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Summary of Recommendations

Recommendation 1: In the context of the Secretary-General's report, and to underline the collective ownership of JOF by UNCT, this report should be tabled to the full UNCT for discussion.

Recommendation 2: The UNCT should act as owner of the JOF, not as its client. It should take an active role in shaping the narrative of JOF and in managing its image and reputation.

Recommendation 3: JOF should be made a regular item on the UNCT agenda (e.g. twice a year), so that all UN entity representatives have first-hand access to information.

Recommendation 4: Reaffirm JOSOC as the primary oversight mechanism.

- a. Given the low trust environment, it would be important for decisions to be recorded directly in the meeting. Since the RC is the chair of the JOSOC, meetings should be serviced through the RC Office.
- b. The JOF Manager should be invited to all JOSOC meetings as an *ex officio* member. The reporting relationship should remain with the RC as JOSOC chair, and UN entity representatives should have an explicit opportunity to provide performance feedback.

Recommendation 5: In line with the MOU and its Annex B, dissolve the JCT and transfer its *de facto* role to the OMT. The aim is to clarify the relationship between BOS and JOF, strengthen mutual ownership, and broaden interest and understanding among all UN entities.

Recommendation 6: Going forward, the JOSOC needs to set and communicate a new timeline to stabilize JOF. JOSOC needs to acknowledge the inherent tension between JOF, as a new paradigm, and the existing operational structures it supplants. In line with similar change management efforts, and before benefits can be realistically expected, a stabilization period until December 2019 is recommended.

Recommendation 7: The JOF Manager must be empowered to manage all aspects of the facility with due consideration to cost-effectiveness, accountability, transparency, and results-orientation.

- a. The job description for the JOF Manager needs to reflect change management as a significant aspect, and the person selected for the position needs to demonstrate change management capabilities.
- b. The level of the position must be determined based on the unique responsibility at hand, and cannot be compared to existing positions that do not have significant change management responsibility.

Recommendation 8: The hosting agency should review how it can effectively minimize administrative burdens on JOF in line with the MOU, including its cost recovery practices.

Recommendation 9: During the stabilization period (see Recommendation 6) the focus should remain on strengthening the two existing service lines.

- a. A formal request, through DOCO, should be made to UNESCO HQ to explore the use of, and access to, their travel system and procedures for adoption by JOF.
- b. A formal request, through DOCO, should be made to the UN Secretariat to explore the use of, and access to, UMOJA to create purchase orders and related transactions.



Recommendation 10: A clear strategy for economies of scale should be adopted by JOSOC. That strategy should focus on:

- a. Increasing JOF productivity through improvements in the operating environment and the phase-out of tasks, either in job descriptions or assigned on an ad-hoc basis, that are not directly linked to service provision. The emphasis should be on avoiding unnecessary tasks wherever possible.
- b. Adopting a clear calculation method for counting transactions (i.e. every request logged in CRM).
- c. Request through UNDG a technology investment (expertise and/or funding) that could streamline end-to-end processing, including interfaces and/or access to systems.
- d. Task the OMT with exploring the sharing of specific premises-related services, such as car-pooling. Adopting such solutions might not directly impact JOF in first instance, but will reduce the pressure on UN entities to reduce administrative costs through JOF. The OMT should also take responsibility for staffing the JPRC adequately.

Recommendation 11: The JOSOC needs to commit to bringing on board new UN entities, and hence should avoid creating any barriers to entry for new participants. Part of that commitment is the realisation that one-time investments, made by some UN entities, are sunk costs (in accounting terms) and cannot be recovered from new participants.

Recommendation 12: JOF should shift its pricing model to a more simple and adaptive model, such as a price list for services as proposed in this report. A price list will create a more direct relationship between labour efforts and revenue generation:

- a. The current 10 procurement services could be grouped into four price bands for which an average price per transaction is calculated as set out in paragraph 77.
- b. For express service (i.e. speedier than SOPs) a 25% surcharge should be considered. When UN entities do not receive the full service (e.g. due to data re-entry) a 25% discount should be granted.
- c. UN entities will be charged for all transactions they request. In turn JOF commits to reimburse UN entities for transactions that were processed incorrectly.

Recommendation 13: The JOSOC should formally adopt typical industry benchmarks. The goal is to bring down the total cost of services as per the current JOSOC strategy. Proposed benchmarks are:

- a. Cost of procurement as percentage of overall spend. This ratio should be brought closer to about 1% by the end of the stabilization period (see Recommendation 6);
- b. Average cost per purchase order;
- c. For travel services an appropriate benchmark must still be determined.

Context

1. Brazil, on first blush, seems to be an unlikely candidate for a common back-office pilot given its status as a high middle-income country. In 2014 Brazil benefited from \$914 million in net Official Development Assistance, 94% of which was bilateral aid, and reaped \$66 billion in total net receipts; however, by 2016 those figures collapsed to \$675 million and \$22 billion, respectively (OECD International Development Statistics online). The local development financing context, and not least the fact that Brazil is one of the top-ten ranked economies in the world, also led to a much more pronounced competitive situation among UN entities in Brazil dominated by the federal government as donor/client. While some of the 26 UN entities comprising the UN country team increasingly engage at local level directly, the position of the federal government as the single buyer in the development marketplace has impacted the UN entities greatly.

| Recipient country | | | |
|----------------------------------|----------|----------|----------|
| | Brazil | | |
| Receipts for Brazil | | | |
| | 2014 | 2015 | 2016 |
| Net ODA (USD million) | 914.2 | 1,003.2 | 674.6 |
| Net ODA/GNI (%) | 0.0 | 0.1 | 0.0 |
| Gross ODA (USD million) | 1,136.4 | 1,182.3 | 880.5 |
| Bilateral share (gross ODA) (%) | 94.1 | 69.4 | 86.0 |
| Total net receipts (USD million) | 66,637.0 | 40,889.3 | 22,373.5 |
| For reference | | | |
| | 2014 | 2015 | 2016 |
| Population (million) | 204 | 206 | 208 |
| GNI per capita (Atlas USD) | 12,020 | 10,080 | 8,840 |


2. In his December 2017 report on the Quadrennial Comprehensive Policy Review the Secretary-General stressed the importance of common back-office functions as an essential element underpinning all other management reform efforts. The expectation set out by the Secretary-General's report is that common back-offices will be established in all UNCT by 2022 (United Nations 2017):

I remain committed to advancing common business operations in United Nations Country Teams.

3. The current thinking can be summarized by three trends that have been the topic of a number of reports, both from within and outside the UN development system: (a) consolidation of service provision in-country, as described in the UN Development Group (UNDG) guidance on the Business Operations Strategy (BOS); (b) integration of certain services, particularly finance and procurement, within a UN entity at regional and/or global level, as has been done by about a dozen UN entities in some form; (c) provision of services at the global level across UN entities, which are considerably more rare but of increasing interest.
4. Even before the Secretary-General's report, member states have called for more experimentation with and integration of back-office functions across the UN development system. The ECOSOC Dialogue on the long-term positioning of the UN development system held between December 2015 and July 2016 stressed the need for more horizontal and vertical integration, both within and across UN entities.
5. The Joint Operations Facility (JOF) represents a unique, innovative approach to managing a common back-office without any clear precedent among the 12 BOS pilots (Lund 2015). While many of the challenges appear similar to the Cape Verde Joint Office, the major difference is that Cape Verde used a lead agency model with UNDP operational policies and systems (DOCO 2016).
6. This report is the product of an engagement commissioned on behalf of the Joint Operations Steering Committee (JOSC) intended to review the cost-sharing mechanism

and pricing model for the JOF that became operational at the beginning of 2016. Pricing models are among the most studied aspects of economics and business administration. Aside from an appreciation of supply and demand, pricing models consider business strategy, market information, technology, innovation, and – not least – psychology. Hence, to appropriately respond to the terms of reference (enclosed in the Annex), a broader approach is necessary that goes beyond looking at the issue of costs and where they derive from.

