for Peace

The criteria “Location Accessibility”, “Logistical Accessibility” and “UNHCR Proximity Distance” relate to different aspects of the potential locations:

- “Location Accessibility” relates to accessibility for persons. The criterion summarises sub-criteria regarding the flight times, costs and frequency from Geneva (and from New York as an additional indicator) to the location. This includes data for the shortest flights as well as for the cheapest flights. Additionally, the time zone window for overlapping working hours, based on a 9:00 to 17:00 working day, is represented in this criterion.

- “Logistical Accessibility” summarizes additional factors regarding accessibility: The distance to the nearest airport, the distance to the nearest port and the road quality are included in this criterion.
- “UNHCR Proximity Distance” summarizes the distances of the location to the 24 most important regions of UNHCR’s field operations. In addition, for SMS, the distances to the five supply hubs around the globe are included.

Special attention was applied to use only comparable figures to ensure reliable data and a fair location selection process. Many of the criteria relate directly or indirectly to risks raised in the risk analysis process. (e.g. the risk “Insufficient IT-connectivity” is addressed and mitigated by only selecting locations that have a good or excellent rating in the IT-connectivity sub-criteria). All of the sub-criteria and the summaries of the results are included in annex III-3.

Location Analysis Selection– from 20 to 11 for SMS and 20 to 10 for DFAM/DHRM

A traffic light format (red, yellow and green) was used for presenting the results of the criteria analysis. The colours indicate the relative suitability of the locations, i.e. a red light on one criterion does not necessarily imply an elimination of a location. Initially, all criteria/sub-criteria were assessed for all 20 locations. In the 20 to 11 and 20 to 10 location short-listing process the respective top five criteria as shown below and explained above were applied to arrive to the first short-lists.

■ SMS

City Name	Bangkok	Bucharest	Budapest	Cairo	Cebu	Chennai	Dakar	Dubai	Hyderabad	Johannesburg	Johor	Krakow	Kuala Lumpur	Manila	Nairobi	Prague	Pretoria	Singapore	Timisoara	Warsaw
Criteria																				
Political Stability Indices	2	2	3	1	1	2	1	3	2	2	2	2	2	1	1	3	2	3	2	2
Language Skills	1	3	3	1	2	2	1	2	2	2	2	3	2	2	2	3	2	2	3	3
Infrastructure costs	2	2	3	1	2	3	1	1	3	2	3	1	3	3	2	2	2	3	2	2
Logistical Accessibility	3	2	3	2	2	2	2	3	1	2	3	2	3	3	1	3	2	3	2	2
UNHCR Proximity Distance	2	3	3	3	1	2	2	3	2	3	2	3	2	1	3	3	3	2	3	3

■ DFAM/DHRM

City Name	Bangkok	Bucharest	Budapest	Cairo	Cebu	Chennai	Dakar	Dubai	Hyderabad	Johannesburg	Johor	Krakow	Kuala Lumpur	Manila	Nairobi	Prague	Pretoria	Singapore	Timisoara	Warsaw
Criteria																				
Political Stability Indices	2	2	3	1	1	2	1	3	2	2	2	2	2	1	1	3	2	3	2	2
Labour costs	2	2	2	3	3	3	2	1	3	2	3	1	3	3	3	1	2	1	2	1
Skilled Labour	3	3	3	2	1	3	1	1	3	2	1	3	3	2	2	3	3	2	2	3
Location Accessibility	1	3	3	3	1	2	3	2	2	2	1	3	1	1	2	3	2	1	3	3
Infrastructure costs	2	2	3	1	2	3	1	1	3	2	3	1	3	3	2	2	2	3	2	2

Location Analysis Selection - from 11 to 4 for SMS and from 10 to 4 for DFAM/DHRM

In the 11 to 14 and 10 to 14 location short-listing process the next five criteria as shown below were applied to arrive to the second, final short-list of 4 locations

■ **SMS**

City Name	Bucharest	Budapest	Chennai	Dubai	Johannesburg	Kuala Lumpur	Prague	Pretoria	Singapore	Timisoara	Warsaw
Criteria											
Skilled Labour	3	3	3	1	2	3	3	3	2	2	3
Connectivity	3	2	3	2	2	3	3	2	3	3	3
Labour costs	2	2	3	1	2	3	1	2	1	2	1
Staff retention	2	3	1	2	2	3	2	2	2	2	3
Location Accessibility	3	3	2	2	2	1	3	2	1	3	3

■ **DFAM/DHRM**

City Name	Bucharest	Budapest	Chennai	Hyderabad	Johannesburg	Kuala Lumpur	Prague	Pretoria	Timisoara	Warsaw
Criteria										
Logistical Accessibility	2	3	2	1	2	3	3	2	2	2
Language Skills	3	3	2	2	2	2	3	2	3	3
Connectivity	3	2	3	3	2	3	3	2	3	3
Staff retention	2	3	1	1	2	3	2	2	2	3
UNHCR Proximity Distance	3	3	2	2	3	2	3	3	3	3

Findings

Based on the location analysis performed, the following four cities have been chosen as the optimal possible locations for SMS and DFAM / DHRM (in alphabetical order)

- Bucharest
- Budapest
- Chennai
- Kuala Lumpur

Although the location study was prepared for two sub-groups (DHRM and DFAM being one group and SMS being the second) and the weighting and selection of criteria assessed were not the same, the optimal four cities were in fact identical. The UNHCR Reference Group thus agreed that collocating SMS with DHRM and DFAM was both logical and beneficial in terms of process and cost.

The summary of the approach, based on the criteria analysis, used for the above selection process have been presented in the following charts.

Location selection for SMS 20 to 11 to 4

City name	Political Stability Indices	Language Skills	Infrastructure Costs	Logistical Accessibility	UNHCR Proximity Distance	Skilled Labour	Connectivity	Labour Costs	Staff retention	Location Accessibility	Summary
Bucharest	●	●	●	●	●	●	●	●	●	●	●
Budapest	●	●	●	●	●	●	●	●	●	●	●
Chennai	●	●	●	●	●	●	●	●	●	●	●
Kuala Lumpur	●	●	●	●	●	●	●	●	●	●	●
Dubai	●	●	●	●	●	●	●	●	●	●	●
Johannesburg	●	●	●	●	●	●	●	●	●	●	●
Prague	●	●	●	●	●	●	●	●	●	●	●
Pretoria	●	●	●	●	●	●	●	●	●	●	●
Singapore	●	●	●	●	●	●	●	●	●	●	●
Timisoara	●	●	●	●	●	●	●	●	●	●	●
Warsaw	●	●	●	●	●	●	●	●	●	●	●
Bangkok	●	●	●	●	●	●	●	●	●	●	●
Cairo	●	●	●	●	●	●	●	●	●	●	●
Cebu	●	●	●	●	●	●	●	●	●	●	●
Dakar	●	●	●	●	●	●	●	●	●	●	●
Hyderabad	●	●	●	●	●	●	●	●	●	●	●
Johor	●	●	●	●	●	●	●	●	●	●	●
Krakow	●	●	●	●	●	●	●	●	●	●	●
Manila	●	●	●	●	●	●	●	●	●	●	●
Nairobi	●	●	●	●	●	●	●	●	●	●	●

SMS

Location selection for DFAM – DHRM 20 to 10 to 4

City name	Political Stability Indices	Labour costs	Skilled Labour	Location Accessibility	Infrastructure Costs	Logistical Accessibility	Language Skills	Connectivity	Staff retention	UNHCR Proximity Distance	Summary
Bucharest	Orange	Orange	Green	Green	Orange	Orange	Green	Green	Orange	Green	Green
Budapest	Green	Orange	Green	Green	Green	Green	Green	Orange	Green	Green	Green
Chennai	Orange	Green	Green	Orange	Green	Orange	Orange	Green	Red	Orange	Orange
Kuala Lumpur	Orange	Green	Green	Red	Green	Green	Orange	Green	Green	Orange	Orange
Hyderabad	Orange	Green	Green	Orange	Green	Red	Orange	Green	Red	Orange	Orange
Johannesburg	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Green	Orange
Prague	Green	Red	Green	Green	Orange	Green	Green	Green	Orange	Green	Orange
Pretoria	Orange	Orange	Green	Orange	Orange	Orange	Orange	Orange	Orange	Green	Orange
Timisoara	Orange	Orange	Orange	Green	Orange	Orange	Green	Green	Orange	Green	Orange
Warsaw	Orange	Red	Green	Green	Orange	Orange	Green	Green	Green	Green	Orange
Bangkok	Orange	Orange	Green	Red	Orange	Green	Red	Green	Red	Orange	Red
Cairo	Red	Green	Orange	Green	Red	Orange	Red	Red	Red	Green	Red
Cebu	Red	Green	Red	Red	Orange	Orange	Orange	Green	Green	Red	Red
Dakar	Red	Orange	Red	Green	Red	Orange	Red	Red	Green	Orange	Red
Dubai	Green	Red	Red	Orange	Red	Green	Orange	Orange	Orange	Green	Red
Johor	Orange	Green	Red	Red	Green	Green	Orange	Green	Green	Orange	Red
Manila	Red	Green	Orange	Red	Green	Green	Orange	Green	Orange	Red	Red
Krakow	Orange	Red	Green	Green	Red	Orange	Green	Green	Green	Green	Red
Nairobi	Red	Green	Orange	Orange	Orange	Red	Orange	Green	Green	Green	Red
Singapore	Green	Red	Orange	Red	Green	Green	Orange	Green	Orange	Orange	Red

10 > 4

20 > 10

DFAM, DHRM

Although the above has been a thorough and independent study performed by PwC in arriving at the short-list of four viable outposting locations, the final choice of an outposting location depends on one further critical process which UNHCR needs to conduct directly with the potential host government representatives of the viable option cities. With four (as opposed to one) viable options, PwC has sought to provide UNHCR with an optimum ingoing negotiating position for such negotiations. Whilst there are tangible differences between the highest and lowest cost savings and benefits, PwC believes that each of the four cities has viability for UNHCR. However, it is possible that certain of the host governments may be convinced to offer further benefits should UNHCR select their city location and this can only further strengthen the case for the eventual selected city.

Based on the detailed cost-benefit results, it is recommended that UNHCR approach the governments for negotiations on Bucharest, Budapest, Chennai, and Kuala Lumpur. UNHCR can then make a clear, final decision knowing that it has sought to clearly optimize the benefits.

4 Cost-Benefit Analysis

Approach

The High Commissioner has continually to respond to the “moral imperative” for change and to ensure that resources given to UNHCR reach the final beneficiaries, with only the minimum to be spent on those tasks to administer such resources. Thus in reviewing the outposting feasibility study, it is important to be reminded of the compelling case for change in the way the Organization works and manages its resources. The case for change is based on a number of factors including an understanding of the factors driving the need for change and a thorough understanding of the financial benefits.

