United Nations DP/2005/39

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.: General
1 August 2005

Original: English

Second regular session 2005
6 to 9 September 2005, New York
Item 5 of the provisional agenda
United Nations Office for Project Services

Restoring the viability of the United Nations Office for Project Services as a separate, self-financing entity: an action plan

Summary

The present report is submitted pursuant to Executive Board decision 2005/6 of 28 January 2005. The report provides two alternative courses of action for the United Nations Office for Project Services (UNOPS) to ensure the future viability of its operations as a self-financing, independent service provider in the United Nations system:

Option 1: UNOPS as a complex operations management and full-service implementation entity, offering a focused set of product lines, working in partnership with international financial organizations (IFIs), United Nations system and government clients to deliver concrete, rapid results, primarily at the country level, in post-conflict and natural-disaster response environments, and in developing countries requiring infrastructure development, complex operations management and capacity-building support. This option would allow for rapid downsizing and concentration of UNOPS support structures and fixed-cost base.

Option 2: UNOPS as a full-range service provider catering to the United Nations system, IFIs and host governments, providing complex operations management, individual contracting, procurement and administrative support services to clients in diverse locations. This option would require a rationalization of corporate structures, systems and services, of necessity more diverse than under option 1.

Elements of a decision

Both scenarios entail a reduction of the UNOPS fixed-cost base and the introduction of new service pricing mechanisms based on a transparent cost-measurement methodology. The Executive Board may wish to indicate the option that it wishes UNOPS to pursue. This will enable UNOPS to proceed with the implementation of measures designed to achieve sustained financial viability.

05-45093 (E) 300805
0545093

Contents

I. Executive summary

1. In its decision 2005/6 of 28 January 2005, the Executive Board requested UNOPS to articulate a comprehensive plan of action outlining measures to be implemented in 2006 to enhance the efficiency of business operations; ensure cost reductions; continue change management; and achieve sustainable financial viability. The Executive Board requested that the action plan analyse the cost-effectiveness of different options for the future configuration of UNOPS.

2. As a project management and implementation entity, contracting specialist and service provider to the United Nations system and beyond, UNOPS has two major business streams to offer to client organizations and to developing countries: (a) the management and implementation of complex operations delivering rapid results for clients on the ground (e.g., engineering and infrastructure works and management and logistics support for national elections); or (b), the provision of individual service lines or inputs (e.g., contract preparation, human resource recruitment and administration, procurement of materiel and loan supervision) that support client operations, enabling clients to focus on the content and goals of their work.

3. The long-term viability of UNOPS is in question today. Since the end of the 1990s, its fund balance eroded as revenues failed to cover operating costs, investment needs, or reserves to meet its statutory obligations. In recent years, a disproportionate share of UNOPS revenues has come from a few large-scale, complex operations, managed in specific environments: post-conflict transition and post-natural disaster recovery. The remaining UNOPS services have generated smaller revenues, despite high workload demands on the staff. With its high fixed-cost structure, UNOPS has found it difficult to operate smaller, transaction-intensive services on the basis of full cost recovery. Thus UNOPS is confronted with the fundamental question: can it become a viable, self-financing entity once again?

4. UNOPS will not overcome its current crisis by using the same thinking that created the crisis. Neither will improvements in systems, technology and management practice alone solve the crisis: they can raise performance levels, but cannot clarify direction or establish priorities. UNOPS must seize the opportunities inherent in its current problems, so that it can regroup to focus on markets where there is a clear demand, where full cost recovery can be achieved, and for which UNOPS has the talent to respond to client needs.

5. This paper offers two alternative approaches for UNOPS to achieve the goal of becoming, once again, a financially viable, client-oriented operations management and service provision entity.

6. *Option 1* proposes an immediate, radical reduction in the range of services provided in UNOPS geographic coverage and fixed-cost structures, allowing it to focus, regroup and rebuild its capacity, reputation and reserves around a core set of product offerings and skill-sets designed to assure rapid delivery of high-quality, concrete results for clients. Its primary product lines would encompass engineering and infrastructure operations (e.g., roads and buildings), complex operations management (e.g., mine action, census and elections support, environmental rehabilitation and watershed management) and supportive service lines, such as rapid response/surge capacity, security assessment and training, complex/specialized procurement, ICT services), as specified in Chapter IV, below. Primary market environments would comprise countries in post-conflict transition or recovering

from natural disasters, and countries with poorly developed infrastructure and limited management or implementation capacities. Under option one, implementation of necessary changes would be completed, for the most part, in 2006, enabling UNOPS to start rebuilding its reserves and returning to sustained viability in 2007. Rebuilding on the basis of core competencies in specific market environments would enable UNOPS, in the medium term, to offer its products and services to a wider array of clients.