Collective Ownership

7. The memorandum of understanding (MOU) creating the JOF highlights in its preamble that the UN Country Team (UNCT) volunteered to pilot BOS including the JOF. This commitment anchors the ownership of the JOF with the UNCT, and is hence broader than the group of UN entities that actually receive services. Both the success or failure of the JOF will reflect on the UNCT overall, not just on specific entities or individuals. The collective ownership of JOF has concrete implications for the governance of the facility that will be discussed in later sections.
8. The ownership of JOF through the UN entities is cemented through \$225.000 in up-front investments UNDP, UNESCO, UNFPA and PAHO/WHO provided plus various in-kind contributions. As will be discussed below, these investments were critical for JOF to get started.
9. The story of JOF has several angles. It is a typical story of the glass being half full. In many regards the progress of the facility has been remarkable, with close to 500 transactions valued at \$40 million processed in 2017 just in procurement. A series of positive developments were mentioned by UN entity representatives, such as: (a) having a voice in discussions how services are provided; (b) a reduction in operational risk; (c) real savings because of staffing reductions; (d) less transaction work leading to more focus on programming; and (e) higher responsiveness and user-friendlier service. 
10. However, these improvements have not accrued equally to all participating UN entities and favour the smaller UN entities with regards to benefits other than savings. While the JOF was in large part championed by the two agencies receiving most of the services in the hope of achieving concrete savings, those have largely not yet materialized. Furthermore, the fact that UNDP accounts for roughly 60% of transactions and hence pays for the lion share of the facility's operating budget has skewed the sense of collective ownership.
11. Some disappointments have been voiced by UN entities that the JOF has not lived up to their expectations with regards to quality, efficiency and a broader transformation how services are provided. While all UN entities recognize that the JOF needed time to mature, the timeline by when "real benefits" (i.e. savings) should materialize, is unclear. In discussion with new arrivals to the UNCT and headquarters managers, it became apparent that their first impression of JOF was as less positive.
12. Representatives typically describe their UN entities as "clients" of the JOF, and while this is not a wrong on first blush, it is nonetheless problematic. The sense that UN entities are "just clients" partially stems from the MOU, which refers to the parties as "service users" and describes their primary responsibility to "discharge all financial obligations".
13. A client's responsibility vis-à-vis its service provider ends with paying the bill. It is an "arms-length" relationship. An owner's responsibility is considerably larger, and encompasses concerns for the long-term wellbeing of their entity, its personnel, and its reputation. An owner must have a clear sense of what works and what doesn't, and holds co-responsibility for performance and improvement of the facility.
14. The fear of loss is ripe among UNCT members. Some fear is fact-based and risk-informed, given the Brazilian political situation and the dramatic contraction in resources. However,



in many discussions the feared reputational loss that an entity's ability to deliver could be compromised loomed large. Reputational calculations play a key role in explaining whether agencies cooperate or not, engage in turf battles, and the likelihood of shared reform efforts (Busuioac 2015). The lesson is that JOF can be a tool to remove unhelpful competitive pressure on the UN entities given the local funding realities, if they so choose.

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16. **Recommendation 2: The UNCT should act as owner of the JOF, not as its client. It should take an active role in shaping the narrative of JOF and in managing its image and reputation.**

Governance

17. At the time the JOF was first conceived, it was essential to provide the facility with rapid feedback loops so that the design and processes could be adjusted. Several bodies were tasked with specific functions to oversee and support the JOF by the MOU, such as:
 - a. Joint Operations Steering Committee (JOSC) that comprises the entities "participating" in the JOF.
 - b. Operations Management Team (OMT) that should advise the JOF Manager and JOSC.
 - c. JOF Manager who is responsible for the day-to-day management.
 - d. Host Agency that provides the legal and administrative framework for the JOF to function.
 - e. JOF Coordination Team (JCT) was not explicitly created by the MOU, but grew out of the BOS facilitation team and developed into the primary engagement mode to resolve issues and to prepare agreements for the JOSC.
18. All stakeholders seem to share a sense that both governance of and accountability for the JOF are problematic¹ – albeit for very different reasons. Overall the UN entities operate in a low trust environment, which is in large part influenced by the competitive marketplace described earlier.
19. Some UN entities not currently receiving services from JOF have expressed a view that they have no direct visibility of what happens with the JOF. This in turn has led to: (a) the information flow being characterized by personal accounts and feelings about JOF; and (b) the interest in JOF has reduced as its relevance to their work remains opaque.

People will readily admit that governments are organizations. The converse – that organizations are governments – is equally true but rarely considered.

(Pfeffer 1992)
20. Meetings of the JOSC were described as "difficult", "acrimonious", or "hot tempered" by several participants. Whether a decision was made by JOSC – let alone its content – was an issue of dispute, as in the case of the 2018 budget approval. Until June 2017 JOSC meetings were supported by the RC Office, including the record-keeping; however, that responsibility was then transferred to the JOF Manager. The JOF Manager is a key information source for the JOSC and directly implicated by JOSC decisions, which is hard to balance with the responsibility to also record the meeting. Moreover, the JOSC meeting I participated in did not include any note-taker, even though concrete decisions were taken (e.g. contract extension), which appears to have been a practice when topics were judged as particularly sensitive.

¹ The accountability for JOF is distinct from JOF's accountability for services, which were not reviewed, and no suggestion of a lack of accountability for services is intended here.



21. The 2018 budget discussion is further illustrative, as the MOU contains a provision in paragraph 5.3 that, in case the JOSC cannot agree a budget for the next year, 25% of the current year's budget would automatically be approved for the first quarter of the next year. While stakeholders didn't agree on the exact interpretation of paragraph 5.3, it is undisputed that the decision taken by the JOSC, albeit mutually agreed, did not follow the process set out in the MOU.
22. The JCT, including in its earlier incarnation as BOS facilitation team, played an important role in creating the JOF. However, over time it has taken on a life of its own. While JOF originally was created as an element of BOS, today the relationship is very blurry. A meeting with the OMT made clear that no shared vision how BOS and JOF relate exists today. The JCT served as an incubator for solutions for the JOF in the past. Going forward one of the main objectives of JOF is to attract new clients, so the future solutions needed will likely come from stakeholders outside JCT.
23. The JOF Manager is a function selected by the JOSC members and currently reports to the RC as chair of the JOSC. While a more detailed discussion of the function follows below, from a governance perspective it is important that, on the one hand, the person has a clear accountability to the JOSC chair, and that JOSC members have an opportunity to feed into the performance assessment, on the other hand. The current language in the job description that "the JOF Manager reports to the JOSC" is too imprecise.
24. **Recommendation 3: JOF should be made a regular item on the UNCT agenda (e.g. twice a year), so that all UN entity representatives have first-hand access to information.**
25. **Recommendation 4: Reaffirm JOSC as the primary oversight mechanism.**
 - a. **Given the low trust environment, it would be important for decisions to be recorded directly in the meeting. Since the RC is the chair of the JOSC, meetings should be serviced through the RC Office.**
 - b. **The JOF Manager should be invited to all JOSC meetings as an *ex officio* member. The reporting relationship should remain with the RC as JOSC chair, and UN entity representatives should have an explicit opportunity to provide performance feedback.**
26. **Recommendation 5: In line with the MOU and its Annex B, dissolve the JCT and transfer its *de facto* role to the OMT. The aim is to clarify the relationship between BOS and JOF, strengthen mutual ownership, and broaden interest and understanding among all UN entities.**

Change Management

27. From the above context, it is apparent that JOF now finds itself in a crowded marketplace with new initiatives launched by almost all UN entities on how operational services can be provided. In their celebrated book "Blue Ocean Strategy" Kim and Mauborgne describe such a marketplace as a "red ocean" due to the bloody, increasingly cutthroat competition. Being a new contestant in such an environment is particularly difficult. "Blue oceans", in contrast, are the untapped market spaces which first must be created with a bit of ingenuity. The strategy provides a useful framework to identify the functions and behaviour that should be eliminated, reduced, raised and created to bring about a new marketplace (Kim 2005). The relevance for JOF is that UN entities need to avoid looking at their operating context as a "zero-sum game", where holding back some operational services from JOF provides a competitive edge compared to other UN entities.
28. In the public sector, administrative process innovation is twice as common as product or service innovation, while the introduction of a new concept or paradigm accounts for only 2% of all public sector innovations (De Vries 2015). JOF is much more akin to a conceptual innovation given its completely different model of organisation. The analysis performed as

part of the BOS Framework and JOF Framework demonstrate a clear understanding of the magnitude of the undertaking; however, most of the analysis focused on administrative process innovation and neglected the conceptual paradigm shift.