To this effect, the cost-benefit analysis used in this review consists of quantitative and qualitative components. The qualitative parts are represented by the data analysed in the location selection process. The results of the 109 sub-criteria used there, demonstrate the qualitative strength and weaknesses of each location, apart from the qualitative cost benefit of those locations. The quantitative part is essentially the cost model, in which costs of having part of the functions in a new location are compared to a baseline cost over a period of 10 years. The baseline cost includes all the costs that are affected by a move to a new location. Costs that remain unchanged by the move are not considered. The baseline is considered constant for the evaluation period. In the cost model transition costs, operating cost, operating expenditure and capital expenditure are shown separately. The transition or restructuring costs are in effect the investment that must be made in order to realise the future savings.

The net savings that can be achieved by outposting are calculated as follows

Gross Savings = Baseline Cost – New Operating Cost + HQ Operating Savings

Net savings = Baseline Cost – Restructuring Cost – New Operating Cost + HQ Operating Savings

The baseline costs are considered constant and are calculated as follows:

Current Cost Baseline					
Cost Structure	DHRM	DFAM	SMS	DIST *	TOTAL
People Costs					
Positions	127	55	22	9	213
Salary and Common Staff Costs	14,634,992	6,736,405	3,132,600	1,362,322	25,866,320
Total People Costs	14,634,992	6,736,405	3,132,600	1,362,322	25,866,320
Operating Costs					
Facility Related Costs					1,141,126
Building Annual Rent (estimate for 2 floors of VNG)					941,544
Cost of Utilities (annual estimate for 156 positions)					73,193
Cost of Cleaning (annual estimate for 156 positions)					87,302
Cost of Maintenance (annual estimate for 156 positions)					39,087
Other Operating Costs					176,725
Telephone costs	51,466	21,113	15,784	-	88,363
Travel costs	51,466	21,113	15,784	-	88,363
Total Operating Costs					1,317,851
TOTAL COSTS					27,184,171

* The number of positions reflects the posts included in the scope considered for outposting.

Initial investment or restructuring costs are calculated for every location and include:

<i>Payroll cost in Geneva for the transition period</i>	Payroll cost for personnel which stays in Geneva for the transition period, but is not retained after the transition is completed. These staff are paid at Geneva rates
<i>Payroll cost for the transition period in the new location</i>	Payroll cost for personnel which are used in the new location during the transition period only
<i>Capital expenditure to get up-and-running in the new location</i>	☐ Office Equipment ☐ Desktop & Printers ☐ General Office ☐ Other Equipment
<i>Operational expenditure to get up-and-running in the new location</i>	☐ Travel and accommodation during implementation ☐ Recruitment of new staff ☐ Training of new staff ☐ Project management and external support
<i>Staff restructuring cost</i>	Separation packages

Operating costs are calculated for every location and include:

<i>Payroll cost for staff remaining in Geneva</i>	Payroll cost for staff in affected sections that remain in Geneva.
<i>Payroll for staff in the new location</i>	Payroll cost for permanent staff in new location
<i>Travel costs between Geneva and the new location</i>	Recurring travel costs to operate in the new location. Flights are Economy Class for Budapest & Bucharest, Business Class for Chennai and Kuala Lumpur
<i>Cost for the rental of premises</i>	Cost for rental of office space
<i>Cost for maintenance of premises</i>	☐ Cleaning ☐ Office supplies ☐ WAN, T1 ☐ IT repairs
<i>Communication costs</i>	Telephone costs, land lines and mobiles
<i>Recurring recruiting cost</i>	Cost to recruit staff lost due to staff turnover
<i>Training costs</i>	Training of staff that needs to be hired to compensate for staff turnover

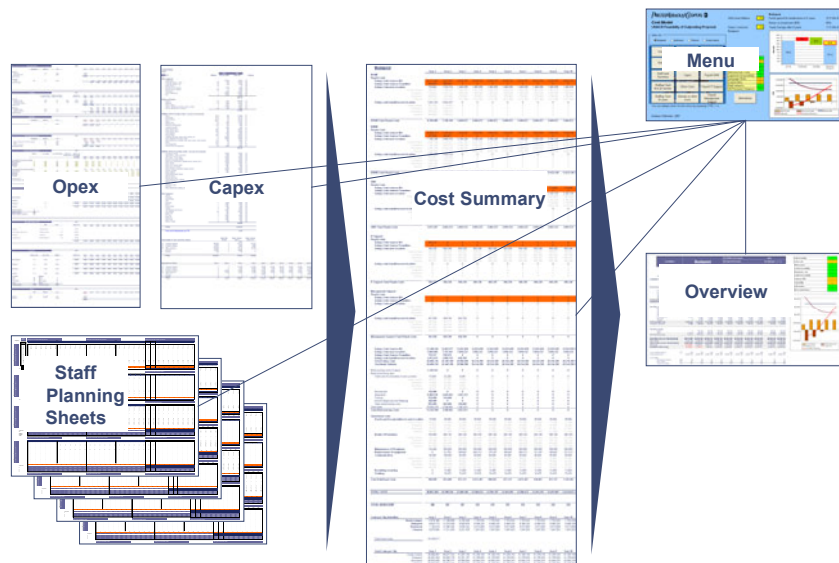
Operating savings are those expenses that would not be needed any more in Geneva after some functions are moved to a new location. They are the same independent from the outposting location selected. Savings on rental are a result of the reduced office space needed in the VNG building. Other savings include all facility related costs except rent.

Main outputs for the model

The funds gained for beneficiaries are calculated either as total net savings in 5 years or as yearly net savings after 5 years. The total net savings for the first 5 years are between 18 and 28 million, depending on location. The yearly savings are the expected cost differences between running the operation in Geneva compared to the new location, once the operation is stable. They vary between 10.1 and 12.1 million USD per year. Please see annex III-4 for more details on the figures.

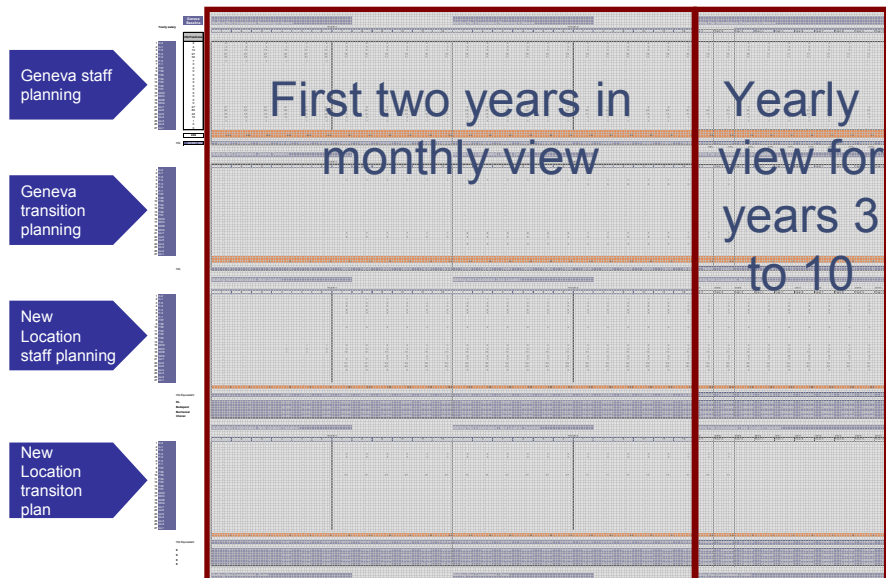
Elements of the model

Structure of the Cost Model



There are detailed staff planning sheets for every section. Every sheet has four sections, with each section divided into a monthly view for the first two years and a yearly view for the following years.

Structure of the staff planning sheets



Findings per the final four locations selected

Bucharest

Financial impact: By outposting to Bucharest UNHCR could free **18.1 million USD cash in the first 5 years**. In subsequent years the net savings are expected to be **10.1 million per year**.

Figures based on Version A

Location	Bucharest									
	Savings first 5 years									18.1 mill. US\$
Yearly net savings after 5 years									10.1 mill. US\$	
all costs in USD										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CURRENT COST BASELINE	27,184,171	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325
Restructuring Costs										
Payroll transition Geneva	1,528,313	1,430,762	191,081	0	0	0	0	0	0	0
Payroll transition at new location	1,113,413	4,467,464	266,933	0	0	0	0	0	0	0
Capital expenditure	1,103,453	0	0	0	0	0	0	0	0	0
Operational expenditure	1,860,600	1,008,200	258,640	0	0	0	0	0	0	0
Staff separation costs	8,408,616	2,402,462	1,201,231	0	0	0	0	0	0	0
Total Restructuring Costs	14,014,395	9,308,887	1,917,884	0	0	0	0	0	0	0
Cumulated Restructuring costs	14,014,395	23,323,283	25,241,167	25,241,167	25,241,167	25,241,167	25,241,167	25,241,167	25,241,167	25,241,167
Operating Costs										
Payroll remaining Geneva staff	22,034,340	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321
Payroll new location	1,538,480	8,120,443	8,511,467	8,511,467	8,511,467	8,511,467	8,511,467	8,511,467	8,511,467	8,511,467
Payroll Bangkok SWS/HRM	0	152,064	152,064	152,064	152,064	152,064	152,064	152,064	152,064	152,064
Travel	25,920	51,840	51,840	51,840	51,840	51,840	51,840	51,840	51,840	51,840
Rental of Premises	337,500	877,500	742,500	742,500	742,500	675,000	675,000	675,000	675,000	675,000
Maintenance of Premises	135,600	352,560	298,320	298,320	298,320	271,200	271,200	271,200	271,200	271,200
Communication	45,000	108,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000
Recruiting	0	13,400	13,400	13,400	13,400	13,400	13,400	13,400	13,400	13,400
Training	0	15,470	15,470	15,470	15,470	15,470	15,470	15,470	15,470	15,470
Total Operating Costs	24,116,841	17,424,598	17,608,383	17,608,383	17,608,383	17,513,763	17,513,763	17,513,763	17,513,763	17,513,763
Contingency allowance	108,804	283,754	242,306	242,306	242,306	223,382	223,382	223,382	223,382	223,382
Operating Savings										
Rental	0	753,235	753,235	753,235	753,235	753,235	753,235	753,235	753,235	753,235
Other	114,214	328,219	368,136	368,136	388,094	388,094	388,094	388,094	388,094	388,094
Total Operating savings	114,214	1,081,454	1,121,371	1,121,371	1,141,329	1,141,329	1,141,329	1,141,329	1,141,329	1,141,329
Operating Cost excl. Restructuring	24,111,430	16,626,898	16,729,318	16,729,318	16,709,359	16,595,815	16,595,815	16,595,815	16,595,815	16,595,815
Gross Saving	3,072,741	10,145,427	10,043,008	10,043,008	10,062,966	10,176,510	10,176,510	10,176,510	10,176,510	10,176,510
Total Yearly cost incl. Restructuring	38,125,825	25,935,785	18,647,202	16,729,318	16,709,359	16,595,815	16,595,815	16,595,815	16,595,815	16,595,815
Net Savings	-10,941,654	836,540	8,125,123	10,043,008	10,062,966	10,176,510	10,176,510	10,176,510	10,176,510	10,176,510
Cumulative Net Saving	-10,941,654	-10,105,114	-1,979,991	8,063,016	18,125,982	28,302,492	38,479,001	48,655,511	58,832,021	69,008,531

Challenges: With its low unemployment rate and the country having recently joined the European Union in early 2007, finding and keeping the required staff will be one of the biggest challenges for this city.