7. *Option 2* maintains the current wider range of service offerings, but proposes cuts to its fixed costs, rationalization of its structures, and a phasing-out of portfolios where full cost recovery is not achievable. UNOPS would continue to offer both complex operations management/implementation services and individual service lines, for example: recruitment and administration of human resources, contracting and procurement services, project supervision and loan administration, and conference management services. Markets and clients would remain diverse, necessitating a more geographically dispersed support structure than for option one, but portfolios would be subject to full cost recovery, assured by improved pricing though activity-based costing processes. Under option two, implementation of necessary changes would be completed by late 2007, enabling UNOPS to begin the steady return to sustained viability in 2008.

8. Annexes 1 and 2 contain financial projections for options one and two respectively, together with explanatory notes about the data presented and the assumptions upon which projections were developed.

9. Table 1 summarizes the distinctive features and shared requirements of the two options.

Table 1: Summary of options one and two

Option one: Limit product lines and geographic coverage for rapid recovery	***Option 2: Offer full service range, with greater efficiency and lower costs***
Complex operations management and full-service implementation, offering a targeted set of country-focused product lines, (post-conflict, disaster recovery, infrastructure in the poorest least developed countries); national partnership/capacity-building), plus complex interregional (e.g., watershed/water resource management). **Focus on products, results.** *Focused product lines:* + Engineering, infrastructure operations + Large-scale, complex operations/labour-intensive operations management, e.g., mine action, election support, census, emergency/labour-intensive employment, alternative livelihoods (counter-narcotics, disarmament, demobilization and reintegration) + Environmental rehabilitation/recovery (e.g., natural disaster recovery, watershed management, reforestation, international water resources management projects. + Supporting service lines: rapid emergency	Full-range service provider, as per current mandate, providing individual and multiple service-line support services – including complex operations management services. **Focus: varied support services and product lines.** *Service lines:* + Implementation of components/inputs of activities under execution by clients (human resources recruitment and management; procurement; administration, conference management). + Project supervision and loan administration + Contract issuance/administration. + Engineering, infrastructure operations. + Large-scale complex operations management; complex project administration.

response/surge capacity; security assessments and training; specialized common services (complex procurement, security-compliant transport; facilities construction/management; ICT hardware/software purchasing, installation, training and implementation). + Project supervision/loan administration and other service lines: provided on full cost-recovery basis and relying on streamlined structure and systems.	+ Environmental rehabilitation/recovery.

Option one cost/process improvements	**Common cost-cutting/process improvements**	**Option two cost/process improvements**
+ Support service divisions integrated/downsized/ relocated into one 24/7 global service centre. + One global standby/rapid response support centre. + Regional offices folded. + Mobile client relations/business acquisition staff in key market zones + Organizational backbone: Targeted country presence – large, medium and embedded operations – delegated authority, largely project-funded. *Future:* Adapted Enterprise Resource Planning (ERP) system	+ Full cost recovery; phase out/renegotiate loss-making portfolios. + Pricing: activity-based costing; convert fixed costs where possible into variable project costs, to ensure demand-driven management. + End cross-subsidisation of service lines/units. + Downsize/relocate headquarters to lower cost centre. + New York: small liaison office and GLO portfolios management. + Liaison offices in major client headquarters locations. + Increased business process efficiency (e.g., e-contracting). + Align HR skill sets/post levels to activity requirements **(Option one, focused; option two, more diverse)**	+ Regional office network rationalized; each unit a ‘profit centre’. + Support service divisions downsized; partial integration into relocated service centre, partial selective devolution to regions. + Selectively strengthened country presence with delegated authority, largely project-funded. + Maintain/optimize ERP system.

10. The medium-term goal of both approaches is to restore the ability of UNOPS to be an efficient, value-adding service provider to the United Nations system, international financial institutions and developing countries, contributing to the achievement of the Millennium Development Goals (MDGs), the United Nations peace and security agenda, practical results at field level, and the overall mission of a more efficient, effective United Nations.