29. In their 2012 McKinsey Quarterly article Bradley *et al.* describe senior management teams in Fortune 500 companies following the 2007/08 financial crisis. Irrespective of how their companies fared, most teams wanted to change strategy, and the authors find that a period of 18 to 24 months is reasonable before benefits accrue.

We uncovered strong evidence that a great many companies are generating strategies that, by their own admission, are substandard.
(Bradley 2012)

30. In their 2016 report on administrative services centers, the Joint Inspection Unit (JIU) explicitly addressed the challenge of setting a realistic time horizon during which needed investments are made and before benefits can realistically be expected (JIU 2016):

Embedding change and realizing benefits takes both investment and time. A focus on short-term savings can be both short-sighted and counterproductive. A dominant finding is the importance of sustained leadership.

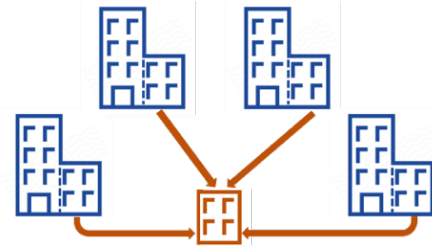
31. This matches up with UNICEF's experience with its Budapest global shared service center, where 2.5 years were assumed for benefits to accrue calculated from the moment the facility was ready to operate. In fact, some savings already accrued after year 1 because the design, staffing, system, and business processes were kept stable. In the manager's own estimate, he spent about 50% of his time on change management during the first year.
32. There is a clear perception gap, because for many stakeholders the discussion of JOF started as far back as 2013 and so they expect that by now, several years later, concrete savings and other benefits should be apparent. A lot of the frustration in conversations goes back to a feeling that JOF is "late" in delivering on its original promise.
33. A closer look, however, reveals that the first two years of JOF operations were anything but routine. The personnel turnover in JOF has been significant. The first JOF Manager resigned after nine months, and since then the facility has only had an *ad interim* manager. Compared to 2016, only 4 of the original people are still in JOF and changes affected 8 out of 12 existing positions. A turnover of 66% would have been difficult to cope with for any established entity, but for a new entity is nothing short of devastating. The JIU observed on the loss of institutional knowledge due to high personnel turnover (JIU 2016):

Tasks thought to be transactional are found to require both knowledge and judgment that draw on institutional culture.

34. Various stakeholders have expressed concern about the quality of service provided by JOF, and have often tied that back to specific individuals. For any self-financing service provider, managing quality is an essential aspect, which is complicated by the fact that personnel were drawn from different agencies. The effect is that personnel are, by definition, more familiar and experienced in providing services to their former "home agency", which can result in uneven service quality across UN entities. It leads to UN entities "shopping around" for their preferred provider among JOF personnel, which is not helpful. The introduction of an "account manager" concept by JOF is a good short-term solution. In the long run, dedicated change management needs to result in a single process being used for all agencies based on the principle of "mutual recognition" as referenced by the HLCM.²

² The HLCM already „recognized the value of applying the concept of mutual recognition" in its 30th Session (CEB/2015/5). The HLCM Strategic Plan 2017-2020 also references "location-specific collaboration for joint approaches to service delivery, as well as common out-sourcing and in-sourcing among UN organizations".

35. Creating a new service delivery model requires an enormous change management effort. One cannot simply take whole service lines away from existing entities and bring them together in a new stand-alone unit without significant change management at both ends. Still, the concept of change management is not mentioned even once in the JOF Framework. The Cost Benefit Analysis, however, acknowledged the need for a “new operations culture”.



36. In discussion with stakeholders, the sentiment that “all that is needed is a chief procurement officer” was common in reference to the JOF Manager. This sentiment is understandable since the function – back when it was integrated into an existing organisational structure, could indeed focus on transaction business. The original job description of the JOF manager contained 27 discrete duties, only 2 relate to change management aspects, while the remaining 25 tasks describe compliance issues and regular business processes that assumes an existing structure.

Successful innovators must excel at managing linkages and interfaces between organizations.

(Tushman 1997)

37. The recruitment of the JOF Manager illustrates the mismatch of expectations between an operational line manager on the one hand, and a change management champion, on the other hand. The JOF Manager should be empowered to manage the facility with the objectives of cost-effectiveness, accountability, transparency, and results-based management as set out in the MOU preamble; instead, the function is bogged down with additional responsibilities because JOF is now seen as a quasi-stand-alone entity (e.g. fire warden, record keeping, meeting preparation, MOSS compliance, email domain maintenance, etc.) that distract from the self-financing nature of JOF.

38. Academic literature has documented an inherent conflict between existing line functions, the “cash cows” representing the current business, and new innovations that contribute little to the bottom-line but threaten to upend the current model. To manage change and innovation requires a disruptive streak that challenges the status quo (Dyer 2011). Hence, the profile of a manager suitable to setting up new conceptual innovation is entirely different from a manager of an existing line function. It also implies that such individuals are typically not well positioned to manage a function once it has been established.

Most often, the older, larger, more traditional units sabotage those more entrepreneurial units – usually today's efficiency kills tomorrow's innovation.

(Tushman 1997)

39. The key learning for JOF is that repeated changes to strategy will prolong the period before benefits can be expected. The extent of change and uncertainty surrounding JOF during its first years of operations has been so extensive that its operations could never stabilize. The need for change management was woefully underestimated, and the strategy how benefits would be realized kept changing. Currently the JOF Manager, not least by the temporary nature of her own appointment, is not empowered to make difficult management decisions. All these factors mean that the timeline for JOF to deliver benefits needs to be reset and the clock started all over again.

40. The hosting agency plays a particularly important role in supporting JOF. The MOU sets out the responsibilities of the host agency with regards to premises, legal and administrative frameworks for JOF to function. In return, the host agency can recover its cost from the so-called service users. It is noteworthy that the MOU makes no provision for cost recovery from JOF *per se*, but only from service users. This makes sense as any cost recovery from JOF would simply be charged back to service users.

41. **Recommendation 6: Going forward, the JOSC needs to set and communicate a new timeline to stabilize JOF. JOSC needs to acknowledge the inherent tension between JOF, as a new paradigm, and the existing operational structures it supplants. In line**

with similar change management efforts, and before benefits can be realistically expected, a stabilization period until December 2019 is recommended.

42. **Recommendation 7: The JOF Manager must be empowered to manage all aspects of the facility with due consideration to cost-effectiveness, accountability, transparency, and results-orientation.**
- The job description for the JOF Manager needs to reflect change management as a significant aspect, and the person selected for the position needs to demonstrate change management capabilities.
 - The level of the position must be determined based on the unique responsibility at hand, and cannot be compared to existing positions that do not have significant change management responsibility.
43. **Recommendation 8: The hosting agency should review how it can effectively minimize administrative burdens on JOF in line with the MOU, including its cost recovery practices.**

Clear Strategy for Economies of Scale and Scope

44. The latest guidance on BOS issued by the UNDG describes several ways how more efficient, effective and high-quality operational services can be achieved:

The BOS achieves its goals by improving business operations at the country-level. This can be accomplished in several ways: eliminate the duplication of processes within business operations, leverage the common buying positions of the UN and maximize economies of scale. [...] The BOS supports innovation in common business operations and yields impact when it is combined with new ways of delivering quality and cost-effective services that support programme implementation.