Political stability indices: In Bucharest the indices present a medium rating. This rating is expected to improve in the EU environment.

Location accessibility: Shortest flight distance from Geneva to Bucharest is 4h 10 minutes and costs on average 400 USD. There are multiple, non-direct flights daily from Geneva to Bucharest. Time zone difference between Geneva and Bucharest is 1h.

Language skills: 20% of working population speaks English, 50% of the graduate population. The number of French speaking is with 15% and 30% the highest among four the locations.

Connectivity: Time to set up a T1 link is 4 weeks, average dropout rate is 3 times in 12 months, average downtime hours per year are 2 hours.

Staff retention: Staff turnover rate is moderate (20%), unemployment rate is very low (2.4%)

Skilled labour: Labour force 759'000, 41 universities, 210'000 students, 15 new locations in the City, 5 BPOs.

Potential issues: With entry to the EU in January 2007 there may be significant pressure on staff numbers and thus staff costs - today unemployment rates are under 3% and have been for the least three years

Conclusion: While outposting to Bucharest is a viable option for UNHCR, it offers the lowest financial benefits of the 4 short-listed locations.

Budapest

Financial impact: By outposting to Budapest UNHCR could free **23.4 million USD cash in the first 5 years**. In subsequent years the net saving are expected to be **11.3 million per year**.

Figures based on Version A

Location	Budapest									
	Savings first 5 years									23.4 mill. US\$
	Yearly net savings after 5 years									11.3 mill. US\$
all costs in USD	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CURRENT COST BASELINE	27,184,171	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325
Restructuring Costs										
Payroll transition Geneva	1,528,313	1,430,762	191,081	0	0	0	0	0	0	0
Payroll transition at new location	1,146,662	4,610,922	247,506	0	0	0	0	0	0	0
Capital expenditure	1,103,453	0	0	0	0	0	0	0	0	0
Operational expenditure	1,855,600	998,200	256,640	0	0	0	0	0	0	0
Staff separation costs	8,408,616	2,402,462	1,201,231	0	0	0	0	0	0	0
Total Restructuring Costs	14,042,644	9,442,345	1,896,458	0	0	0	0	0	0	0
Cumulated Restructuring costs	14,042,644	23,484,989	25,381,447	25,381,447	25,381,447	25,381,447	25,381,447	25,381,447	25,381,447	25,381,447
Operating Costs										
Payroll remaining Geneva staff	22,034,340	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321
Payroll new location	1,351,783	7,169,087	7,501,945	7,501,945	7,501,945	7,501,945	7,501,945	7,501,945	7,501,945	7,501,945
Payroll Bangkok SWS/HRM	0	152,064	152,064	152,064	152,064	152,064	152,064	152,064	152,064	152,064
Travel	19,920	39,840	39,840	39,840	39,840	39,840	39,840	39,840	39,840	39,840
Rental of Premises	243,000	631,800	534,600	534,600	534,600	486,000	486,000	486,000	486,000	486,000
Maintenance of Premises	135,600	352,560	298,320	298,320	298,320	271,200	271,200	271,200	271,200	271,200
Communication	45,000	108,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000
Recruiting	0	13,400	13,400	13,400	13,400	13,400	13,400	13,400	13,400	13,400
Training	0	15,470	15,470	15,470	15,470	15,470	15,470	15,470	15,470	15,470
Total Operating Costs	23,829,644	16,215,542	16,378,960	16,378,960	16,378,960	16,303,240	16,303,240	16,303,240	16,303,240	16,303,240
Contingency allowance	88,704	232,214	198,326	198,326	198,326	183,182	183,182	183,182	183,182	183,182
Operating Savings										
Rental	0	753,235	753,235	753,235	753,235	753,235	753,235	753,235	753,235	753,235
Other	114,214	328,219	368,136	368,136	388,094	388,094	388,094	388,094	388,094	388,094
Total Operating savings	114,214	1,081,454	1,121,371	1,121,371	1,141,329	1,141,329	1,141,329	1,141,329	1,141,329	1,141,329
Operating Cost excl. Restructuring	23,804,133	15,366,302	15,455,915	15,455,915	15,435,957	15,345,093	15,345,093	15,345,093	15,345,093	15,345,093
Gross Saving	3,380,038	11,406,023	11,316,410	11,316,410	11,336,368	11,427,232	11,427,232	11,427,232	11,427,232	11,427,232
Total Yearly cost incl. Restructuring	37,846,777	24,808,647	17,352,373	15,455,915	15,435,957	15,345,093	15,345,093	15,345,093	15,345,093	15,345,093
Net Savings	-10,662,606	1,963,678	9,419,952	11,316,410	11,336,368	11,427,232	11,427,232	11,427,232	11,427,232	11,427,232
Cumulative Net Saving	-10,662,606	-8,698,928	721,024	12,037,434	23,373,802	34,801,034	46,228,266	57,655,498	69,082,730	80,509,961

Challenges: With its low unemployment rate and the country having already joined the European Union in 2004, finding and keeping the required staff will be one of the biggest challenges for this city.

Political stability indices: All indexes are rated medium to good.

Location accessibility: Shortest flight from Geneva to Budapest is 1h 50 minutes and costs on average 300 USD. There are multiple direct flights daily from Geneva to Budapest. Time zone difference between Geneva and Budapest is 0h.

Language skills: 20% of working population speaks English, and 35% of graduate population. There are 5 % French speakers among the graduate population.

Connectivity: Time to set up a T1 link is 4 weeks, average dropout rate is 3 times in 12 months, average downtime hours per year are 42 hours.

Staff retention: Staff turnover rate is moderate (20%), unemployment rate is low (4.7%)

Skilled labour: Labour force 955'000, 12 universities, 100'000 students, 22 new locations in the City, 18 BPOs. The market salary rate (PwC composite) compared to the UN salaries indicates a potential raise of UN salaries in the future.

Potential issues: The risks are the potentially uncertain developments of UN labour costs going forward.

Conclusion: Outposting to Budapest is a viable option, but less financial benefits compared to other locations.

Chennai

Financial impact: By outposting to Chennai UNHCR could free **25.9 million USD cash in the first 5 years**. In subsequent years the expected net saving are **11.8 million per year**.

Figures based on version A

Location	Chennai									
	Savings first 5 years									25.9 mill. US\$
	Yearly net savings after 5 years									11.8 mill. US\$

all costs in USD	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CURRENT COST BASELINE	27,184,171	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325
Restructuring Costs										
Payroll transition Geneva	1,528,313	1,430,762	191,081	0	0	0	0	0	0	0
Payroll transition at new location	1,015,451	4,071,224	252,115	0	0	0	0	0	0	0
Capital expenditure	1,103,453	0	0	0	0	0	0	0	0	0
Operational expenditure	1,885,600	1,058,200	268,640	0	0	0	0	0	0	0
Staff separation costs	8,408,616	2,402,462	1,201,231	0	0	0	0	0	0	0
Total Restructuring Costs	13,941,433	8,962,647	1,913,066	0	0	0	0	0	0	0
Cumulated Restructuring costs	13,941,433	22,904,080	24,817,147	24,817,147	24,817,147	24,817,147	24,817,147	24,817,147	24,817,147	24,817,147
Operating Costs										
Payroll remaining Geneva staff	22,034,340	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321
Payroll new location	1,320,441	6,648,657	7,020,373	7,020,373	7,020,373	7,020,373	7,020,373	7,020,373	7,020,373	7,020,373
Payroll Bangkok SWS/HRM	0	152,064	152,064	152,064	152,064	152,064	152,064	152,064	152,064	152,064
Travel	55,920	111,840	111,840	111,840	111,840	111,840	111,840	111,840	111,840	111,840
Rental of Premises	216,000	561,600	475,200	475,200	475,200	432,000	432,000	432,000	432,000	432,000
Maintenance of Premises	135,600	352,560	298,320	298,320	298,320	271,200	271,200	271,200	271,200	271,200
Communication	45,000	108,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000
Recruiting	0	13,400	13,400	13,400	13,400	13,400	13,400	13,400	13,400	13,400
Training	0	15,470	15,470	15,470	15,470	15,470	15,470	15,470	15,470	15,470
Total Operating Costs	23,807,301	15,696,913	15,909,989	15,909,989	15,909,989	15,839,669	15,839,669	15,839,669	15,839,669	15,839,669
Contingency allowance	90,504	232,574	200,846	200,846	200,846	186,782	186,782	186,782	186,782	186,782
Operating Savings										
Rental	0	753,235	753,235	753,235	753,235	753,235	753,235	753,235	753,235	753,235
Other	114,214	328,219	368,136	368,136	388,094	388,094	388,094	388,094	388,094	388,094
Total Operating savings	114,214	1,081,454	1,121,371	1,121,371	1,141,329	1,141,329	1,141,329	1,141,329	1,141,329	1,141,329
Operating Cost excl. Restructuring	23,783,591	14,848,032	14,989,464	14,989,464	14,969,506	14,885,122	14,885,122	14,885,122	14,885,122	14,885,122
Gross Saving	3,400,580	11,924,293	11,782,861	11,782,861	11,802,819	11,887,203	11,887,203	11,887,203	11,887,203	11,887,203
Total Yearly cost incl. Restructuring	37,725,024	23,810,679	16,902,530	14,989,464	14,969,506	14,885,122	14,885,122	14,885,122	14,885,122	14,885,122
Net Savings	-10,540,853	2,961,646	9,869,795	11,782,861	11,802,819	11,887,203	11,887,203	11,887,203	11,887,203	11,887,203
Cumulative Net Saving	-10,540,853	-7,579,207	2,290,588	14,073,449	25,876,268	37,763,472	49,650,675	61,537,879	73,425,082	85,312,286

Challenges: The main challenge in Chennai would be to attract and keep the right quality of people, considering the high attrition rate in the city. UNHCR may be able to team up with the World Bank to take advantage of their presence in this location.

