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United Nations Office for Project Services

Progress report on the status of the preparation of a comprehensive action plan to enhance the efficiency of business operations and achieve sustainable financial viability

1. In resolution 2005/6, the Executive Board requested the United Nations Office for Project Services (UNOPS) (or 'the organization') to articulate a comprehensive plan of action on further measures to be implemented in 2006 to enhance the efficiency of business operations, ensure cost reductions, continue change management and achieve sustainable financial viability.

2. The United Nations Board of Auditors, in its report and audited financial statements for UNOPS for biennium ended 31 December 2003 (A/59/5/Add.10), recommended under observation 42 that the organization: "…continue to review its medium-term strategy in a comprehensive manner, including such elements as an analysis of the variables related to business from UNDP, with a view to aligning its project delivery approach and explore all potential business acquisition possibilities and alternate sources of funding, given the changes in mandate…".

3. The UNOPS action plan will validate UNOPS strategic positioning options as operational service provider of the United Nations system as set out in General Assembly resolution 48/501 and the note of the Secretary-General on the UNDP-UNOPS relationship (DP/2002/CRP.5), and define alternative scenarios under which the organization can achieve sustainable financial viability.

4. The action plan will: (a) analyze the UNOPS business portfolio, identifying those segments of business that do not adhere to the full cost-recovery principle and validating options available to the organization for medium-term market and service line positioning; (b) review prevailing business processes and identify options for immediate impact cost reductions in business process delivery; (c) evaluate options for more cost-effective, efficient operating models and business process delivery; (d) project scenarios of financial viability in line with the identified market and

operating model options; and (e) evaluate capacity requirements and gaps to implement the proposed organizational changes (see graph below).

5. UNOPS has a future as a viable entity of the United Nations system – if it responds to trends in the delivery of post-conflict and development assistance, if it is responsive to client requirements for results, speed and service delivery innovation, and if it can increase internal capacities and efficiencies. Opportunities abound to support clients in achieving their goals. Today, portfolio acquisition is growing rapidly; the organization's client base is diversifying. Yet the volatile financial situation of UNOPS since 2000 has long delayed critical investments in information technology, operating systems and human resources.

6. The analysis of the UNOPS business portfolio has validated the general strategy proposal submitted to the Board at its first annual session in 2005. Under target for resource assignment from the core (TRAC) 1 (post-conflict and emergency), the portfolio is characterized by rapid growth and full cost recovery. The main service line is project management at the country level, with an emphasis on infrastructure/engineering works, complex logistics operations and support to elections. Turn-around time is short. A strong UNOPS country presence is required, with full support systems in situ and limited reliance on external back-up support. Under TRAC 2 (poverty alleviation and general development), portfolios represent a wider spectrum of service lines ranging from project management, project administration, project supervision to the provision of ad-hoc services. The majority of services are implemented at the country level, although some are delivered at the regional or global client levels. The challenge within TRAC 2 is to institute appropriate service pricing standards to ensure full cost recovery since not all portfolio segments currently cover the cost of service delivery.

7. United Nations reform, harmonization of agency activities, host-country demand and donor preferences all point to an integrative trend at the country level for the design and delivery of programmes. Likewise, UNOPS is best positioned to quickly identify opportunities and effectively support the work of the United Nations where it is present at the country level. A strong yet selective country base has to be at the centre of the UNOPS strategy to assure sustainable financial viability.

8. UNOPS, however, is not currently organized to respond adequately to the challenges and many opportunities that it faces, either in post-conflict/emergency countries or in countries addressing development challenges. In the future, UNOPS staff can expect to be increasingly mobile, while achievement of sustainable financial viability will require a lighter fixed organizational structure.

9. UNOPS has proceeded with an analysis of its cost structure. The organization needs to understand its cost base in order to make the right strategic choices, optimize revenue and minimize cost. The application of the flat percentage fee method based on total project budget value, without annual fee reviews or detailed analysis of the complexity of service requirements, has contributed to the erosion of the organization's financial position. UNOPS will institute a new pricing policy; details are being worked out. The new pricing policy will take into account United Nations policy in this regard, including prevailing practices for the classification of direct and indirect costs. New projects will only be accepted if they meet the criteria set out in the new pricing policy. Existing projects are under review. Where necessary, UNOPS will dialogue with clients to confirm their continued requirement for UNOPS services, review service-pricing arrangements and seek to change such arrangements where full cost recovery is not currently being achieved.

Action plan preparation: workflow