45. Three drivers to achieving more efficiency with economies of scale are **technology**, **personnel costs**, and **productivity**. For instance, new technology can make the processing of standardized business tasks easier; the pooling of tasks can bring down labour cost; or increased specialization can lift productivity. All three strategies, either individually or in combination can be designed to reduce costs. However, the question of which strategy is pursued is essential to avoid contradictions given their very different consequences for the selection of personnel and the types of investment needed. The JOF has at times pursued all three strategies without being very explicit about it. As the JIU has put it: “Benefit realization requires active management” (JIU 2016).



Productivity

46. The original decision to select senior, well-trained staff members from UN entities suggest that productivity gains were at the heart of the strategy. While these staff members were more expensive, it was reasonable to assume that by focusing them on a well-defined set of services, savings and other benefits could be achieved through the more efficient processing of requests. However, the idea that specialization leads to efficiencies rests on several assumptions that only partially hold for JOF. For instance, the pooling of transactions did not lead to significant standardization since JOF still offers 10 distinct procurement services and the substance of the procurement actions varies widely across UN entities. Many transactions are highly “bespoke” services, where the chance of reaping efficiency benefits is marginal at best. The fact that productivity can be a successful strategy is evidenced by the experience of global shared service centers in other UN entities, where the high average cost of staff members is balanced out by the specialization on specific product lines (e.g. bed nets or condoms), which leads to overall savings.



47. Productivity gains, which are so closely tied to individuals' performance, are particularly sensitive to environmental factors. In its short history, the JOF experiences tremendous staff turnover, moved to different premises, and experienced extended periods of job insecurity. Given the current state of JOF, the chance of achieving productivity gains is somewhat unlikely in the short run. From a productivity perspective, avoiding unnecessary tasks and transactions is key, because that helps eliminate unnecessary costs. Again, the job descriptions reveal a significant misalignment, because not every task included relates to service delivery and thereby reduces productivity. For instance, the latest revision of the NOA procurement analyst job description includes 24 individual task, which appears way too granular. Aside from mistakenly listing competencies among the tasks (e.g. "Knowledge of ERPs systems"), the inclusion of tasks, such as contribution to knowledge networks, the organisation of training and the synthesis of best practices, risks being a distraction and reduces productivity. In reviewing each task listed in each job description, the following question should be asked: Would UN entities pay for this task being performed by JOF? If the answer is no, then the task should be deleted from the job description.
48. Part of the challenge of assessing personnel costs in relation to transactions is that even basic facts are in dispute. By the account of one UN entity, out of a volume of \$19 million, about \$1,3 million worth in transactions were cancelled, not because of any fault of JOF, but because the business requirements had changed. A cancellation volume of almost 7% represents about half the savings of 14% UN entities could have hope for in savings according to the cost benefit analysis. So, not only are savings lost but JOF still must process cancellation steps in addition to whatever original process steps were already taken, thereby reducing productivity further.
49. JOF has used interns and plan to recruit short-term consultants. JOF needs to remain vigilant that the temporary workforce doesn't impact quality and productivity; however, they can be very effective to free up fulltime personnel from important, but unproductive tasks, such as regular communication bulletins, marketing materials, producing templates, preparing reports, etc. One such task could be the production of "neutral" forms that feature the JOF logo instead of the host agency's; this issue was mentioned as an irritation by several stakeholders and will help JOF in marketing and reputation management.

Personnel Costs

50. In response to the change in the business climate, a different strategy was pursued by the JOSOC, namely the reduction of personnel costs. In a series of waves the number of positions was reduced, senior staff members were separated, and new, cheaper people were brought in. The strategy to reduce personnel cost assumed – incorrectly – that fewer people could manage the same workload because the focus was on "fewer Chiefs and more Indians" as one stakeholder expressed it. The incongruous nature of this strategy becomes apparent in light of the fact that to perform these functions before the creation of JOF much higher staffing – both in levels and numbers – was needed. For the smaller UN entities, outsourcing their transactions to JOF didn't reduce their operational staffing because they only had one or two people to begin with who performed these tasks on an occasional basis.
51. For some services to work, the stature of the people involved does matter – at least to the UN entities receiving the service. An example is the JOF procurement review committee (JPRC). JOF itself has no international staff members and is in the process of bringing on board more junior personnel to save costs. Meanwhile, for several UN entities to delegate functions to the local level, the calibre of the people involved is a major factor. This is a good example of the ownership responsibility the JOSOC has, because it will fall to the UN entities to lift the level of their participation in the JPRC so that more value-added services can be provided by JOF.
52. The discussion of personnel costs revealed another perception gap. While the government income of the dominant agencies has shrunk significantly over the last few years, the

reduction in the number of transactions was not commensurate; in other words, the average value of each transaction decreased by up to 50%. Several stakeholders used comparisons with the past as an argument that personnel costs are too high. A plethora of procurement benchmarks are used across different industries. Two typical procurement benchmarks are: (a) the **cost of procurement as a percentage of overall spending**; this is typically around 1%, with industry leaders getting as low as 0,8%; and (b) the **average cost of a purchase order (PO)**, which vary significantly across industries, with \$1,778 for construction/engineering on the one end and \$200 for pharmaceuticals on the other end (Purchasing & Procurement Center 2017). In the case of JOF the comparators are 1,79% and \$1,638 so JOF setup cost are comparatively high, but calculated per transaction are within range (calculations in the Annex).

Technology

53. Finally, some technological innovations have been implemented for JOF. A customer relations management tool (CRM) provides an interface to capture and track service requests. This is a welcome development that holds potential for quality control and customer satisfaction measurement. However, behind the scenes operations still proceed in the same way as before. The JOF primarily operates using the system of the host agency, which carries some benefits for agencies that use the same system or used to be fully services by UNDP in the past. However, it also implies that for the same service, i.e. travel, the actual service delivered is quite different depending on the client. Particularly, UN entities that are not part of ATLAS must re-key transaction data in their own systems. While there is still an element of convenience, the difference in service level should impact the pricing model.
54. The harmonized manual was the clearest attempt to impact the process side. The strategy was to transform how procurement is conducted by agreeing on a single set of provisions with government. Indeed, many stakeholder see the harmonized manual as an achievement, even though it is not yet fully endorsed. However, the assumption that through a country-level bottom-up approach the policies of the UN entities themselves could be changed did not hold, and the harmonized manual got struck in inter-agency review. The harmonized manual could be an incentive for additional clients to join the JOF once the currently applicable “convergence manual” is phased out. To achieve that, JOF would have to become a center of excellence operating in full alignment with the new rule book.
55. Going forward, the chance of repeating the exercise to arrive at a harmonized manual for other services (e.g. travel) is low; instead, pursuing a “mutual recognition” approach is much more likely, particularly because global discussions on shared service centers point in the same direction. That implies that JOF could start using the best available system for any specific service. In the area of travel, that currently seems to be UNESCO’s system. Preliminary discussions with UNESCO headquarters (Bureau of Financial Management and Division of Knowledge Management & Information System) appear promising that issues of access and delegation of authority can be resolved.

Increased Scope

56. The original cost benefit analysis assumed that JOF would provide human resources and ICT services in addition to procurement and travel services. While it would be desirable to expand JOF services in the medium-term, that would require existing service lines to be stable. In the current form, it is unlikely that either existing or new clients would transfer HR services to JOF, particularly because the business case for the agencies is less clear.
57. However, there is one service area that the OMT should discuss further, and that is common premises services. While some common premises services typically make up the core of any BOS, it is striking that the BOS Brazil Framework includes none of them. Premises, strictly speaking, might not be a “low-hanging fruit” because the Sergio de Mello complex is currently used close to capacity, and many UN entities outside the UN House



benefit from rent-free premises provided by government. Moreover, given that UN entities maintain premises outside the capital Brasilia complicates the situation somewhat.