Political stability indices: In Chennai the indices present a medium rating overall.

Location accessibility: The shortest flight distance from Geneva to Chennai is 15h 20 minutes and costs on average 4000 USD in business class. There are multiple, non-direct flights daily from Geneva to Chennai. The distance to nearest airport is 20 km with a poor to fair road quality. Time zone difference to Geneva is 4.5 hours, with a normal working time window of 3.5 hours (1 hour more in summer).

Language skills: Most of the local population speaks English, but available French speakers are negligible.

Connectivity: Time to set up a T1 link is 6-8 weeks, average dropout rate is 3 times in 12 months, average downtime hours per year are 9 hours.

Staff retention: Staff turnover rate is very high (45 – 55%)

Skilled labour: Labour force 2'394'000, 17 universities, 152'000 students, 845 new locations in the City across shared service and third party BPOs.

Potential issues: The risks are related to the attrition rate and the uncertain development of labour cost. Other areas show only a medium level of location scoring for Chennai. These are logistical accessibility

(road quality), language skills (no local French speakers – although this could be at least partially mitigated by employing a limited number of foreign French-speaking staff), and location accessibility (long flight time from Geneva). No real mitigations can be performed here, but with these issues a regular and good service can still be performed.

Conclusion: Outposting to Chennai is a viable option for UNHCR, with higher financial benefits, but also with some volatility in attrition and labour wage inflation.

Kuala Lumpur

Financial impact: By outposting to Kuala Lumpur UNHCR could free **27.6 million USD cash in the first 5 years**. In subsequent years the net saving are expected to be **12.1 million per year**.

Figures based on version A

Location	Kuala Lumpur										
	Savings first 5 years										27.6 mill. US\$
	Yearly net savings after 5 years										12.1 mill. US\$
all costs in USD											
CURRENT COST BASELINE	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
	27,184,171	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	26,772,325	
Restructuring Costs											
Payroll transition Geneva	1,528,313	1,430,762	191,081	0	0	0	0	0	0	0	
Payroll transition at new location	970,251	3,897,045	221,696	0	0	0	0	0	0	0	
Capital expenditure	1,103,453	0	0	0	0	0	0	0	0	0	
Operational expenditure	1,885,600	1,058,200	268,640	0	0	0	0	0	0	0	
Staff separation costs	8,408,616	2,402,462	1,201,231	0	0	0	0	0	0	0	
Total Restructuring Costs	13,896,233	8,788,469	1,882,647	0	0	0	0	0	0	0	
Cumulated Restructuring costs	13,896,233	22,684,702	24,567,349	24,567,349	24,567,349	24,567,349	24,567,349	24,567,349	24,567,349	24,567,349	
Operating Costs											
Payroll remaining Geneva staff	22,034,340	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	7,733,321	
Payroll new location	1,247,827	6,521,062	6,827,786	6,827,786	6,827,786	6,827,786	6,827,786	6,827,786	6,827,786	6,827,786	
Payroll Bangkok SWS/HRM	0	152,064	152,064	152,064	152,064	152,064	152,064	152,064	152,064	152,064	
Travel	55,920	111,840	111,840	111,840	111,840	111,840	111,840	111,840	111,840	111,840	
Rental of Premises	162,000	421,200	356,400	356,400	356,400	324,000	324,000	324,000	324,000	324,000	
Maintenance of Premises	135,600	352,560	298,320	298,320	298,320	271,200	271,200	271,200	271,200	271,200	
Communication	45,000	108,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	
Recruiting	0	13,400	13,400	13,400	13,400	13,400	13,400	13,400	13,400	13,400	
Training	0	15,470	15,470	15,470	15,470	15,470	15,470	15,470	15,470	15,470	
Total Operating Costs	23,680,688	15,428,918	15,598,602	15,598,602	15,598,602	15,539,082	15,539,082	15,539,082	15,539,082	15,539,082	
Contingency allowance	79,704	204,494	177,086	177,086	177,086	165,182	165,182	165,182	165,182	165,182	
Operating Savings											
Rental	0	753,235	753,235	753,235	753,235	753,235	753,235	753,235	753,235	753,235	
Other	114,214	328,219	368,136	368,136	388,094	388,094	388,094	388,094	388,094	388,094	
Total Operating savings	114,214	1,081,454	1,121,371	1,121,371	1,141,329	1,141,329	1,141,329	1,141,329	1,141,329	1,141,329	
Operating Cost excl. Restructuring	23,646,177	14,551,957	14,654,317	14,654,317	14,634,359	14,562,935	14,562,935	14,562,935	14,562,935	14,562,935	
Gross Saving	3,537,994	12,220,368	12,118,008	12,118,008	12,137,967	12,209,391	12,209,391	12,209,391	12,209,391	12,209,391	
Total Yearly cost incl. Restructuring	37,542,411	23,340,426	16,536,964	14,654,317	14,634,359	14,562,935	14,562,935	14,562,935	14,562,935	14,562,935	
Net Savings	-10,358,240	3,431,899	10,235,361	12,118,008	12,137,967	12,209,391	12,209,391	12,209,391	12,209,391	12,209,391	
Cumulative Net Saving	-10,358,240	-6,926,341	3,309,021	15,427,029	27,564,996	39,774,386	51,983,777	64,193,168	76,402,558	88,611,949	

Challenges: To deal with the long flight time and the small time zone window might require adjustments in working habits.

Political stability: In Kuala Lumpur the indices present a medium rating.

Location accessibility: Shortest flight from Geneva to KL is 15h 10 minutes and costs around 4000 USD in business class. There are multiple, non-direct flights daily from Geneva to KL. Distance to nearest airport is 43 km, road quality is fair to good. Time zone difference between Geneva and KL is 7 hours, the window is 1hour (1 hour more in summer).

Language skills: 90% of working population speaks English, and 100% of graduate population, but there are no French speakers available.

Connectivity: Time to set up a T1 link is 4-5 weeks, average dropout rate is 1 in 12 months, average downtime hours per year are 2.5 hours.

Staff retention: Staff turnover rate is moderate (20%)

Skilled labour: Labour force 3'000'000, 28 universities, 200'000 students, 242 new locations in the City, across shared service and third party BPO providers.

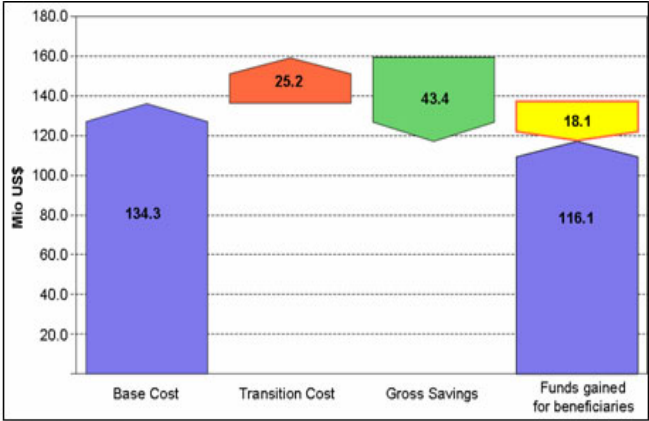
Potential issues: Long distance from Geneva and the effect of the time zone difference are main issues mentioned. However, these must not necessarily be detrimental, as they could even help to drive

structuring and standardization of procedures and promote efficient communication. The time zone window can be extended with slight modification of working hours.

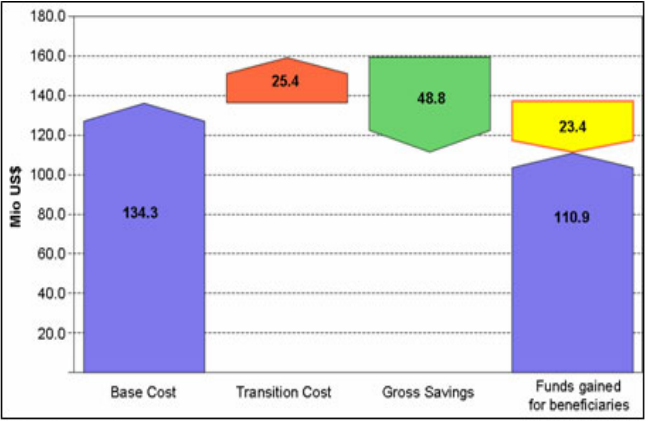
Conclusion: Outposting to Kuala Lumpur is a viable option for UNHCR. It offers nearly identical savings as Chennai, but at significantly lower volatility of attrition and labour wage inflation.

Comparison of savings between the four short listed locations (first 5 years)

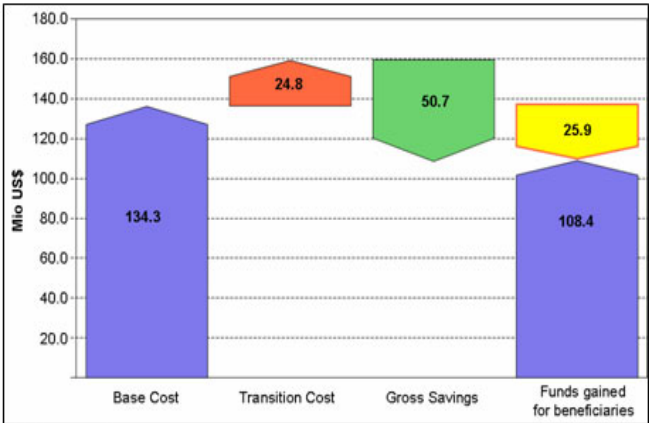
The charts below illustrate (in the yellow boxes), the overall net savings for each location after 5 years. It also shows the investment required in transition costs (the red boxes) in order to generate the gross savings (the green boxes).