11. Once the Executive Board indicates its decision on the desired course of action, a UNOPS team will develop the implementation plan for the option selected,

portfolio development or disposition, and structural and process changes. Proposed changes to the financial rules and regulations will be presented to the Executive Board at its January 2006 session.

II. Changing market environment: opportunities and implications

12. The changing environment in which UNOPS and the United Nations system operate offers both challenges and opportunities. Aid flows are growing, but predominantly outside the United Nations system, and increasingly targeted to direct budgetary support. Emphasis is placed on national leadership and ownership of development priorities, the strengthening of national institutions and capacities, and public-private partnerships. The United Nations is challenged to transform itself into a cohesive, efficient and effective system making a more harmonized, streamlined and cost-effective contribution to development goals at the country level, while playing a significant role in assuring peace, security and post-conflict transition.

13. These developments have a number of implications for UNOPS:

(a) As official development assistance (ODA) and other resource flows move to nationally-driven strategic approaches, UNOPS operations must be integrated into national poverty reduction, sector-wide or post-crisis recovery actions, either through its client agency portfolios or directly with national partners. UNOPS must ensure its contribution to capacity building in the activities it undertakes for client organizations or directly for host governments. Its complex field operations are delivered with and through host country partners: local private-sector firms and contractors, which it supports to ensure appropriate competitive bidding and management practices; and government managers, engineers and procurement specialists, to ensure the development and application of appropriate standards and quality controls. UNOPS practice is aligned with expectations of practical capacity-support measures.

(b) With its network of public- and private-sector contacts and its portfolio base in complex engineering works, water resource management, complex procurement and mine action, UNOPS works to support public-private sector partnerships in developing countries. Its membership in the neutral United Nations, its policy of full cost recovery rather than profit maximization, its commitment to counterpart capacity-building, its speed in contracting and delivery, and its ability to manage risk in unstable environments add to its value as a partner to developing country governments and local private-sector entities.

(c) With the trend towards direct budgetary support to host governments, the importance of resource flows through IFIs and the increasing variety of funding channels and donors, UNOPS has the opportunity to expand its client base. Pursuant to Board decisions 2004/3 and 2004/15, UNOPS is building a diversified client base including: host governments and other clients, for infrastructure development operations in countries emerging from conflict or natural disaster (Afghanistan, Indonesia-Aceh, Iraq, Sri Lanka, Sudan); IFIs for infrastructure activities, complex procurement and operations management (World Bank: roads in Afghanistan; Nile River Basin initiative); and with new global funding mechanisms (e.g., as local fund agent for the Global Fund to Fight AIDS, Tuberculosis and Malaria – GFATM – in a number of countries).

(d) The renewed emphasis within the United Nations on practical, on-the-ground, results-oriented action suits UNOPS field-based project delivery capacity, which it should further strengthen to deliver results. Decisions on budget priorities, donor resource allocations and United Nations activities are largely made at the country level. With regard to UNOPS business acquisitions in 2005, 81 per cent of newly acquired portfolios are for country-level service delivery, the majority involving operations for post-conflict or natural disaster recovery (see annex 4, figure 1). Country-level presence and capacity are important parts of future viability. UNOPS must concentrate its efforts and resources in countries where it can provide added value – to the host country, the United Nations Country Team (UNCT), and other national and international partners.

(e) The recognition of the United Nations role in post-crisis recovery is reflected in the recent rapid growth of the UNOPS operations management portfolio in such environments, in a number of fields: development of economic, social and public infrastructure, support to mine action, national elections, environmental recovery and complex procurement. In 2004, UNOPS revenues from portfolios in post-crisis transition environments increased to almost 50 per cent of total revenue. As of late June 2005, 60 per cent of UNOPS new business for the year had been acquired in countries recovering from natural disasters or armed conflict (see annex 4, figure 2). There is movement towards closer integration of United Nations humanitarian, reconstruction and state-building roles through integrated missions. Together with the likely creation of the Democracy Fund and the Peacebuilding Commission, this trend offers UNOPS increased opportunities to provide complex operations management and implementation services across the spectrum of state-building, reconstruction and humanitarian operations in countries in transition.