58. In discussion with UN entity representatives, a few “premises-related” services were mentioned that would be worth exploring. One possibility mentioned is car-pooling. Brasilia does not have a robust public transportation system – but it does have a vibrant cab service sector (e.g. Uber). During my week in Brasilia, I took 10 Uber trips, including their black limousine service, at an average cost of less than \$5 per trip. Using the SB3 proforma cost of \$29,766, that would imply an equivalent of **16 Uber trip per day, 365 days a year**, even without considering the cost of car maintenance and depreciation. So, the business case for a car-pooling option seems rather obvious. Of course, the benefits of a dedicated standby car fall disproportionately on the UN entities management ranks, so it would be an important leadership signal for the UNCT to pursue savings in areas that directly concern them.
59. **Recommendation 9: During the stabilization period (see Recommendation 6) the focus should remain on strengthening the two existing service lines.**
- a. **A formal request, through DOCO, should be made to UNESCO HQ to explore the use of, and access to, their travel system and procedures for adoption by JOF.**
 - b. **A formal request, through DOCO, should be made to the UN Secretariat to explore the use of, and access to, UMOJA to create purchase orders and related transactions.**
60. **Recommendation 10: A clear strategy for economies of scale should be adopted by JOSOC. That strategy should focus on:**
- a. **Increasing JOF productivity through improvements in the operating environment and the phase-out of tasks, either in job descriptions or assigned on an ad-hoc basis, that are not directly linked to service provision. The emphasis should be on avoiding unnecessary tasks wherever possible.**
 - b. **Adopting a clear calculation method for counting transactions (i.e. every request logged in CRM).**
 - c. **Request through UNDG a technology investment (expertise and/or funding) that could streamline end-to-end processing, including interfaces and/or access to systems.**
 - d. **Task the OMT with exploring the sharing of specific premises-related services, such as car-pooling. Adopting such solutions might not directly impact JOF in first instance, but will reduce the pressure on UN entities to reduce administrative costs through JOF. The OMT should also take responsibility for staffing the JPRC adequately.**

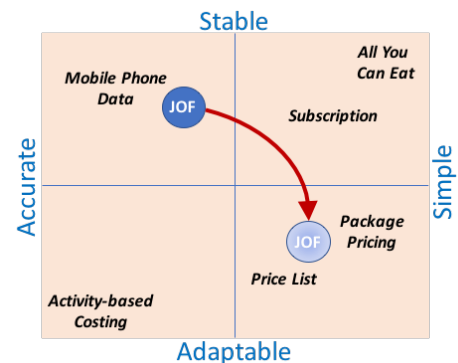
Pricing Model

61. While separating programmatic/substantive work from operational work is rarely helpful in discussing how the UN system works, there is one clear distinction between the two areas of work: While arguably it might be desirable to have more advocacy, more analysis, more programming or more coordination, having more transaction work should never be the goal. Or to put it another way, there is no glory in doing more transactions than absolutely necessary. This insight is key in the design of the pricing model, because incentives must be structured in such a way that stakeholders have a reason to avoid transactions whenever possible.
62. The following discussion of the pricing model uses data on transaction volumes, transaction values, unit costs, and process times. Some of the data is subject to dispute

among the JOF parties. While I am not endorsing any one set of data over another, the points I am making below are so fundamental that they remain valid irrespective of which dataset is used.

General

63. The way prices are set and communicated is not just a function of supply and demand or the underlying costs of inputs, but also of the strategy and market an entity finds itself in. In a simplified model looking at two dimensions, pricing models can strive to be accurate or simple, and either stable or adaptable. The advantage of accuracy (e.g. mobile phone data charged per MB) is that it allows customers to control the amount of service they want, but it can lead to ugly surprises because clients often underestimate their usage. The advantage of simplicity (e.g. prix fixe buffet) is that clients know exactly what they are in for, but setting an average price is crude and favours customers who consume a lot. The advantage of stability (e.g. newspaper subscription) is that customers and suppliers can plan because price and volume are fixed for a certain period, however changes in the underlying cost can create problems as price adjustments are harder to do. Finally, the advantage of adaptability (e.g. bespoke tailor) is that the client can customize the service greatly to fit unique situations, but the downside is that price comparisons are very difficult and service providers are particularly exposed to quality and reputational risks.



64. The key takeaway is that all pricing models have advantages and drawbacks, and their suitability is highly dependent on the exact situation the service provider finds itself in. In the case of JOF, the current pricing model can be characterized as very stable and somewhat accurate; however, such a pricing model is not suitable to the specific context of JOF. A case in point is that during 2017 the cost apportionment had to be revised three times and budget amendments had to be agreed by JOSOC, which created not just unnecessary transaction costs, but also delays and increased friction. The JCT debated the introduction of “fixed costs” that would be equally apportioned to all clients in line with a stable pricing model. However, the effect of such a proposal would be that it would create a barrier to entry for new and small UN entities given the great inequality in service volume among UN entities.

Forensic Analysis of Current Pricing Model

65. The current pricing model uses two key variables to apportion costs to each UN entity: (a) the number of processes attributable to each UN entity; and (b) the Dollar value of all transactions. For each variable, the relative share of each UN entity is calculated. So, an agency might account for 50% of all procurement processes as well as 70% of the total Dollar value. Given that JOF offers about 10 distinct services in procurement, all of which require vastly different labour efforts, simply calculating transactions in an undifferentiated way would lead to complex and simple requests being charged at the same price. Therefore, the decision was to charge each UN entity an average of the transaction share and the value share.



66. The current pricing introduced perverse incentives that are best illustrated as follows: In Scenario 1, Agency A accounts for 51% of all transactions but almost 75% of the value. Because of the averaging of the two percentages its final share of costs is 62,7%, which translates into \$501.404. In Scenario 2 nothing has changed, except that Agency A's number of transactions doubled to 724; however, because of the averaging of percentages, Agency A's final share of cost rises only marginally to \$567.630. In summary, even though the transaction volume increased by 100%, Agency A' cost increased by only 13%.

| Scenario 1 | | | | | |
|------------------------------------|-------------|----------------------|---------------|---------------|-------------------|
| | # Processes | USD | % Process | % Value | Average |
| Agency A | 362 | \$ 43.028.941 | 51,0% | 74,4% | 62,7% |
| All Others | 348 | \$ 14.828.870 | 49,0% | 25,6% | 37,3% |
| Total | 710 | \$ 57.857.811 | 100,0% | 100,0% | |
| Agency A's Cost Share of Structure | | | | | \$ 501.424 |

| Scenario 2 | | | | | |
|------------------------------------|-------------|----------------------|---------------|---------------|-------------------|
| | # Processes | USD | % Process | % Value | Average |
| Agency A | 724 | \$ 43.028.941 | 67,5% | 74,4% | 71,0% |
| All Others | 348 | \$ 14.828.870 | 32,5% | 25,6% | 29,0% |
| Total | 1072 | \$ 57.857.811 | 100,0% | 100,0% | |
| Agency A's Cost Share of Structure | | | | | \$ 567.630 |

67. The situation looks quite different from Agency B's perspective. In Scenario 3, it accounts for 7,9% of transactions and just about 1% in total value. The average percentage is 4,4% which leads to a cost of \$35.187 for Agency B. Now, if Agency B were to double the number of processes, as in Scenario 4, then its cost would increase to \$62.123. A transaction volume increase by 100% leads to a 76% cost increase for Agency B.