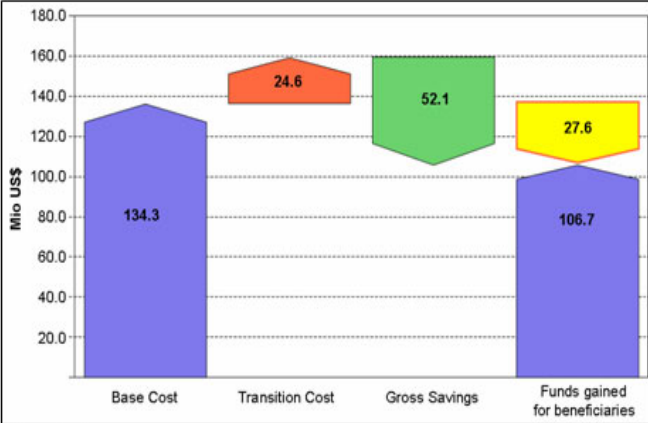
Bucharest



Budapest



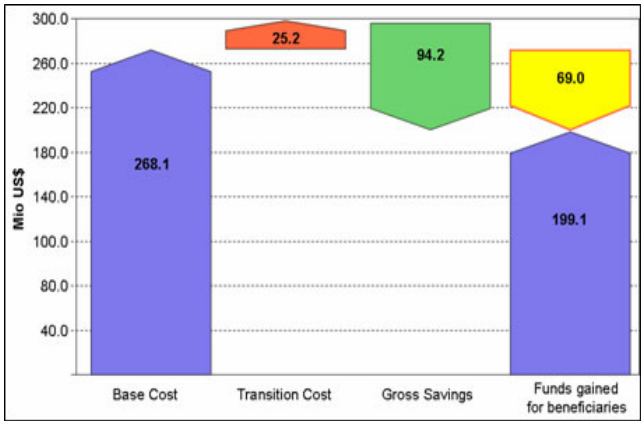
Chennai



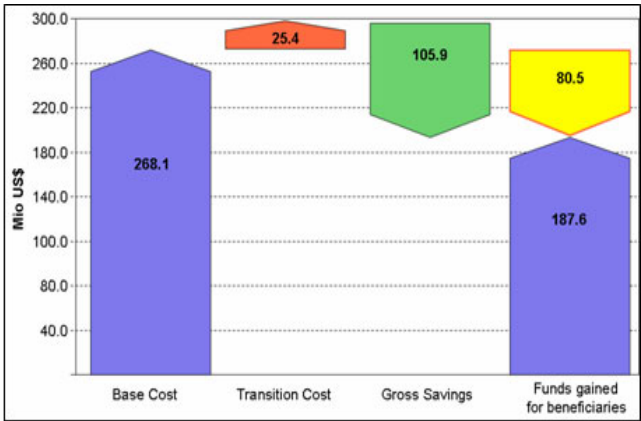
Kuala Lumpur

Comparison of savings between the four short listed locations (first 10 years)

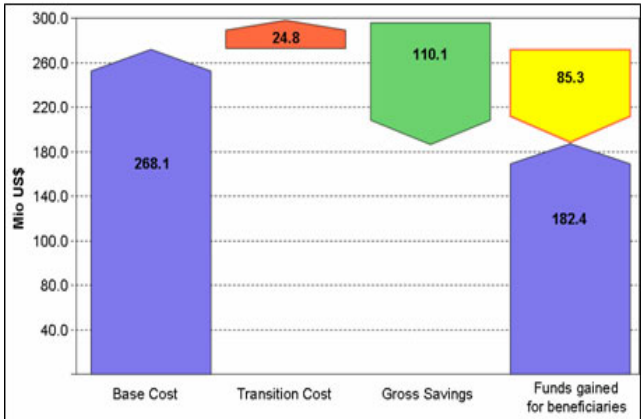
The charts below illustrate (in the yellow boxes), the overall net savings for each location after 10 years. It also shows the investment required in transition costs (the red boxes) in order to generate the gross savings (the green boxes).



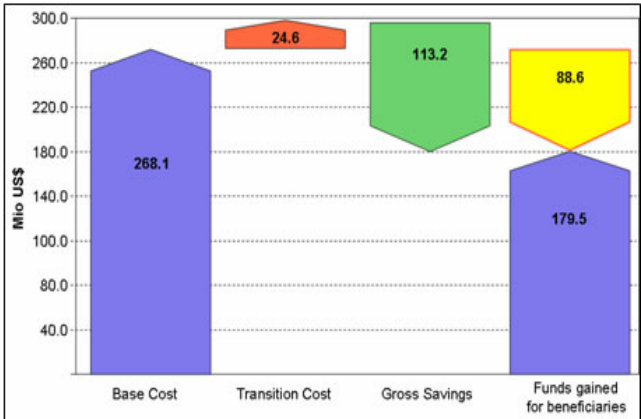
Bucharest



Budapest



Chennai



Kuala Lumpur

For all four locations the initial investment in restructuring cost (transition cost) is approximately the same (average 25.0 million USD). There are some differences in the estimated gross savings (in green).

Variants to the model and handling of uncertainties

Staffing models (Versions A to D)

In the course of the project several staffing options were discussed. The above figures apply for Version A, which is the base case. Alternatives are shown as variants.

Version A: Base case using the proposed staffing model

Version B: All NOD and NOC become local P-4 and P-3 respectively from year 1

Version C: All P-4 and P-3 posts become NOD and NOC respectively from year 4

Version D: P4 remain international but all P-3 become NOC from year 4

Effect of expected change in Budapest salaries (Adjusted Budapest Variant)

UN salary scales in Hungary are low due to a variety of factors. A new local salary survey will be conducted this year and is likely to lead to an upward revision of local salary scales. If this happens, staff costs in Hungary would increase soon.

To calculate the effect of an adaptation in the salary scales for local staff in Budapest, PwC calculated the effect of a 15% rate increase in salaries in Budapest. This increase is different to inflation, which is equivalent to a yearly increase, in that the increase is once only for the whole period. It is as if Budapest G and N salaries were 15% more from the beginning.

Wage inflation

Inflation, and especially wage inflation, is clearly an important factor to take into account in order to draw any conclusions on costs. However, it is difficult to precisely estimate wage inflation rates some 5 or 10 years in advance. Therefore, part of the cost/benefit process was to determine the level of 'sensitivity' of the cost/benefit model for UNHCR's outposting feasibility to varying levels of wage inflation. Several scenarios were calculated in order to achieve this. It was assumed that the wage inflation affects only G and N staff, and that the inflation kicks in starting from year 3. For example, a theoretical wage inflation of 10% means that salaries increase 10% every year from year 3 to year 10.

For the salaries in Geneva a currency risk exists regarding the CHF / USD exchange rate in the case of a further USD weakening. Also, there could be inflation on salaries in Geneva. Both potential factors are acknowledged but will not be addressed in this analysis. Both factors would even increase the potential savings in any new location. Therefore the assumption of constant salaries in Geneva will be used in the analysis, without overestimating the potential benefits.

Wage inflation leads to an erosion of savings over the years. The charts below show the savings without and with a theoretical level of inflation. For Budapest two variants are calculated. The first variant uses current Budapest salary rate, the second option is with a 15% salary scale correction of G and N staff on top of inflation. Chennai and KL show practically identical profiles, although the probability for strong wage inflation is higher in Chennai than in KL.

The graph below shows that, even were there to be high inflation rates, the savings remain very high. The reason for this is that the wage differential between Geneva and the potential locations is so high that it would take more than 10 years at even a 15% yearly inflation for the salaries to reach Geneva level. Only in Bucharest would the salaries be nearly equal to Geneva (assuming Geneva constant) after 10 years.

The following tables show an overview of variants calculated. Total savings in the tables are net savings, i.e. the transition investment is already deducted.

Without inflation

		Bucharest	Budapest	Budapest adj.	Chennai	Kuala Lumpur
Version A	Total savings first 5 years	18.1	23.4	20.9	25.9	27.6
	Total savings first 10 years	69.0	80.5	75.0	85.3	88.6
	Yearly savings after year 5	10.1	11.3	10.7	11.8	12.1
Version B	Total savings first 5 years	16.8	20.4	18.4	24.5	25.3
	Total savings first 10 years	66.0	74.0	69.6	82.3	83.7
	Yearly savings after year 5	9.7	10.6	10.1	11.5	11.6
Version C	Total savings first 5 years	19.3	25.1	22.4	26.9	28.8
	Total savings first 10 years	73.2	86.4	80.3	88.8	92.9
	Yearly savings after year 5	10.7	12.2	11.5	12.3	12.8
Version D	Total savings first 5 years	18.8	24.2	21.7	26.4	28.2
	Total savings first 10 years	71.2	83.6	77.8	87.3	90.9
	Yearly savings after year 5	10.4	11.8	11.1	12.1	12.5