(f) To date, 40 per cent of UNOPS total projected revenues from new acquisitions come from its development portfolio (see annex 4, figure 2). However, of that proportion, half is derived from only four large infrastructure or procurement portfolios. Furthermore, apart from management service agreements signed under the UNDP umbrella, or contracts signed for UNDP-managed trust funds, and apart from one globally-managed service line – the small grants programme of the Global Environment Facility (GEF) – direct business with its traditional main client, UNDP, has declined considerably. With the ability of UNDP to undertake direct execution now delineated in its financial regulations and rules, and with the rapidly growing development of UNDP service-centre capacity, the decline is expected to continue.

(g) The renewed allocation of international investment in the infrastructure sector provides an opportunity for UNOPS to expand its portfolio, which it has started to do in post-conflict and disaster-recovery environments, directly with governments (and their bilateral supporters), for IFI partners, and for United Nations clients such as the United Nations Children’s Fund (UNICEF) and UNFPA. The potential exists to extend operations into those most disadvantaged developing countries striving to meet the MDGs, where economic and social infrastructures, as well as required national capacity for implementation and oversight, are weakest.

(h) The demands upon the United Nations for cohesion, harmonization and country-level cost reductions might appear to offer some potential for UNOPS common services support to UNCTs. However, with UNDP exercising leadership in the United Nations country coordinator system and supporting common premises and services, while developing its own regional service centres (and country service centres in Africa), opportunities for UNOPS in this market are limited. By 1 July 2005, less than one per cent of UNOPS business acquisition for the current year was under the rubric of common services (see annex 4, figure 2).

(i) At the United Nations global/headquarters level, member state expectations are high for rationalization of procurement and human resource management, increased administrative efficiency and cost reductions. These changes are progressing too slowly to offer UNOPS an immediate opportunity to become a predominant system-wide support service-provider to the wider United Nations family.

(j) The trends in UNOPS portfolio development illustrate that full cost recovery is best assured from large, complex portfolios that achieve economies of scale. Growth in such portfolios predominates in emergency/post conflict environments. At the other end of the spectrum, many small, transaction-intensive portfolios contribute little to the revenue base while adding disproportionately to the fixed-cost base. Figure 3, in annex 4, showing revenues from ongoing UNOPS operations in 2005 against portfolios sorted by income generated, confirms this analysis. The implications are clear: large, complex operations delivering concrete results allow for full cost recovery and derive healthy margins to regenerate UNOPS reserves. But these operations are cross-subsidising small, under-performing portfolios and a high fixed-cost base.

III. Two roads to sustained viability

14. Two approaches to ensure future financial viability are proposed in this paper, and the implications of each are assessed.

15. *Option one.* UNOPS as a complex operations management and implementation entity, offering a focused set of product lines and working in partnership with national counterparts to deliver results for clients, primarily in the post-conflict and emergency response market, and in developing countries requiring complex operations, infrastructure management and related capacity-building support.

16. *Option two.* UNOPS as a provider of a varied range of services as per its current mandate, with improvements in service delivery and cost-effectiveness, providing individual and multiple support services – including complex project management services – to the United Nations system, IFIs and host governments.

17. The aim of both approaches is to restore UNOPS to financial viability as a quality client-oriented operations management and service provider, as set out in General Assembly Resolution 48/501. Option one offers a radical, immediate and focused route, with most changes completed in 2006, resulting in a return to financial growth by 2007. Option two offers a more gradual and diverse route, with most changes completed by late 2007, permitting the return to financial health to begin in 2008.

18. Once the Executive Board indicates its decision on the desired course of action, a UNOPS team will develop an implementation plan for the option selected,

to encompass portfolio development or disposition as well as structural and business process changes.

Standard cost-cutting measures and business process improvements common to both options

19. Previous reviews of UNOPS have highlighted an inadequate service pricing mechanism, lack of product delivery focus, and structural imbalances in operations, contributing to high fixed costs. Any future course of action will need to address pricing accuracy and reduce the high fixed-cost base.

20. Common to both options is the need to promptly implement a series of measures to cut UNOPS fixed-cost base. These include:

(a) Focus on markets, clients, service lines and portfolios that allow for full cost recovery.

(b) Within market tolerance, increase managerial flexibility and alignment of structure with demand by converting fixed costs into project-based variable costs where feasible, while containing the overall cost structure.

(c) Increase flexibility by using contractual forms that allow UNOPS to manage peaks of activity without increasing fixed-cost capacity, and by hiring versatile, mobile resources.

(d) Screen current portfolios and phase out low-volume, low margin activities.

(e) End cross-subsidisation of service lines and units.

