

Group of “Friends of the Chair” of FAO Council
Programme of Work and Budget 2010-11
Information Note 6 - November 2009
*Efficiency Savings*¹

Background

1. The Organization has been vigorously pursuing efficiency savings through the reduced cost of inputs, process improvements and improved cost recovery measures and has reported on its achievements consistently to the governing bodies. Efficiency measures implemented since 1994 through 2009 have yielded savings totalling USD 95.6 million per annum, as reported to the governing bodies and set forth in Annex 1.

2. Broadly, over this period, the savings arose from:

- Achieving lower costs of inputs reaching USD 27.7 million per annum;
- Streamlining of administrative and operational support processes totalling USD 32.3 million per annum;
- Selective delayering totalling some USD 9.9 million per annum;
- Progressively adjusting the Human Resource input mix, totalling USD 12.3 million per annum;
- Increasing the funding base of the Programme of Work through improved cost recovery of extra-budgetary services, yielding just under USD 13.4 million per annum.

3. The Independent External Evaluation (IEE) noted that “The Organization and its Members can be credited with recognizing the importance of attaining efficiency savings in FAO administration and technical programmes in order to maximize scarce budgetary resources for technical work.”² While the IEE did not try to corroborate the data independently for the period it reviewed, it stated that “no evidence was found in any Governing Body records or external audit reports that challenged these figures”.³

4. This note elaborates on the current framework for capturing efficiencies, the experience in 2008-09 and the measures planned for the 2010-11 biennium.

Framework for efficiencies from 2006-07

5. In reviewing proposals for efficiency savings in the Summary PWB 2006-07, the Programme and Finance Committee recognized the major savings achieved in the recent past, acknowledged the difficulties in achieving further savings, and requested that efficiency savings targets should be realistic.⁴

6. Therefore, starting in the 2006-07 biennium the Organization set a typical public sector target rate for efficiency savings of 1.0 to 1.5 percent per annum. It was also recognized that the increasing complexity of measures for attainment of cost savings on an ongoing basis would require investment or readiness to incur transitional costs.

¹ C 2009/15 paragraphs 179-190

² C 2007/1A.1 paragraph 1222

³ C 2007/1A.1 paragraph 1223

⁴ CL 128/13 paragraph 63 and CL 128/11 paragraph 17

7. To achieve this target, a comprehensive framework to identify new efficiencies was elaborated, with five overarching principles: all activities are included; targets are agreed with managers who are then held accountable for delivering and reporting results; appropriate levels of delegation and internal control are defined; effective internal pricing strategy and incentives are established to promote greater interdisciplinary collaboration; and all programmes are auto-evaluated using common criteria and procedures.

8. In the 2006-07 biennium, complex business process and structural changes were set in motion aimed at achieving efficiency savings over several biennia⁵. Savings of USD 14.1 million per annum were achieved and reported for 2006-07⁶, exceeding the per annum target range. Productivity enhancements (such as reducing the time to process payments to suppliers from 7 – 10 days to 2 – 3 days) also contributed to improving the efficiency of the Organization.

Efficiency savings 2008-09

9. The same framework was applied to forecast biennial efficiency savings of USD 13.1 million in the PWB 2008-09. The forecast was below the per annum efficiency savings target range due, for example, to the complex business process changes required in order to fully implement the Shared Services Centre (SSC) and reap forecast biennial savings of USD 8 million from 2009. The Organization continued to build on what had already been achieved during 2006-07 by further repositioning of multi-disciplinary teams and streamlining of the policy and operations branches, which yielded incremental savings of USD 5.1 million per biennium during 2008-09.

10. In approving the PWB 2008-09, the Conference requested the identification of USD 22.1 million in further savings and efficiency gains to be achieved during the biennium, in addition to the savings of USD 13.1 million already factored into the PWB above. In identifying the required further savings in 2008-09, managers applied five approaches, taking into account recommendations by the Independent External Evaluation (IEE): achieving lower costs of inputs; streamlining of administrative and operational support processes; selective delayering; progressively adjusting the human resources input mix; and increasing the funding base of the Programme of Work through further extra-budgetary resources.

11. As regularly reported to the Finance Committee, the Secretariat expects to have in place by the end of the biennium measures to achieve the substantial further savings and efficiency gains of USD 22.1 million. However, only USD 16.1 million of these savings are expected to be actually achieved through efficiency measures during the 2008-09 biennium. The remaining USD 6 million will be achieved as one time savings in 2008-09.

12. Concerning the USD 6 million shortfall in savings from efficiency measures in 2008-09, it is estimated that further savings of USD 3.5 million will materialize in 2010-11 as actions planned some time in 2008-09 yield their full biennial effect from January 2010 (e.g. savings to materialize following redeployment in 2008 or 2009 of staff on abolished posts). The remaining USD 2.5 million in efficiency savings measures will be identified and implemented in 2010-11.