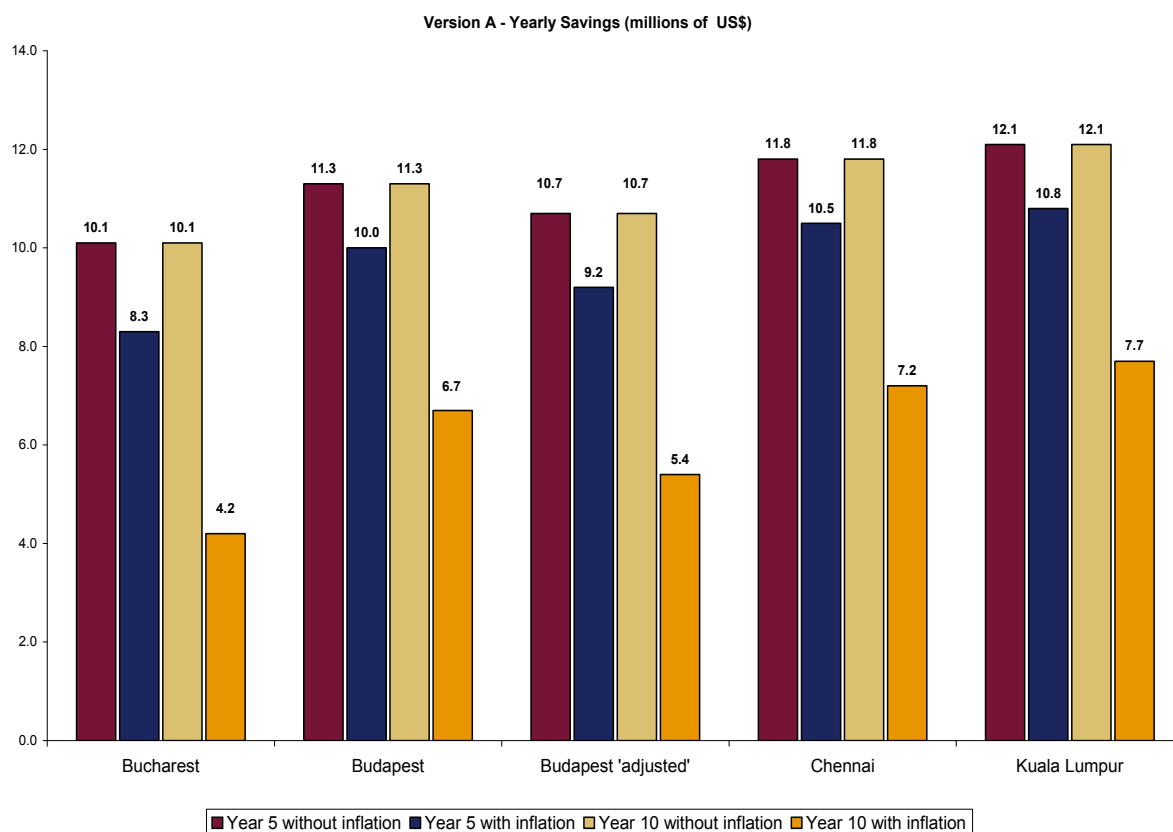
With 10 % annual Inflation from year 3

		Bucharest	Budapest	Budapest adj.	Chennai	Kuala Lumpur
Version A	Total savings first 5 years	14.8	20.7	17.9	23.3	25.0
	Total savings first 10 years	44.9	61.6	53.4	66.7	70.4
	Year 5 savings	8.3	10.0	9.2	10.5	10.8
	Year 10 savings	4.2	6.7	5.4	7.2	7.7
Version B	Total savings first 5 years	13.8	17.9	15.6	22.2	23.0
	Total savings first 10 years	44.6	56.4	49.8	66.2	67.0
	Year 5 savings	8.2	9.4	8.7	10.3	10.4
	Year 10 savings	4.5	6.3	5.3	7.6	7.5
Version C	Total savings first 5 years	15.5	22.1	19.0	23.9	25.9
	Total savings first 10 years	45.6	64.9	55.7	66.8	72.0
	Year 5 savings	8.7	10.6	9.7	10.7	11.2
	Year 10 savings	3.9	6.9	5.4	6.9	7.6
Version D	Total savings first 5 years	15.2	21.4	18.5	23.7	25.5
	Total savings first 10 years	45.4	63.4	54.7	67.1	71.3
	Year 5 savings	8.5	10.3	9.5	10.6	11.0
	Year 10 savings	4.0	6.8	5.4	7.1	7.6

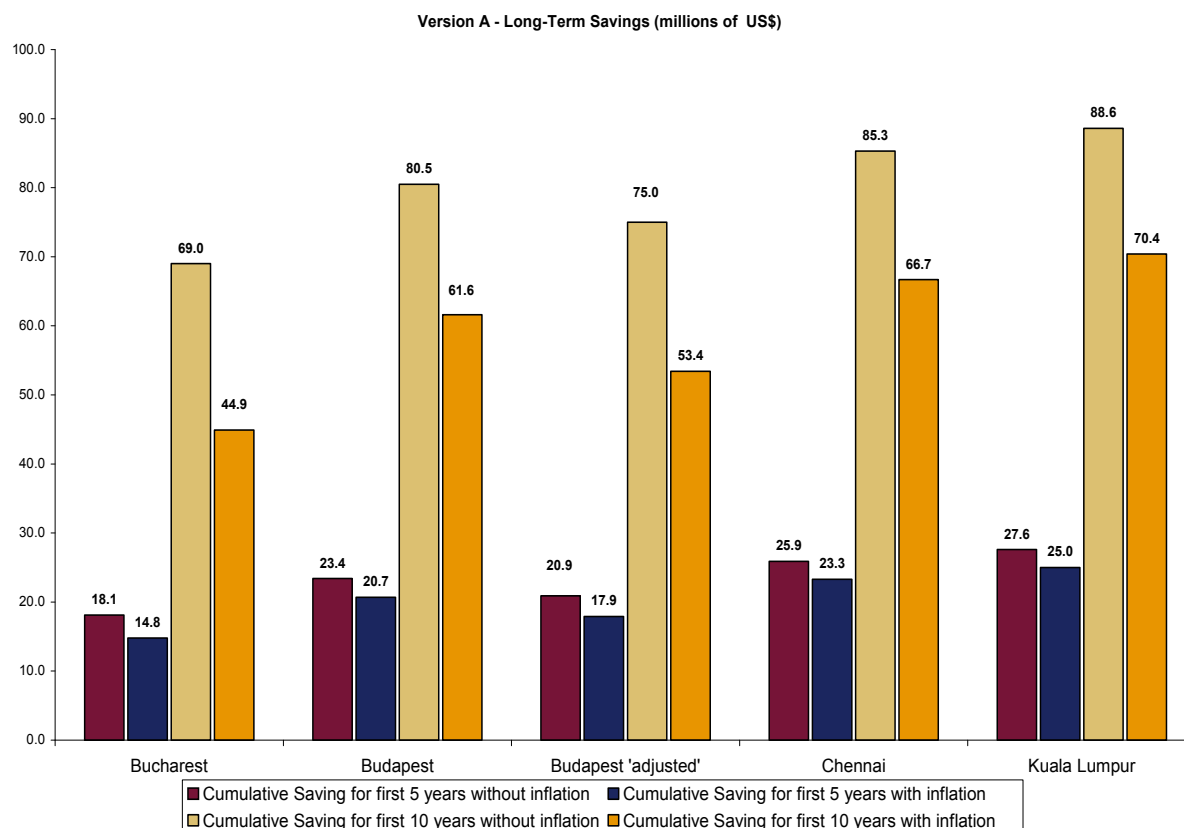
all figures in million USD

Please note that the wage inflation rate used above is theoretical and is not meant to imply that actual wage inflation will reach 10 per cent. The rate is used simply as an example to demonstrate the level of sensitivity of the overall cost model to wage inflation. Actual rates of wage inflation are difficult to predict.

The following table shows the yearly savings for year 5 and for year 10 (Version A), without inflation and with theoretical 10% annual wage inflation from year three. These savings per year occur after the transition phase (until year 3), i.e. they are not affected by the transition investment.



The following table shows the cumulative savings for 5 and 10 years (Version A), without inflation and with theoretical 10% annual wage inflation from year three. Cumulative savings shown below are net savings, i.e. the transition investment is already deducted.



From a salary inflation perspective, Kuala Lumpur looks the safest option, as it is the location with the highest return to start with and as there currently no signals pointing at any very sharp salary inflation. For Chennai, Budapest and Bucharest this situation is different. Budapest and Bucharest have already entered the EU and will eventually adopt the Euro, Budapest has low rates compared to UN standards (discussed below) and Chennai is in India, a country with an economy that is showing some signs of overheating (see e.g. recent article “India’s Economy” in The Economist, 01.02.2007 on this subject).

Option to buy office space

Should UNHCR decide to buy office space, costs related to rental would be substituted by a capital expenditure. The effect would be a significantly higher negative cash flow in the first year, but an improvement of the running costs by approximately 400'000 US\$ per year.

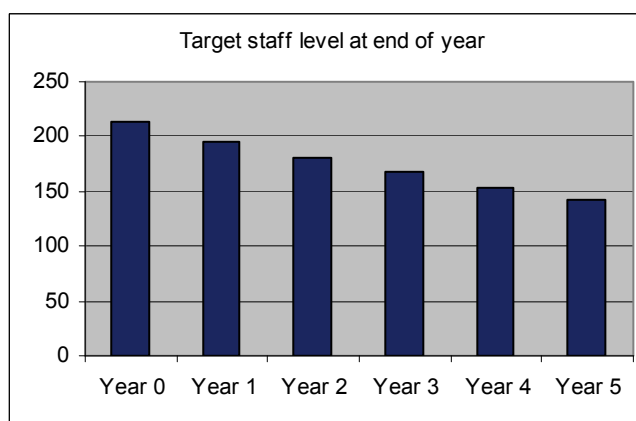
Potential savings from efficiency gains (staff alternative proposal)

Efficiency gains have been suggested as an alternative to outposting. The table shows for different target efficiency gains the savings that could be expected in five years and the number of posts that would have to be made redundant to achieve the savings.

Effects of efficiency improvements							
		Staff Reduction required per year to achieve saving					
	Savings in mill	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Efficiency Increase	over 5 years						
2%	7.29	4	4	4	4	4	20
4%	15.06	9	8	8	8	7	40
6%	21.62	13	12	11	11	10	57
8%	27.81	17	16	14	13	12	72

To achieve savings similar to the ones that can be achieved with outposting, efficiency gains of 6 to 8% per year would be needed. For this 13 to 17 posts per year would need to be made redundant in the first years, and 10 to 12 posts per year in the final years.

Taking Kuala Lumpur as an example, the graph on the right shows what target staff levels would be needed to achieve the same savings as with outposting, starting from the current staffing of 213 for the positions in scope.



Staff reductions in this order of magnitude can only be achieved with the most radical performance improvement programmes, requiring a fundamental reengineering of UNHCR operations. Even then it is unlikely that the organization would be able to maintain today's service level with such reduced staff numbers. And while outposting would be a one-off exercise that could be completed in less than two years, the savings-by-efficiency-gains approach would put a severe strain on the organization for the next five years, with people having to worry for extended periods of time if they are next on the list to be downsized.

The following table shows the compares the outposting options with the required efficiency gains to achieve the same savings.

Outposting Variant	Yearly efficiency gains needed to achieve same results	
Bucharest	5.0%	= Reduce staff from 213 to 164, minus 49 posts
Budapest	6.7%	= Reduce staff from 213 to 151, minus 62 posts
Chennai	7.3%	= Reduce staff from 213 to 146, minus 67 posts
Kuala Lumpur	7.8%	= Reduce staff from 213 to 142, minus 71 posts

5 Organizational Structure

Approach

A key component of the outposting feasibility study is the design, development and eventual roll out of the new organization structure. This covers two key aspects of structuring the service centre at the new location.

The first of these key aspects is the definition and logical ordering of the key activities and functional areas in scope for outposting. This covers the DHRM, DFAM and SMS functional units that could be situated in the new centre and how they will be logically arranged. It is important to stress that an outposted service centre is also an organization in its own right and will need its own set of support functions. These would typically be around IT, Finance, HR and Facilities Management. We will call this the new location support.

The activities for UNHCR users that are being outposted are key activities of DFAM, DHRM, SMS, and DIST. These activities should be logically structured so that they can provide the best possible maintenance of and adherence to the service level agreements and operating level agreements (SLA and OLA) between HQ in Geneva and the new location.

The second key aspect is the evolution of the service centre staffing. In discussions with the reference group from UNHCR it was agreed to propose a start-up configuration needed to ensure a smooth transition and three final configuration options to achieve most cost effective operation in the long term.

Organization design and structure principals:

Organization design must achieve clear, credible and realistic...

- ... division of work
- ... authority, responsibility & accountability
- ... unity of direction
- ... subordination of personal interests
- ... appropriate spans of control
- ... stability of tenure

Organization design for the outposting centre should reflect consideration of identified risks associated with outposting. UNHCR has identified the following risks that will need careful consideration for mitigation and management in the organization design.