(f) Improve transparency and value for money by introducing activity-based costing techniques, to be rolled out systematically in 2006.

(g) Increase efficiency by streamlining processes, aligning post levels with activity requirements, and developing/hiring human resources with skill-sets aligned to business requirements.

(h) Relocate operating units to lower-cost duty stations; relocate corporate headquarters and support-service functions to a zone more central to UNOPS operations, where support costs are lower; sublease the Chrysler Building to assure full rental-cost recovery. In recent years, growing demand by United Nations clients, coupled with UNOPS corporate downsizing, has enabled this process to begin. Estimated Chrysler Building rental income for 2005 is likely to exceed $2 million, representing some 40 per cent of the 2005 rental expenditure for the building.

21. A series of measures is under way to introduce necessary business process improvements. These include:

(a) Institution of a revised project acceptance process based on appropriate pricing and full cost recovery;

(b) Stabilization of the ERP system and ongoing staff training;

(c) Creation of monthly management reports;

(d) Systematic production of client reports; and

(e) Development of an integrated IT platform, including a revamped web site, intranet and Outlook e-mail.

IV. Option one

22. Under this option, UNOPS will focus primarily on the delivery of results. UNOPS will develop a clear identity as an agile, quick-acting, innovative and cost-effective entity in the management and implementation of large-scale, full-service complex operations, working in partnership with national counterparts to deliver, tangible results for clients in high-risk environments and building counterpart national capacity in operations management. The primary markets for UNOPS operations will be:

(a) Countries in the early phases of post-conflict transition;

(b) Countries in the immediate aftermath of natural disasters; and

(c) Low-income countries striving to attain the MDGs, but having poorly developed infrastructure and limited management or implementation capacity.

23. UNOPS will focus on matching international technical capacity with local counterparts; promoting public/private partnerships; helping strengthen national private sector and community capacities for contracting, management and delivery; and supporting governments in building capabilities for operations management and design, together with relevant benchmarking and assessment, standard-setting and quality control.

24. To achieve these objectives, UNOPS will embark on a radical transformation and down-sizing of its cost structure in support of a coherent set of product lines that address client requirements in the markets specified above.

25. When UNOPS assumes portfolios that do not strictly fall within these parameters – such as the loan supervision services, which it will continue to provide at the request of the International Fund for Agricultural Development (IFAD) – it will do so with the proviso that they be managed as coherent, distinct service lines, assure full cost-recovery, and can be serviced without adding to UNOPS fixed-cost structure.

A. Product lines

26. UNOPS will focus on a core set of product lines, as follows:

(a) ***Engineering/infrastructure products,*** including economic infrastructure – roads, bridges, ports, energy infrastructure, water supply and sanitation systems; government infrastructure (office buildings, customs facilities, barracks); social infrastructure (education and health services infrastructure, community buildings);

(b) ***Large-scale complex operations/labour-intensive products,*** including mine action; elections support, national registrations, census and survey support, large-scale monitoring and quality control, emergency employment, special labour-intensive works; complex multi-country operations management; and

(c) ***Environmental rehabilitation/recovery products,*** including natural disaster recovery and assessments, environmental recovery and rehabilitation, water resources management, alternative livelihoods (e.g., in DDR or counter-narcotics programmes).

27. UNOPS will provide the following related product streams:

(a) ***Security and safety products,*** including security communications instalments, security monitoring, security assessments, security engineering, security training; close protection, project-based mine action support;

(b) ***Specialized common services products,*** including: complex procurement, transport assets, facilities construction and management, predictable standby/surge capacity, and rapid emergency response, deploying both material and technical (engineers, logisticians, operations/project managers, assessment specialists) assets; and

(c) ***Technical innovation product line,*** including: technology/communications-based planning, training and implementation; hardware/software purchasing and installation, internet, VHF access and support; web communication support, systems design and implementation.

B. Strategic and operational streamlining

28. In addition to cost cutting, specific measures to be implemented under option one include:

29. *A targeted, country-focused strategy.* UNOPS will strengthen its country presence in a select number of countries where the volume of operations and donor commitment warrants a strong UNOPS presence. This will permit the speed of action and proximity to the client necessary in large-scale, complex operations management. Country focus will be ensured through:

(a) ‘Fully-loaded’ country operations units. These exist, or will be opened, where there is a high volume of operations and demand potential; such units will be almost autonomous in managing daily operations, with decision-making and support functions (procurement, ICT, human resources and financial management) devolved to the country level. Most costs of such units are charged directly to projects.