| Scenario 3 | | | | | |
|------------------------------------|-------------|----------------------|---------------|---------------|------------------|
| | # Processes | USD | % Process | % Value | Average |
| Agency B | 56 | \$ 526.129 | 7,9% | 0,9% | 4,4% |
| All Others | 348 | \$ 57.331.682 | 49,0% | 99,1% | 74,1% |
| Total | 710 | \$ 57.857.811 | 100,0% | 100,0% | |
| Agency B's Cost Share of Structure | | | | | \$ 35.187 |

| Scenario 4 | | | | | |
|------------------------------------|-------------|----------------------|---------------|---------------|------------------|
| | # Processes | USD | % Process | % Value | Average |
| Agency B | 112 | \$ 526.129 | 14,6% | 0,9% | 7,8% |
| All Others | 654 | \$ 57.331.682 | 85,4% | 99,1% | 92,2% |
| Total | 766 | \$ 57.857.811 | 100,0% | 100,0% | |
| Agency B's Cost Share of Structure | | | | | \$ 62.123 |

68. Keeping everything else equal, the above scenarios illustrate “perverse incentives” inherent to the pricing model. First, large UN entities need not worry about the number of processes they request from JOF. While doubling the amount of processes requested from JOF has obviously huge workload implications, the cost impact on large agencies is minor. Second, the barrier to entry for small UN entities is real. By giving more business to JOF they realize barely any economies of scale, so they have little incentive to hand more business to JOF. Third, and perhaps most significantly, the pricing model does not lead to any additional revenue for JOF; instead it just triggers a redistribution of relative shares. The fact that increases in requests have no bearing on revenue for JOF goes a long way to explaining the painful budget discussions UN entity representatives have described.

69. What is described above for the case of procurement is equally true for the case of travel services.

New Pricing Model (see spreadsheets submitted separately)

70. Given the volatile business environment and the need to attract additional clients, the current pricing model is neither sensitive enough to changing demand, nor attractive enough to bring on board additional UN entities. Consequently, the new pricing model must move JOF from the accurate/stable quadrant to the simple/adaptable quadrant.

71. The introduction of a price list of services offers several advantages: (a) it easily scales depending on demand and directly creates additional revenue; (b) the prices can be differentiated by service and hence better reflect the real labour effort; (c) the incentive is to avoid unnecessary transactions; (d) it can be easily communicated to UN entities not currently receiving JOF services; and (e) it is fair to large and small service users.

72. The drawback of a price list is that it assumes that the portfolio is reasonably homogenous and hence an average price is reasonable. JOF faces a disadvantage on two fronts in that regard: (a) as set out in the discussion of the competitive environment, UN entities overall take on projects that are more skewed towards time sensitivity and transaction complexity; and (b) UN entities choose to perform certain processes themselves for a variety of reasons. The result from JOF's perspective is that the service portfolio overall is not



composed of a normal distribution of services, but instead leans towards more work intensive and time sensitive transactions, which partially explains the comparatively high average PO cost compared to the benchmark.

73. The June 2015 cost benefit analysis (CBA) considered a price list for procurement, travel and ICT services, but recommended its use only for non-participating UN entities. At the time the actual volume of transaction was difficult to gauge, but now with two years of experience, estimating prices is much easier. Service prices can be calculated in two basic ways:

- a. **Bottom-up** by measuring the actual time needed for each step and multiplying that with the salary cost of the personnel involved; this approach works well for highly standardized processes. The BOS Framework went to great lengths to capture each process step but did not assign a time element to each step. Hence, at this stage additional work would be needed to calculate prices bottom-up; however, given the mentioned lack of standardization of processes, this might not be the ideal way of pricing anyway.
- b. **Top-down** by apportioning a pool of costs to each type of transaction; this approach works well if the underlying pool of cost (e.g. labour) and the number of transactions is large enough. Thanks to the law of averages, while the price for each individual transaction may over- or understate actual cost, in sum the result is still a reasonably fair and sustainable pricing model. Given currently available data, this approach is proposed.

74. The below model is illustrative and based on procurement services, but holds equally for travel and other services. It assumes that the annual cost relevant to procurement consist of \$651.018 in personnel costs (6,5 staff using projected 2018 costs) and \$79.729 in other cost (apportionment of \$134.797 projected for 2018) for a total cost of **\$730.747**. Given that JOF prepared **446** transactions last year, that number is also assumed for the coming year, which would result in an **average price per procurement of \$1.638**. This is at the high end of a typical procurement benchmark as referenced in paragraph 53, but still reasonable.

75. The challenge is to arrive at more granular prices that better reflect the difference in effort among the 10 procurement services, ranging from RFPs on the one end to SVPs on the other end, since charging the same price would grossly under and over-estimate the cost of labour involved. So, to avoid an incentive that UN entities only shift highly complex transactions to JOF and retain simple processes (which would undermine JOF), the 10 services are grouped into four service bands. The basis for grouping the services is the expected performance standard set out for five procurement processes as per the agreed standard operating procedures (SOPs).

| Abbreviations | |
|---------------|------------------------|
| RFP | Request for Proposals |
| ITB | Invitation to Bid |
| RFQ | Request for Quotations |
| CD | Direct Contracting |
| LTA | Long-term Agreement |
| MI | Expression of Interest |
| ADT | Amendment |
| SVP | Small Value Purchase |
| RT | TOR Revision |
| PO | Flytour Purchase Order |

| Service | RFP | | ITB+CD | | RFQ+LTA+MI | | SVP+PO+ADT+RT | | Total | Comparison Current Model | |
|--------------|----------------------|-----------|-------------------|------------|-------------------|------------|------------------|------------|-------------------|--------------------------|-------------------|
| | Price | \$3.693 | \$2.620 | \$1.496 | \$296 | | | | | | |
| UNW | \$ - | 1 | \$ 2.620 | 8 | \$ 11.972 | 10 | \$ 2.962 | 19 | \$ 17.553 | 3,27% | \$ 23.895 |
| UNFPA | 3 \$ 11.080 | | \$ - | 13 | \$ 19.454 | 15 | \$ 4.443 | 31 | \$ 34.977 | 4,24% | \$ 30.984 |
| UNESCO | 28 \$ 103.415 | 2 | \$ 5.240 | 50 | \$ 74.824 | 18 | \$ 5.331 | 98 | \$ 188.810 | 26,23% | \$ 191.675 |
| UNEP | 2 \$ 7.387 | | \$ - | 27 | \$ 40.405 | 31 | \$ 9.182 | 60 | \$ 56.973 | 4,61% | \$ 33.687 |
| UNDP | 38 \$ 140.349 | 39 | \$ 102.173 | 92 | \$ 137.677 | 37 | \$ 10.959 | 206 | \$ 391.157 | 59,62% | \$ 435.671 |
| Others | 3 \$ 11.080 | | \$ - | 18 | \$ 26.937 | 11 | \$ 3.258 | 32 | \$ 41.275 | 2,03% | \$ 14.834 |
| TOTAL | 74 \$ 273.312 | 42 | \$ 110.033 | 208 | \$ 311.269 | 122 | \$ 36.134 | 446 | \$ 730.747 | | \$ 730.747 |

76. The 2015 CBA established specific prices for four distinct procurement services that express different levels of effort. In the absence of more precise time measurement studies, these different levels of effort are used to split the average price of \$1.638 into four prices for each of the service bands. The resulting prices for each service band range from **\$3.693 for RFPs to \$296 for SVPs**.