- Low staff morale at Headquarters
- Loss of motivation at Headquarters
- Loss of productivity at Headquarters
- Retention of good staff at Headquarters
- Inappropriate transition plans and tools
- Lack of knowledge/institutional memories transfer to new outposting location
- Transferring “old” organization culture
- Lack of skills and diversity in outposted services

Additionally, from the benchmarking performed with other UN organizations with regard to their outposting exercises, the following actions have been found useful in consideration of developing new organizations in new locations that will provide services to headquarters.

Hiring of local staff: This helps make the outposting cost effective along with the fact that local hires will bring in cultural diversity and would be easy to work in the new location environment.

Management of retained and affected staff: Staff retention of the retained organization should be given emphasis, as the remaining staff are a prime part of UNHCR's knowledge base and the new environment

Manage new location retention: Effort in transition phase will be lost if local staff is not retained, hence local staff retention is equally important.

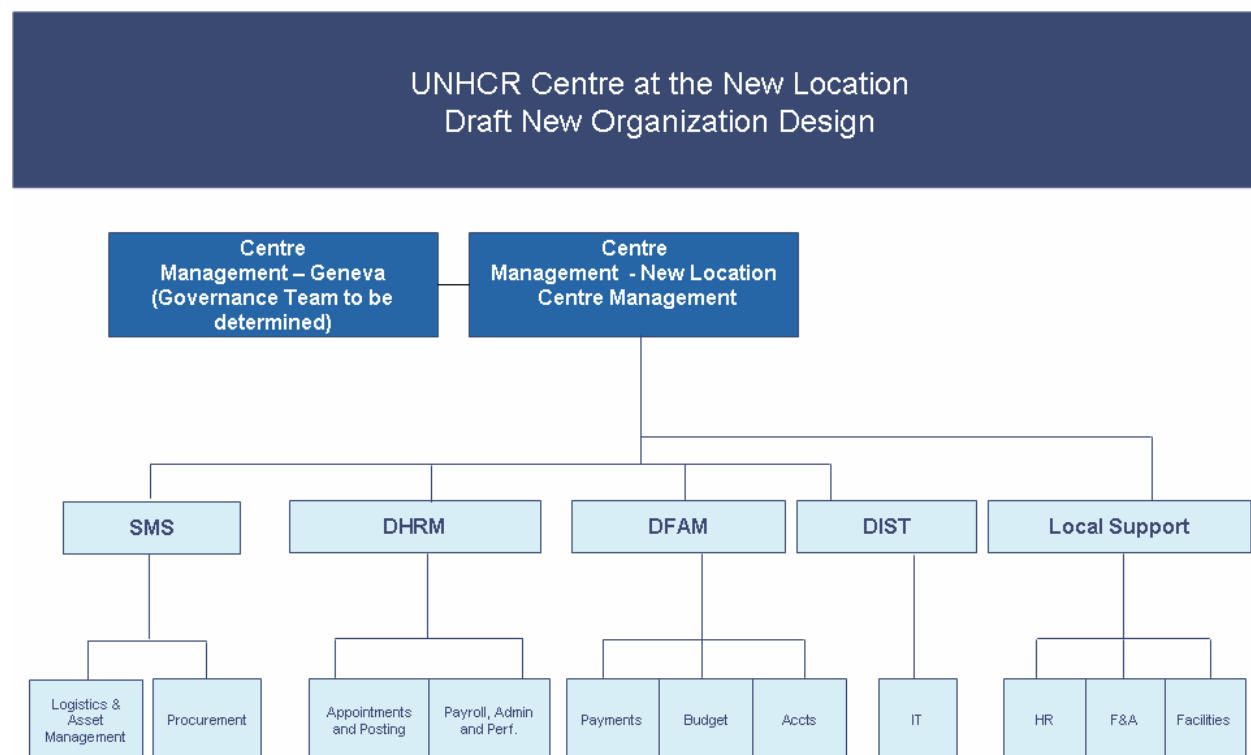
Define clear roles and responsibilities: This helps in efficient decision making, reduces the cost of communication and results in better monitoring of processes since responsibility is defined.

Findings

During a working session held with the extended Reference Group, a start-up organization design with corresponding staffing model was developed. For the configuration from year 4 various staffing options with different degrees of staff "localisation" were subsequently developed.

- The organization design focuses on the structuring of activities and functions in the new organization and how the activities would be grouped for DHRM, DFAM and SMS
- Initial thinking on an appropriate staffing model by UNHCR grade has been applied.
- The staffing options for the fourth year have been constructed with long term cost effectiveness and sustainability of outposting in mind.

Below is the draft organization structure for year one.



A base version and three alternative staffing version were discussed:

- Version A: Base case (without “localisation” of posts)
- Version B: All NOD and NOC become local P-4 and P-3 respectively from year 1
- Version C: All P-4 and P-3 posts become NOD and NOC respectively from year 4
- Version D: P4 remain international but all P-3 become NOC from year 4

The above only apply for the permanent and not for transition support positions. They also do not apply for SMS. The following table shows the versions and the potential development of grades by function. The savings for the different versions are presented in the Cost Benefit section of this report.

Organizational Unit	Grades in year 1	Version A from year 4 onwards	Version B from year 4 onwards	Version C from year 4 onwards	Version D from year 4 onwards
DFAM – Payments	1 P4, 1 P2, 1 NOD, 1 NOB, 4 FS5, 1 GL6, 4 GL5	1 NOD, 1 NOB, 1 GL6, 4 GL5	1NOB, 1 P4-Local, 1 GL6, 4 GL5	1 NOD, 1 NOB, 1 GL6, 4 GL5	1 NOD, 1 NOB, 1 GL6, 4 GL5
DFAM – Budget	1 P4, 2 FS5, 8 GL6	1NOD, 2 GL7, 6 GL6	1 P4-Local, 2 GL7, 6 GL6	1 NOD, 2 GL7, 6 GL6	1 NOD, 2 GL7, 6 GL6L
DFAM – Accounts	1 P5, 3 P4, 4 NOD, 5 FS5, 4 GL7, 4GL6, 2GL5	1 P5, 3 NOD, 4 GL7, 4GL6, 2GL5	1 P5, 3 P4-Local, 4 GL7, 4GL6, 2GL5	3 NOD, 1P5, 4 GL7, 4GL6, 2GL5	3 NOD, 1P5, , 4 GL7, 4GL6, 2GL5
DHRM – PAPS (including performance)	1 P5, 3 P4, 6 P3, 5 NOB, 14 FS5, 1 GL7, 37 GL6, 13 GL5, 9 GL4	6 NOA, 7 NOB, 1 P5, 3 P4, 4 P3, 1 GL7, 30 GL6, 13 GL5, 9 GL4	6 NOA, 7 NOB, 1 P5, 3 P4, 4 P3, 1 GL7, 30 GL6, 13 GL5, 9 GL4	1 P5, 3 NOD, 4 NOC, 6 NOA, 7 NOB, 1 GL7, 30 GL6, 13 GL5, 9 GL4	1 P5, 3 P4, 4 NOC, 7 NOB, 6 NOA, 1 GL7, 30 GL6, 13 GL5, 9 GL4

Organizational Unit	Grades in year 1	Version A from year 4 onwards	Version B from year 4 onwards	Version C from year 4 onwards	Version D from year 4 onwards
DHRM – RPS	1 P4, 1 P3, 2 NOA, 2FS5, 5 GL6, 1 GL5	1 P4, 1 P3, 2 NOA, 5 GL6, 1 GL5	1 P4, 1 P3, 2 NOA, 5 GL6, 1 GL5	1 NOD, 1 NOC, 2 NOA, 5 GL6, 1 GL5	1 P4, 1NOC, 2NOA, 5 GL6, 1 GL5
SMS	1 D1, 2 P5, 3 P4, 1 P3, 2 P2, 4FS5, 2 GL7, 4 GL6,	1 D1, 2 P5, 3 P4, 1 P3, 2 P2, 2 GL7, 4 GL6	1 D1, 2 P5, 3 P4, 1 P3, 2 P2, 2 GL7, 4 GL6	1 D1, 2 P5, 3 P4, 1 P3, 2 P2, 2 GL7, 4 GL6	1 D1, 2 P5, 3 P4, 1 P3, 2 P2, 2 GL7, 4 GL6
IT Support	1 NOD, 4 NOC, 4 NOB	1 NOD, 4 NOC, 4 NOB	1 P4-Local, 4 P3-Local, 4 NOB	1 NOD, 4 NOC, 4 NOB	1 NOD, 4 NOC, 4 NOB
Hub Support	1 NOA, 3 GL6, 1 GL5, 1 D-1, 1 P4	1 NOD, 1 NOB, 1 NOA, 3 GL6, 1 GL5	1 P4-Local, 1 NOB, 3 GL6, 1 GL5	1 NOD, 1 NOB, 3 GL6, 1 GL5	1 NOD, 1 NOB, 3 GL6, 1 GL5

The Reference Group selected Option D as the preferred target option. This option may be modified as the centre evolves. The group also proposed that the D-1 Head of SMS would also become the centre manager from year 3. The preferred option will allow UNHCR to take full advantage of the benefits available from outposting. These include:

- Maximum leverage from the local, cost effective workforce.
- Maximum leverage of available skills and talent available in the markets.
- Increased bandwidth, skills and capability through headcount expansion where appropriate to provide additional capability that is cost effective – especially envisaged for SMS.

Recommendations

The new organization model and staffing structure for year one and year four represent the draft new organization design as proposed by the Reference Group. As UNHCR executes the “go” decision, reporting lines, role definitions and responsibilities will need re-defining. It is envisaged that these would take place at the new location detailed design stage. The initial recommendation is that:

- The centre manager would be the overall administrator for the facility
- The centre manager would report to the Deputy High Commissioner, while maintaining functional reporting as Head of SMS to the Director of DOS
- Functional heads would have an administrative reporting line to the centre manager and functional reporting lines to HQ functional heads
- Local support functions would report to a local support lead with functional reporting to centre functional leads and the centre administrator

The overall organization design should remain as flat and as simple as possible in order to preserve a functional effectiveness focus and a focus on maintaining service and operating level agreements. The flat structure would also help in rapid problem and issue identification and rectification.

6 Transition and Implementation Plan

Approach

One of the crucial steps in every outposting activity is the transition and implementation. These topics are the two elements of moving functions from headquarters to a new location. More specifically, transition refers to functions that would leave from Geneva whereas implementation would refer to what is built up at the new location. This section, in addition to the section on Organizational Structure, covers both topics in an integrated approach. Therefore the term “transition” is used in general and in combination with the term “migration” to describe these activities.

The transition of the UNHCR processes in scope has been reviewed in two dimensions:

1. The Transition Approach – the method of transferring process knowledge from one location (Geneva) to another (the new location)
2. The Migration Options – the methods and timeframes for transferring the process scope to the new location.