(b) ‘Light’ country operations units. These will be created when the volume of operations is low, but potential for portfolio growth is high. Decision-making and budget management will be devolved to the country office, which will rely on a global service centre for support services. Most costs of such units are charged directly to projects.

(c) Country presence embedded in client offices. Such a presence is installed where the volume of operations is low and potential for development is limited, but operations enable full cost recovery. Most support services will be provided from the global service centre. Costs are charged to projects, ensuring full cost recovery.

30. UNOPS will also manage complex, multi-faceted operations at the inter-country level as distinct product lines, subject to full cost recovery. This will include such portfolios as the international environmental/water resource management programmes administered for the Global Environment Facility/UNDP and the World Bank.

31. *Internal business processes*. To be successful, the UNOPS system must be flexible, enabling consistent, rapid response and start-up, and prompt closure when required. Financial systems must provide transparency and rigour. Human resource contracting modalities must be flexible in option one environments. Procurement is concentrated on a limited list of regularly-used specialist items and maintenance of

critical stocks, which, through innovative leasing, depreciation or reissue modalities, allow reduced costs in project lines with a short operational life. Quality control will enable higher standards to be set, quickly and at reasonable cost. As has been demonstrated, human resources and material assets deployed in a limited range of product lines and operations are easily transferable between country operations, enhancing cost savings and delivery speed.

32. The combination of focused product lines and selective country presence means that corporate structures can be reduced and kept to the minimum level necessary to ensure ongoing operations. Additional resources will be hired on an as-needed, full-cost-recovery basis.

33. *Support services* will be integrated, downsized and located in one global service centre operating 24 hours/day, 7 days/week. The corporate structure will comprise the executive office, audit, a strategic analysis unit and a product/service performance unit responsible for assessment and quality control. Client management structures will be rationalized and kept at the minimum level necessary to ensure business development and close client relations. The regional offices will be absorbed into a client management structure composed of:

(a) Small liaison offices, responsible for managing relationships with global headquarters and decision-makers of current or potential clients;

(b) Senior business development officers, responsible for client management and business development in regions where major operations exist and portfolio growth is feasible; and

(c) A focused global unit addressing portfolios for which client decision-making takes place at the corporate level.

34. This country-focused approach requires a light corporate structure streamlined and tailored to a targeted number of product lines and markets, with significant cutting of current fixed costs as marginal services are eliminated. Systems and procedures are designed for flexibility, rapid response and functionality. As and when portfolio volumes reach a critical threshold, a smaller, focused UNOPS could phase in a customized ERP system to support financial transactions in areas with limited internet access, and to allow disbursement of funds in areas without local banking systems.

C. Rationale, niche and added value

35. Option one closely follows the advice of the Management Coordination Committee (MCC) that in order to survive, UNOPS must operate in a market segment where net margins are sufficient to cover the cost of operations, investments in business development and improvement in business processes. It moves the organization from transaction processing to offering a set of high-calibre skills in focused product lines, to achieve quantifiable results within a short time frame.

36. The complex, large-scale operations within the option one product lines offer full cost recovery. During the 2003-2005 period, they represented UNOPS fastest-growing market. Business growth in this market, and a focus on option one product lines, reflect:

(a) Evolving ODA trends: the increase in international investment to respond to huge infrastructure needs, whether for transport links, access to sustainable energy sources, water supply and sanitation, or social infrastructure, such as school and health facilities;

(b) Requirements in the poorest countries with weak infrastructure and operations management capacity, and in countries emerging from conflict or natural disaster, for recuperation of damaged or destroyed infrastructure;

(c) The requirement for international development partners able to manage risk, operate and produce results quickly and innovatively in high-risk, insecure environments;

(d) The demand of partner countries for tangible evidence of change and rapid results that gain leaders and governments credibility in the eyes of their citizens;

(e) The expectation of partner countries and donors for concrete United Nations contributions at the country level – both in producing results and working with national counterparts in the public and private sectors and in civil society organizations to strengthen their operational and strategic capacities;

(f) The expectation of a rational division of labour within the United Nations, whereby the added value of its component parts of is maximized to achieve results in support of national priorities and capacities (the option reflects a growing demand on the part of United Nations and IFI clients for this specific set of products); and

(g) Support to practical operations across the spectrum of state-building, reconstruction and humanitarian operations; UNOPS can provide targeted, practical operational support to strengthen United Nations performance in peacebuilding, operational planning and integrated mission planning; it can provide predictable, focused standby and surge capacity for rapid humanitarian response, mobilizing specialized material assets and drawing on international technical expertise South-South capacity flows and national capacities.

