FC 126/6

E

April 2009

منظمة الأغذية والزراعة للأمم المتحدة | 联合国粮食及农业组织 | Food and Agriculture Organization of the United Nations | Organisation des Nations Unies pour l'alimentation et l'agriculture | Продовольственная и сельскохозяйственная организация Объединенных Наций | Organización de las Naciones Unidas para la Agricultura y la Alimentación

FINANCE COMMITTEE

Hundred and Twenty-sixth Session

Rome, 11 – 15 May 2009

Elements of the Root and Branch Review: Initial Management Comments on the Estimated Costs and Savings

EXECUTIVE SUMMARY

i) The Root and Branch Review Stage 2 report is a welcome contribution to FAO Reform. Management is committed to fully implementing agreed recommendations and is undertaking a thorough analysis and review of the recommendations, conclusions, and potential costs and savings.

ii) Management has carefully reviewed the Executive Summary of the report and this paper provides a brief commentary on the costs and savings estimated by the consultants.

Action Required

The Finance Committee is invited to comment on the Stage 2 report and the Management commentary on the costs and savings.

Contact

Vice-Chairperson, Reform Support Group   Mr David Benfield   Tel. +3906 5705 4508

W0000

Introduction

1. The Executive Summary of the Root and Branch review was received by the Organization from Ernst and Young (EY) on the evening of Friday 17 April 2009. The main report and Annexes (over 450 pages) were made available only on Thursday 23 April. Management has carefully reviewed the Executive Summary but has not had the opportunity to review thoroughly the Main report in such a way as to allow a substantive management response to the Finance Committee.

2. However, given the strategic importance of this exercise and the magnitude and nature of the estimated costs and savings in the Executive Summary, the Organization considers it necessary to provide a high-level preliminary response to the Finance Committee. These initial observations are limited to a brief commentary on the costs and savings estimated by Ernst and Young (EY) in the Executive Summary..

3. Management's substantive response to the Root and Branch review will be provided to Working Group III of the Conference Committee on Follow-up to the Independent External Evaluation of FAO (CoC-IEE) at its May 20 session, together with indications of the impact of the Root and Branch Review costs and savings on the Immediate Plan of Action. An oral report of the analysis and substantive response prepared for the COC-IEE will be presented to the Finance Committee at its May session.

Initial Observations

4. Management welcomes the Root and Branch review Stage 2 report on account of the opportunity provided by an external expert review to recommend improvements in many aspects of the Organization's human and financial resources management and administration. It has not yet had the opportunity to consider in detail the merits of each recommendation in terms of the appropriateness of the associated costs, feasibility of savings or impact on service quality, but recognizes the significant potential for cash savings and effectiveness gains. Management is fully committed to a comprehensive implementation of all agreed recommendations. Realization of the effectiveness gains will lead to substantial improvement in the technical delivery capability of the Organization.

5. Regarding the cash savings, Management will seek to clarify with Ernst & Young the following points to fully realize the savings to make FAO a more efficient organization:

A) Regular Programme and Extrabudgetary savings

Administrative and support cost savings represent a valid contribution to delivering on FAO's mandate across all programmes, irrespective of their source of funds. Management notes that the recommended savings in the Executive Summary are attributed to both the regular budget and extrabudgetary programmes. The RBR summary identifies net savings for the period 2009-2013 of USD 37.48 million, of which savings accruing to extra-budgetary funds are estimated to amount to USD 14.78 million, whilst savings attributable to the Regular Programme amount to USD 22.70 million (see table 1).

Table 1	Net savings (USD million)			
	2009	2010/11	2012/13	Total
RBR Stage 2 Report	**1.24**	**12.73**	**23.51**	**37.48**
Regular Programme	0.35	6.5	15.85	22.7
Extrabudgetary	0.89	6.23	7.66	14.78

B) One-time Investment Costs

Management notes that a significant proportion of the proposed savings are as a result of reductions in staff. The Executive Summary indicates that to achieve the savings FAO will need to make investments including in staff redeployment. However, the redeployment costs do not appear to be included in the high-level costs summary (i.e. the aggregate one-off investments are tabulated in the EY Executive Summary as USD 1.89 million). A conservative estimate of the costs associated with providing separation packages is in the order of USD 90,000 per staff member, while a preliminary appraisal of Ernst & Young's recommendations indicates a range of 50 - 100 staff to be redeployed or separated.

In addition, Management could not find references to the following cost elements:

- investments in the decentralized offices to support decentralization, including training, IT support etc;
- investment costs for setting up a new joint Rome-based agency procurement unit;
- investments to fund the recommended independent monitoring and coordination of RBR implementation.

C) Dependencies on external actors

Some of the estimated savings are not solely dependent on FAO actions. For example, the vast majority of the savings in the procurement area (USD 7.4 million) seem a result of the recommendation that the Rome-based UN agencies establish a semi-independent joint procurement unit for all their HQ related procurement. This will require the active collaboration and agreement of WFP and IFAD and the active promotion and support of members in their governing body role.

D) Stage 1 costs and savings

Several of the Stage 1 recommended initiatives were not further analyzed in Stage 2, and the associated costs and benefits were not included in the report. However, many of these initiatives remain viable and essential for the successful outcome of FAO reform. Examples include upgrading the Oracle system for staff management and IT infrastructure to decentralized offices (recurrent costs of USD 1.5 million per biennium) and design and development of the Management Information System (recurrent costs of USD 3.5 million per biennium).

If the costs and savings related to all Stage 1 initiatives that have been excluded from the Stage 2 costs and savings summary were to be included, the impact would be to increase the 2009-2013 one-off costs from USD 1.89 million to USD 10.19 million and recurrent costs from USD 6.01 million to USD 21.14 million, and also to increase the gross savings from USD 45.37 million to USD 57.77 million. The impact on Regular Programme net savings would be a reduction from USD 22.70 million to USD 11.67 million.

Management will need to hold further discussions with Ernst & Young to determine which of the Stage 1 costs and savings that have been excluded from the Stage 2 costs and savings summary should be included in the Stage 2 summary.

E) Other initiatives

Management also notes that a detailed review of the functioning of the Shared Services Centre (SSC) was not in scope of the review, but EY has advised that FAO reconsider whether it is really necessary to have three SSC hubs. Management has initiated a detailed review of this matter, with a view to ascertaining the potential for further savings. More details will be provided in the substantive management response.

Conclusions

6. The RBR Stage 2 report is a welcome contribution to FAO Reform. Management is committed to fully implementing agreed recommendations and is undertaking a thorough analysis and review of the recommendations, conclusions, and potential costs and savings, in order to continue on the important journey of reform that the Organization has started.

7. Management recognizes the significant potential for cash savings and effectiveness gains and would make the following observations:

- the cost and savings summary appears optimistic in terms of the timeframe for achieving savings, given the significant planning and management effort that needs to be exercised in undertaking such a fundamental reform of administration in parallel with the implementation of the IPA;
- initial analysis indicates that some of the one-off costs may have been underestimated;
- further consideration needs to be given to the Stage 1 recommendations and associated costs and savings and to a detailed review of the functioning of the Shared Services Centre (SSC), with a view to ascertaining the potential for further savings;
- Management is aware of the potential for major recurrent savings that accrue from 2012/13 onwards and the overall return on investment might be better considered within a seven year (2009-2015) rather than 5 year period.

8. These initial comments on the Executive Summary should be considered as preliminary since without the detailed analysis and study of the main report and annexes, Management is not in a position, at this stage, to provide a substantive response to the recommendations.