77. The resulting prices tend to be on the high side compared to the prices calculated in the CBA (range between \$2.037 and \$163). UNDP's Universal Price List (UPL) is a less relevant comparator since the UPL averages prices among high-cost countries. Brazil sits at the top end of this spectrum, and is hence more expensive in labour costs.
78. With regards to travel, the latest JOF data only distinguishes two services, namely full travel service and the support of ticketing through project units, which is currently only used by UNDP. No exact workload statistics could be provided, but the JOF estimate is that ticketing support through project units requires about 10 to 15% of the work of a full ticketing process. This estimate is the basis for the cost differentiation below.

| Service | TAS | | Tkt/Proj | | Reimb+Paym | DSA | | Total | | Comparision Current Model | |
|--------------|-------------|-------------------|-------------|------------------|-------------|-----|-------------|-------------|-------------------|------------------------------|-------------------|
| Price | \$98 | | \$13 | | | | | | | | |
| UNW | 283 | \$ 27.734 | | \$ - | \$ - | | \$ - | 283 | \$ 27.734 | 3,28% | \$ 11.708 |
| UNFPA | 249 | \$ 24.402 | | \$ - | \$ - | | \$ - | 249 | \$ 24.402 | 4,25% | \$ 15.179 |
| UNESCO | 0 | \$ - | | \$ - | \$ - | | \$ - | 0 | \$ - | 26,24% | \$ 93.773 |
| UNEP | 109 | \$ 10.682 | | \$ - | \$ - | | \$ - | 109 | \$ 10.682 | 4,61% | \$ 16.478 |
| UNDP | 2345 | \$ 229.810 | 4461 | \$ 57.993 | \$ - | | \$ - | 6806 | \$ 287.803 | 59,62% | \$ 213.080 |
| Others | 69 | \$ 6.762 | | \$ - | \$ - | | \$ - | 69 | \$ 6.762 | 2,00% | \$ 7.164 |
| TOTAL | 3055 | \$ 299.390 | 4461 | \$ 57.993 | \$ - | | \$ - | 7516 | \$ 357.383 | | \$ 357.383 |

79. In line with Recommendation 10b efforts should be undertaken in the medium-term to bring the *cost of procurement as a percentage of overall spend* closer to 1%. If that were the case on a dollar volume of \$40,7 million, the cost of procurement would be reduced to \$470,507, which in turn would bring down prices to **\$2.378** for RFPs, **\$1.687** for ITB+CD, **\$964** for RFQ+LTA+MI and **\$191** for SVP+PO+ADT+RT.
80. Such a reduction in prices will take time. In the short-run the effect this model has on individual agencies is more important. The Comparison Current Model above applies the agreed UN entity percentages to the same base cost, and calculates each entity's cost. The result is three-fold:
- Overall, the new costs calculated based on a pricelist introduces modest changes, which are nonetheless important signals: Agencies that predominantly request simple services (e.g. SVPs), such as UN Women, pay considerably less under the new model. Agencies that request more complex services (e.g. RFP), such as UNFPA and UNEP, pay somewhat more.
 - The single biggest change is the shift of cost from UNDP to non-JOF entities. While this might appear to be an unfair advantage on first blush, two effects are at work here: First, the current averaging of percentage distorts the true cost non-JOF entities should pay because their dollar volume is so low. Second, UNDP is the proxy for non-resident agencies who are serviced through JOF. As demonstrated earlier, the current model was highly insensitive to an increased number of requests for large entities. By separating out others from the UNDP transaction volume, these entities pay closer to the actual cost, and UNDP's share of cost is much more closely tied to the actual number of services it requests.
 - Any increase in the number of requests from UN entities directly creates additional revenue for JOF, which ensures that the requisite capacity to service can be sustained.
81. The existing SOPs play an important role in monitoring service quality and in revising prices. JOF needs to make every effort to stay within the service times set out in the SOPs, provided the UN entities supply all the necessary information. At the same time, UN entities frequently request services with much shorter turnaround times. JOF should strive to meet those requests, but since they require additional work, a 25% surcharge for express requests should be considered in addition to the prices listed in paragraph 77. In cases



where a UN entity does not receive the full service from JOF (e.g. re-entry of data) then a 25% discount should be granted.

82. Part of establishing trust in a transaction-based pricing model is an understanding that the service provider processes transactions correctly, and that users do not create unnecessary work. Therefore, I propose that every transaction logged in the CRM is charged, even if it is later cancelled for some reason. In turn UN entities have recourse and get their service charge refunded if JOF processed the transaction incorrectly. This mechanism ensures that all stakeholders have an incentive to avoid unnecessary transactions and focus remains on transactional quality and accuracy. Client feedback, including incorrect transactions, should be integrated into the CRM so that real-time feedback is possible.
83. UN entities should advance an operating budget to JOF at the beginning of the year in line with the signed MOU. The JOF Manager monitors the extent to which agencies have utilized their advances and periodically submits invoices to receive fresh advances. As a principle, all provision of services should be based on funds having been received by JOF as is common practice among UN entities.
84. **Recommendation 11: The JOSC needs to commit to bringing on new UN entities, and hence should avoid creating any barriers to entry for new participants. Part of that commitment is the realisation that one-time investments, made by some UN entities, are sunk costs (accounting terminology) and cannot be recovered from new participants.**
85. **Recommendation 12: JOF should shift its pricing model to a more simple and adaptive model, such as a price list for services as proposed in this report. A price list will create a more direct relationship between labour efforts and revenue generation:**
 - a. **The current 10 procurement services could be grouped into four price bands for which an average price per transaction is calculated as set out in paragraph 77.**
 - b. **For express service (i.e. speedier than SOPs) a 25% surcharge should be considered. When UN entities do not receive the full service (e.g. due to data re-entry) a 25% discount should be granted.**
 - c. **UN entities will be charged for all transactions they request. In turn JOF commits to reimburse UN entities for transactions that were processed incorrectly.**
86. **Recommendation 13: The JOSC should formally adopt typical industry benchmarks. The goal is to bring down the total cost of services as per the current JOSC strategy. Proposed benchmarks are:**
 - a. **Cost of procurement as percentage of overall spend. This ratio should be brought closer to about 1% by the end of the stabilization period (see Recommendation 6);**
 - b. **Average cost per purchase order;**
 - c. **For travel services an appropriate benchmark must still be determined.**

Annex

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List of interviewees

| UN Entity | Name | Function |
|----------------|--------------------------------------|--|
| UN RCO | Niky Fabiancic | Resident Coordinator |
| | Maria Helena Mizuno | JOF Manager a.i. |
| UNDP | Didier Trebucq | Country Director |
| | Caroline Brito Fernandes | Chief of Finance/Procurement |
| | Daniel Domingos de Souza Paes Scott | Adviser |
| UN Women | Darshak Shah | Director, Finance & Administration |
| | Nadine Gasman | Representative |
| FAO | Myriam Galvao | Operations Manager |
| | Alan Bojanic | Representative |
| UNFPA | Gustavo Kauark Chianca | Assistant to the Representative |
| | Jaime Nadal Roig | Representative |
| | Yves Sassenrath | Deputy Representative |
| UNESCO | Jorge Leandro dos Santos de Oliveira | Operations Manager (nominated) |
| | Marlova Jovchelovitch Noletto | Representative a.i. |
| | Emeline Mbonyingingo, | Administration & Finance Officer |
| | Roberta Macedo Martins Guaragna | Adviser |
| | Axel Plathe | Director, Field Support & Coordination |
| UN Environment | Jean-Yves Le Saux | Director, Strategic Planning |
| | Denise Hamú | Representative |
| PAHO | Marco Antonio Ambrósio | Operations Manager |
| | Rodrigo Morroy | Administrator |
| UNICEF | Florence Bauer | Representative |
| | Nenad Radonjic | Chief of Operations |
| | Rodrigo Viroria | Chief of Finance |
| DOCO | Mark Beatty | Manager, Service Center Budapest |
| | Anders Voigt | Business Operations Adviser |
| UNAIDS | Georgiana Braga-Orillard | Representative |
| | Daniela Dantas de Barros | Administration & Finance Officer |

Supplementary Calculations

The full pricing model is contained in separate spreadsheets that were submitted together with this narrative report.