13. Overall, USD 16.3 million in annual efficiency savings measures will be in place by the end of the 2008-09 biennium, as indicated in Annex 1 for 2008-09. This is equivalent to an annual rate of 1.8 percent, above the corporate target range for efficiency savings of 1.0 to 1.5 percent per annum.

14. To encourage creative proposals and to provide seed money for developing promising new ideas for efficiency savings measures, an innovation fund was put in place from 2008-09 and will continue in 2010-11.

⁵ CL 131/18 table 21

⁶ C 2009/8 PIR 2006-07 paragraphs 305-309

Planned efficiency savings 2010-11

15. Planning for efficiency savings in 2010-11 has been guided by the experience in 2008-09 and by the outcome of the Root and Branch Review. Management is also acutely aware of the special circumstances in the 2010-11 biennium, a period of intense reform where a wide range of significant changes will be implemented across the Organization, impacting on staff and services. The large number of simultaneous reform projects coupled with hitherto unidentified and unsubstantiated measures to achieve efficiencies could put at risk the achievement of planned improvements arising from many measures.

16. As noted above, the Organization has had difficulty in identifying all of the further efficiency savings measures required in 2008-09, despite widening and intensifying these efforts. Some measures identified take time to fully implement, such as the delayering exercise initiated in 2008 that will yield significant savings in 2010-11. Other opportunities may require careful study and consultations with staff and the membership, as well as investment and transition costs during implementation. An example is the ongoing review of the Shared Services Centre and possible opportunities for savings through consolidation, which have not been factored into the PWB 2010-11 pending further analysis.

17. The RBR also provides the basis for longer-term savings. It reviewed all aspects of administrative servicing, contracting, purchasing, financial management and systems, human resources and information technology and communication systems⁷. It provided a set of recommendations for improvements and an evidence-based analysis of the opportunities for quantified efficiency savings in 2010-11. After review by the Working Groups of the CoC-IEE and the Finance Committee, the costs and savings of the RBR recommendations have been fully integrated into the IPA⁸, with an extended timeframe to reduce risk. Those RBR actions planned for 2010-11 are treated under the PWB 2010-11. However, the potential for monetary savings in 2010-11, which has been examined by Members, is rather modest but substantiated by expert advice that was sought by the IEE and the membership.

18. The integrated IPA plan for 2010-11 prioritizes and sequences actions using criteria similar to 2009 (see Information Note 4, paragraphs 15-23). Seven RBR actions will generate possible savings of USD 3.85 million in the biennium, particularly under IPA Project 9 on reform of administrative and management systems. However, these savings are subject to the availability of core voluntary contributions.

19. Aside from the balance of unidentified efficiency savings sought in 2008-09 to be fully realised in 2010-11 (see paragraph 12), taking into account the RBR and the risks arising from IPA implementation during 2010-11, realistic efficiency savings measures have been identified for 2010-11 with forecast biennial savings of USD 19.6 million, equivalent to 1.0 percent per annum. In view of the risk of too many simultaneous activities, most of the savings are concentrated under one area of savings, as detailed below.

20. *Selective delayering* of Director-level posts at headquarters will amount to **USD 17.4 million** of costs reductions in 2010-11, the bulk of the “efficiency savings” expected in the biennium. Delayering entails the reduction of 40 director-level positions at headquarters (of which 27 in 2010-11), as well as a number of General Service positions that may need to be abolished, downgraded or their functions revised. In line with the guidance provided in the IPA and discussed by the Working Groups of the CoC-IEE as well as the Finance Committee during 2009, these savings have been reinvested in programmes in the proposed PWB 2010-11⁹. Of this amount, seventy percent was reinvested in the

⁷ C 2008/4 paragraph 39

⁸ CL 137/8 Annex II and C 2009/7 Annex 5

⁹ Paragraph 46 of IPA states that ‘Recurrent savings will be achieved through restructuring for redeployment in undertaking the technical work of the Organization’.

same technical area where the delayering occurred in recognition of the substantive sectoral work undertaken by these positions. The remaining thirty percent (USD 5.2 million) provided resources that were actively reprogrammed and reallocated to ensure certain high priority areas of work received additional resources in the 2010-2011 PWB, in line with governing bodies' guidance¹⁰ (statistics, Right to Food, EMPRES, livestock, climate change, fisheries and Forestry).

21. *Achieving lower costs of inputs.* Two areas of savings related to the FAO Medical Insurance Plans will result in a savings to the Organization of about **USD 1.1 million** in 2010-11. The first is an agreement with the insurer to hold the claims handling and overhead fees at the level of 2007. These fees have been growing at about 5 percent annually. The second concerns the current level of the caps on the retirees' contribution, which has been increasingly favouring those with short service periods, compared to the majority of retirees who had longer careers with the Organizations. Accordingly, the ceilings foreseen for medical premiums contributions from retirees are changed to correspond to a percentage of a minimum pension for approximately 25 years of service.