For the Transition Approach we reviewed and discussed four popular methods of transferring knowledge, looking at the benefits and risks of each in order to identify the most optimal for this project.

The following terms are commonly used in the transition context and should be the output of the detailed transition planning:

- Process Maps – detailed “maps” that picture how a process flows and interacts with other departments and processes
- Desktop Procedures (DTP’s) – very detailed, step-by-step, descriptions of how to perform a series of tasks or process steps. This document includes screen prints, printed examples and completed forms.
- Service Level Agreements and Operating Level Agreements (SLA/OLA’s) – documents that describe the interaction between the two interacting parties (Geneva and the new location), stipulating service volumes, timing, performance expectations and thresholds
- Key Performance Indicators (KPI’s) – high level ratios, values and percentages are calculated to measure the performance in the new environment. The same KPI’s measured in the old environment are used as the benchmark for minimal performance levels.

The models were discussed as follows:

TRANSITION APPROACH - MODEL 1

- **Phase I** – the new location migration team goes to UNHCR HQ for process learning, process mapping (PM) and desktop procedure (DTP’s) preparation
- **Phase II** – the new location migration team define a single (and optimal) processing methodology for each process. Any quick wins identified will be implemented, if they are deemed “change risk free”. This team also draft the detailed Service/Operating Level Agreements (SLA/OLA’s) on site, linking them directly to the maps and procedures

- **Phase III** – the migration team returns to the new location and performs knowledge cascade to the new staff
- **Phase IV** – a UNHCR HQ team (often quite small, being one or two people) goes to the new location as process experts for staff training and additional expert support for a defined period (commonly 4 to 8 weeks)

TRANSITION APPROACH - MODEL 2

- **Phase I** – the team of process experts from UNHCR HQ prepares the process maps and desktop procedures in Geneva based on current, actual performance (“As Is”). The DTP’s are designed to show a single (and optimal) processing methodology for each process. Any quick wins identified will be implemented, if they are deemed “change risk free”.
- **Phase II** – the team of process experts from HQ goes to the new location to train the new location staff – the Process Maps and DTP’s are used as guidance and training materials.
- **Phase III** – the HQ and new location staff prepare the SLA/OLA’s and Key Performance Indicators (KPI’s)
- **Phase IV** – UNHCR headquarter’s team support the new location staff as process experts for ongoing staff training and processing

TRANSITION APPROACH - MODEL 3

- **Phase I** – teams from each UNHCR HQ process travel to the new location to carry out training sessions and knowledge transfer – limited documentation is used during this training phase
- **Phase II** – DTP’s and PM’s are prepared by both the UNHCR headquarter and new location teams.
- **Phase III** – the HQ process teams shadow the new location staff executing the process in the live environment. Any quick wins identified will be implemented, after a thorough testing process
- **Phase IV** – The HQ and new location staff prepare the SLA/OLA’s and KPI’s

TRANSITION APPROACH - MODEL 4

- A mixture of Models 1, 2 and 3, where teams from the new location visit the HQ as well as teams from HQ transition on site in the new location.
- Documentation is prepared by the teams with the knowledge, skills and time
- The end state would result in Process Maps, DTP’s, SLA/OLA’s, KPI’s and implemented quick wins

For the Migration Options, we discussed the pros and cons of three scenarios for rolling out the project. These options were as follows:

Migration Option 1

Often called “Big Bang”, where all the processes are transitioned at one time with a single go live date. The fundamental driver for this method is that all the teams and people are driving to a single, common and tangible point in time.

Migration Option 2

Called the “Process by Process” methodology, where the departments are broken into smaller task groups (most often processes, like Accounts Payable, but can also be countries or regions or even people groups) – the object being to break large and complex processes into smaller and thus more manageable projects.

Migration Option 3

This method is a combination of the two methods described above. The project is broken down into a few work groups, most commonly departments. For this project we could have three sub-projects, SMS, DFAM and HR, each with its own timeline, start date and end date – in fact we could have three “Mini-Bangs” (when compared to Option 1 “Big Bang”).

Findings

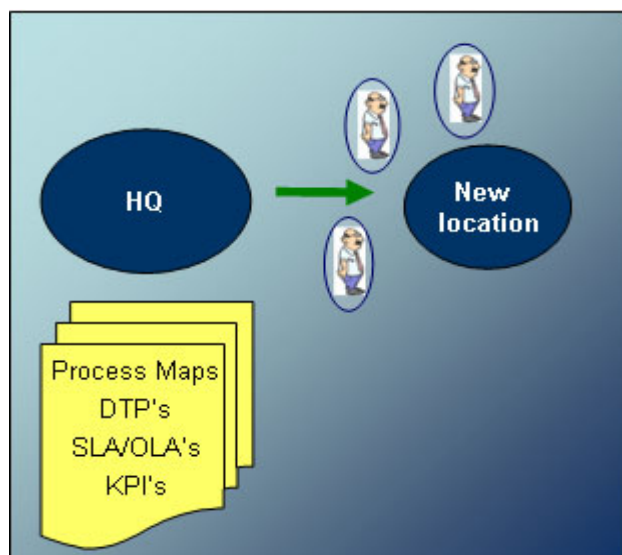
For the Transition Approach it was apparent that the three departments in scope (DHRM, DFAM and SMS) plus the service providers (mainly IT), were not in the same mode or level of “readiness” for the outposting project. Thus it was clear for the group that it was unlikely that one model or approach would suit all.

Further discussion led to the conclusion that the key drivers were as follows:

- The department’s readiness for outposting – had the processes been mapped, were process descriptions available, were desktop procedures documented and more importantly were they current and applicable?
- Would a team from the new location be able to acclimatize to the UNHCR environment, in Geneva, and thus be effective in gathering accurate data?
- Would a new location team create “bad will” in Geneva and hinder the process?
- The short and medium term organization structure planned for the new location should also drive the Transition Approach

On this basis the team identified the second model as the most appropriate Transition Approach, on the basis that:

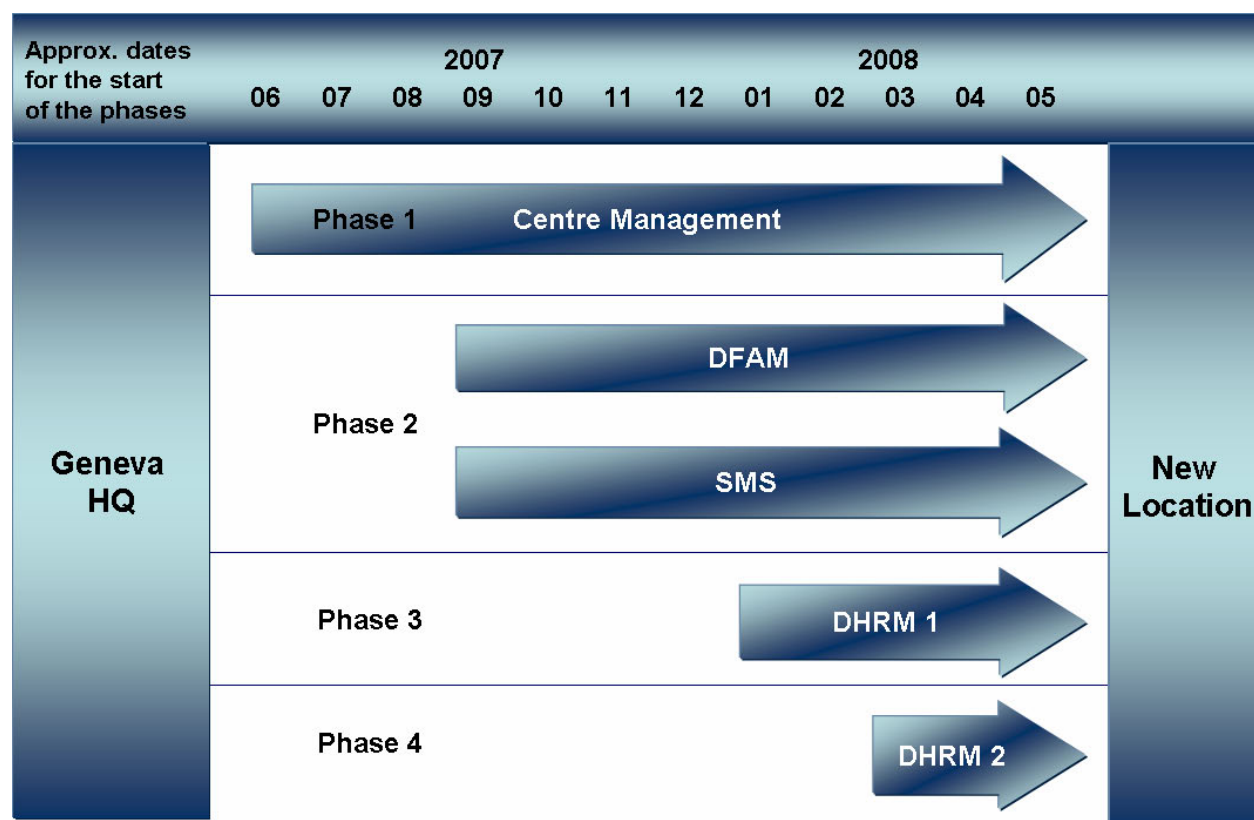
- Much of the DFAM documentation has already been prepared
- A reasonably large team (estimated at approximately 20 professional staff) would transfer to the new location during the transition period
- This approach would limit the impact of staff at the new location being located in Geneva for long periods of time.



It was also agreed that this would not be the only transition method that UNHCR would use, and that for each department the project department leaders would perform a more detailed analysis to understand which method would suit best for each phase/process.

For the Migration Approach the team also agreed that the optimal approach would be Option 3, where the project would be broken into a number of sub-projects, but not down to the process level. It was viewed that speed was crucial and that a slow approach would cause too much strain on the staff located in Geneva.

Although it was agreed that the UNHCR project team would further analyze options and timing, a suggested approach and timing was discussed and put forward as a viable option. A first draft of the proposed time-plan is as follows:



The first phase would be the Centre Management, followed by DFAM and SMS and finally by DHRM split into two sub-sections. The rationale for splitting DHRM in two phases is the size of the DHRM scope, moving all in one phase would cause too much disruption to the organization. The expected roll out of the transition start would take approximately nine months.

Recommendations

Based on the presented approach and findings the following summarized recommendations would be suggested:

- The second model of discussed Transition Approaches should be fundamental for the whole transition process but should not be the only one applied.
- A more detailed analysis of all Transition Approaches should be performed by each of the project department leaders so that the most suitable method is used for each process / phase.
- The third Migration Option should be applied so that the two crucial goals are achieved – short timeframe and minimum strain on HQ's employees.
- The migration process may not begin until the relevant level of “readiness” for the outposting project is achieved.