| Benchmark Calculations | | | | |
|-------------------------------|---------------------------|------------------------------------|------------------------------|--|
| Procurement Setup 2018 | | | | |
| Personnel (6,5 FTE) (a) | Operating costs (b) | Total Setup Cost (c)=(a)+(b) | Total Transactions (d) | Average cost per PO (e)=(c)/(d) |
| \$ 651.018 | \$ 79.729 | \$ 730.747 | 446 | \$ 1.638 |
| Procurement Value (a) | | Total Setup Cost (c) | | Procurement/ Overall Spend (e)=(c)/(a) |
| \$40.750.751 | | \$ 730.747 | | 1,79% |

| | Comparators | | JOF Price |
|-----|-------------|------------|-----------|
| | CBA (2015) | UPL (2017) | |
| RFP | \$ 2.038 | 838 | \$3.693 |
| ITB | \$ 1.445 | 838 | \$2.620 |
| RFQ | \$ 826 | 329 | \$1.496 |
| SVP | \$ 163 | 82 | \$296 |



Terms of Reference

1. BACKGROUND

In 2017, the UN DOCO Delivering Together for Sustainable Development Facility (DTF) set up a flexible funding mechanism to provide seed funds to enable UNCTs to experiment with a view to scaling up for global policies and practice. Within this context, the UNCT in Brazil had presented a proposal connected with the implementation of the Joint Operations Facility (JOF) initiative in Brazil which was approved.

The Joint Operations Facility (JOF) initiative in Brazil is an innovative project within the context of the implementation of the Business Operations Strategy (BOS), which has been in operation since March 2016. Currently it brings together six UN Funds, Programmes and Specialized Agencies (UNDP, UNFPA, UNESCO, UNDSS, UNWOMEN and UN Environment) as core founding members on a single service platform for business operations through harmonized procedures in Procurement, Travel, ICT and plans to include Human Recourse Services. In an effort to address redundant and/or inefficient business processes the JOF in Brazil is one of only 4 integrated Business Centers across the UN System. As such it is firmly anchored in the 2016 Quadrennial Comprehensive Policy Review (QCPR) seeking to address gaps and overlaps in the functions and capacities of the UN system, as it works more efficiently and collectively towards the implementation of the Sustainable Development Goals (SDGs).

While articulating with agency specific internal administrative support services structures the JOF seeks to improve joint UN operations through reduction of the common UN operational footprint while improving the collective efficiency, avoiding costs and improving the quality of services delivered.

Since its inception, the JOF pilot contributed to an enabling environment for the development of innovative procedures and tools. Based on a recent internal review of the original JOF management and services structure aiming at reducing recurrent management costs and identifying requirements for additional investments and financial mechanisms the JOF Steering Committee identified some key needs that are essential for JOF sustainability and portfolio development.

2. OBJECTIVE

The objective of this consultancy is to develop a flexible pricing and cost recovery mechanism in the form of a dynamic tool for JOF business services. Currently, the financing of the JOF is based on a cost-sharing mechanism in which each participating Agency is responsible for a variable share of the annual budget, based on the volumes of execution of the prior year. Nevertheless, there is an external demand from non-participating Agencies for “catalogue” services, i.e., provision of a specific set of services, without being a full member of JOF. The development of a new flexible mechanism and tool is important to attract new client-agencies, that could use the JOF for ad hoc service lines in the event of specific situations such as an extraordinary project that exceeds the agency’s operational capacity, or during a trial period before fully committing to the JOF as a core member agency via MOU. There is also a potential demand arising from other UN agencies at sub and/or regional levels which creates the possibility for the JOF to be used as a Regional Hub. The intention is not to convert the JOF into a vertical approach, but a flexible and financially sustainable structure to provide services when required and taking advantage of the Brazilian market place and the comparative advantage that the JOF is the first, and to date, only joint single service window for common business operations in the LAC region.



In line with the above-mentioned need to develop a set of “catalogue services”, the consultant is expected to: a) recommend on the inclusion of new JOF service lines, and b) make recommendations with regards to the JOF HR structure based current and new services demands.

With respect to services provided by JOF, currently it is focused mainly in 2 areas: predominantly program related procurement with an annual portfolio of USD41 million/year and program related travel managing 3,000 missions/year plus other travel services. The JOSCC plans to include additional services such as: Management of Common UNHouse Services, Consultancy (Individual Consultants : Procurement / HR modalities) and other Human Resource Services (vacancy and selection support; common / shared rosters and job descriptions; training; performance management etc.) in line with the analysis already conducted by the UNDG/HLCM led JOF creation mission in 2013/14. Considering the recent important changes of the Brazilian context since 2015, an updated analysis of new service lines is required to arrive at a structure that responds adequately to location based UN agency demands.

An important challenge that arises from the SG’s call for reforms in the area of Business Operations is the articulation between “vertical” and “horizontal” BO platforms. Some larger agencies like UNDP and UNICEF have already transferred many of their back-office functions in the areas of Travel, HR, Finance etc. to Global Centers also known as Global Shared Service Centers (GSSCs) – or Vertical Service Centers. Other agencies are in the process of either exploring their own vertical solutions or will be using already existing ones as clients.

While many such more transactional processes can be more efficiently and cost effectively pooled at a global level, there remain several BO processes in the areas of procurement, HR and IT that rely on proximity to the actual program implementation at country or regional levels. Many organizations still keep these services in house locally. The JOF is a horizontal solution at country level that pools these business services and offers them through a single service window.

The future of UN BO clearly lies in an effective and cost efficient articulation between the Vertical and Horizontal BO solutions. A key output of this consultancy will be an analysis of how the JOF in Brazil could become an attractive platform for Global Platforms like the UNDP and UNICEF GSSCs, in Brazil and at regional / sub regional levels.

While the expansion of the JOF client base beyond its current core member group of UN Agencies, Funds and Programmes remains a key focus, the preference for new JOF users is a more flexible, service based mechanism such as via SLA agreement instead of being part of a long-term commitment such as the MoU.

In this context, an in-depth analysis addressing the JOF mid-long term financial sustainability, expansion of services and adaptation to an evolving UN reform environment with new structures and solutions in the area of BO, is necessary.

3. SCOPE OF WORK

The consultancy should thus focus on the following topics:

- JOF’s Cost Sharing mechanism and Service Price structure that is flexible, competitive and attractive for core and new members, avoiding larger agencies subsidizing smaller entities;
- Modular/flexible membership service packages for new members/clients: with the definition of a cost-sharing mechanism including entry-fees and/or fees for specific service packages to be provided;



- Identification and definition of new services lines to be managed by the JOF service centre.
- Recommendations with regards to the existing JOF's HR structure in connection with current and future demands.
- The JOF as a potential country level service "antenna" for vertical platforms like UNICEF / UNDP etc GSSCs.

The final product of the consultancy should consist in a) solutions and opportunities catalogue based on a constraints analysis with concrete action proposals, innovative instruments and models (JOF pricing; cost recovery; membership and service options) and b) recommendation on the JOF HR structure and new lines of services.

4. DELIVERABLES

- 1) Conduct a desk review of the available data, information received from participating UN Organizations, and interviews of key JOF Stakeholders (Representatives, OMT, UNDG/DOCO, etc).
- 2) Revision of current Cost Sharing mechanisms and pricing tool for JOF participating agencies and other UN agencies in Brazil and other countries.
- 3) Consolidate all findings with concrete action proposals in a report addressing the following themes:
 - JOF Service Price structure that is flexible, sustainable, competitive and attractive for core and new members, avoiding larger agencies subsidizing smaller entities;
 - Modular / flexible membership service packages for new members/clients with the definition of a cost-sharing mechanism including entry-fees and/or fees for specific service packages to be provided (catalogue services);
 - The JOF as a potential country level service "antenna" for vertical platforms like UNICEF / UNDP etc GSSCs.
 - Feasibility to implement new lines of services in JOF;
 - Recommendations on current JOF HR structure and adjustments