22. *Streamlining of administrative and operational support processes.* The decentralization of Technical Cooperation Programme operations from 2010 to the decentralized offices will reduce the cost of TCP management, monitoring and coordination by about **USD 0.9 million**. Other areas of savings include the reduction of external storage costs.

23. *Progressively adjusting the human resources input mix.* While significant savings were achieved under this new approach in 2008-09, experience has pointed to the need to carefully manage adjustments to human resources in order to ensure career opportunities for staff, and the best mix of staff and non-staff human resources to deliver services. It is also important to ensure that critical institutional technical knowledge is maintained. Therefore, the forecast under this caption is negligible.

24. *Increasing the funding base of the Programme of Work through further extra-budgetary resources.* No net savings could be forecast for 2010-11 from the following possible measures: shared funding of posts where extra-budgetary resources contribute directly to the Programme of Work; and ensuring eligible incremental support costs are recovered in line with IPA action 3.16. This will be done in particular through the implementation of coherent UN-wide cost recovery principles and the issuance of relevant guidelines to the decentralized offices involved in operations funded from voluntary contributions. This course of action will be pursued by the Secretariat in line with the recommendation of the 128th Session of the Finance Committee in July 2009¹¹, but given the timeframe for governing bodies' consideration of the required changes to the FAO cost recovery policy and the time needed to set in place the implementation, no savings can be anticipated in 2010-11.

¹⁰ C 2009/15 paragraph 88

¹¹ CL 137/4 paragraph 61

Annex 1: Major Efficiency Savings Achieved by FAO - 1994 to 2009 (USD million)

Biennium	Fully Implemented Efficiency Savings by Category	Estimated annual savings
Achieving lower cost of inputs		
Pre-2003	New Partnership Agreements (arrangements such as TCDC, visiting experts, retirees, etc.)	11.0
Pre-2003	Policy change of Entitlement Travel	2.0
Pre-2003	Reduction in communication unit costs	1.0
Pre-2003	Replacement of Country Office International Programme Officers with National Programme Officers	6.0
2004-05	Incentive-driven charge-backs for publications storage and distribution	0.3
2004-05	Joint procurement of electricity with Rome-based agencies	0.2
2004-05	Further reductions in the length of governing body documents and of the Conference and CCP (held back-to-back with COAG)	4.0
2006-07	Automated payment to vendors reducing bank charges	0.2
2008-09	Achieving lower costs of inputs, including further policy change of Entitlement Travel	3.0
<i>Subtotal achieving lower cost of inputs</i>		27.7
Streamlining of administrative and operational support processes		
Pre-2003	Reduction of support staff through office automation	12.0
Pre-2003	Creation of the Management Support Service (MSS)	2.0
Pre-2003	Increased outsourcing of publication and document production and expanded use of locally-based external translators for Regional Conferences	6.0
Pre-2003	Restructuring of Field Programme Operations	5.0
2004-05	Restructuring of the Registries	0.2
2004-05	Transfer of work to the MSS leading to a Reduction in support staff in the Administrative Unit of the Office of the Director-General	0.3
2006-07	Streamlining policy and operations groups in Regional Offices	1.4
2008-09	Further streamlining of policy and operations groups in Regional Offices	0.5
2008-09	Savings from implementation of Shared Services Centre (SSC)	4.0
2008-09	Streamlining of administrative and operational support processes	0.9
<i>Subtotal streamlining of administrative and operational support processes</i>		32.3
Selective delayering		
Pre-2003	Management arrangements including elimination of assistants to both ADG and division director posts	4.0
2006-07	Selective delayering by eliminating 21 D-level posts and associated support staff	4.5
2008-09	Selective delayering by eliminating 13 D-level posts and associated support staff	1.4
<i>Subtotal selective delayering</i>		9.9
Progressively adjusting the human resources input mix		
Pre-2003	Reduction in the average grade of professional posts	5.0
Pre-2003	Decentralization of technical, policy assistance and operations bureaux to Regional Offices	2.0
2006-07	Headquarters restructuring resulting in the abolition of Office of World Food Summit Follow-up and Alliances	0.7
2008-09	Positioning of multi-disciplinary teams in new locations	2.0
2008-09	Reduction in the average grade of professional posts	2.6
<i>Subtotal progressively adjusting the human resources input mix</i>		12.3

Biennium	Fully Implemented Efficiency Savings by Category	Estimated annual savings
Increasing the funding base of the Programme of Work through improved cost recovery of extrabudgetary services		
Pre-2003	Increased recovery of costs of technical support services to projects	4.0
2006-07	Increased support cost rates for projects in support of Regular Programme activities	2.5
2006-07	Increased rates for emergency projects from 6.5% to 10%	5.0
2008-09	Increasing the funding base of the Programme of Work through integration of extra-budgetary resources	1.9
<i>Subtotal Increasing the funding base of the Programme of Work through improved cost recovery of extrabudgetary services</i>		13.4
Annual Total of Efficiency Savings Implemented		95.6