37. Option one brands UNOPS as a specialized, value-adding United Nations actor in the management and implementation of large-scale, full-service complex country or inter-country operations, working with counterparts to deliver rapid results in high-risk environments, and building counterpart capacity. This brand occupies a coherent niche within the United Nations family and builds on UNOPS unique mandate as a project management and complex contracting/procurement entity. It reflects an ability to support the United Nations role in advancing peace and security, and to contribute to infrastructure development in support of the Millennium Development Goals within national development plans.

38. As a United Nations actor with a private-sector management approach, UNOPS works with the private sector and in public-private partnerships. It combines a drive for rapid results with commitment to local partnership, capacity building, deployment of local assets, respect for national priorities, cost-effectiveness, and the impartiality of the United Nations.

39. Adoption of the option one model may imply consolidation of UNOPS ability to contract directly with host governments or receive direct donor contributions for priority operations requested by host governments, especially if such direct contracting relationships reduce intermediary costs.

D. Risk factors

40. Option one directs UNOPS towards a specific niche and core product lines, aligning its capacities, systems and structures with precision to deliver results. However, such operations take place in environments of insecurity and political uncertainty. The market is volatile, with rapid short-term peaks and valleys in business volume. Such risks are mitigated by reducing the fixed-cost core to a minimum, and through accumulation of capital through large-scale, short-duration operations to provide an operating reserve to cushion UNOPS against market volatility, make appropriate insurance provisions and facilitate investment in emerging business opportunities.

41. Success will also be determined by:

(a) a range of focused product lines and service areas with a large market base, repeat demand opportunities, and the ability to deliver immediate, visible impact;

(b) an operations-based, cost-effective capacity for delivery within a rapid-response environment; and

(c) the continued commitment and capacity of United Nations actors, IFIs and donors to focus on countries with the most critical needs.

E. The process of transition

42. A UNOPS team, to be appointed once the Executive Board decision is made, will develop the implementation plan for transitioning rapidly to the option one model in 2006 and applying the measures described above. A key element of the plan and of future operations will be to end cross-subsidisation between operations and between operational units. Each unit will be ‘fire-walled’ as an autonomous ‘profit-centre’, backed up by support services provided against an activity-based costing model.

43. During the transition, UNOPS will honour its commitment to portfolios that fall outside the option one model, but meet the following criteria: continued client demand, full cost recovery, and serviceability within the streamlined structure and business processes. New portfolios in such service lines will not be actively sought. As appropriate, in consultation with clients, ad hoc services with limited added value and marginal returns will be phased out.

F. Financial viability

44. The tables in annex 1 provide annotated financial projections for option one for the period 2006-2008, reflecting cost-reduction measures and structural realignments, and based on the assumptions explained in the notes to the financial projections in annex 1. Highlights:

(a) The transition process lasts through 2007, with relatively strong growth in operations management portfolios in 2006 (16 per cent), followed by a more conservative growth rate (8 per cent per annum) thereafter. 2006 also foresees completion of obligations on ad hoc service-line portfolios where full cost recovery is assured, and the beginning of the phase-down in such portfolios, which accelerates in 2007, with a related dip in revenues for that year. IFAD portfolio revenues (and expenditures) are assumed to be constant. Chrysler Building sublease income fully covers rental costs as UNOPS New York headquarters is downsized and space is sublet.

(b) Regarding administrative expenditures, 2006 will be a transition year as fixed costs are reduced through: relocation/downsizing of headquarters; integration of service divisions (finance, human resources, ICT, procurement) into a relocated global service centre; strengthening of expanded country-level presence, which will be largely costed against projects, with some apportionment to the administrative budget. United Nations reimbursement cost increases are calculated on the 2005 base, although these may be reduced over time. Separation costs fall primarily in 2006, and are calculated over and above the anticipated return of UNDP contract-holders to that organization.

(c) The end-year fund balance is projected to dip to $11.76 million in 2006, separation costs being the principal factor contributing to the decline. Thereafter, with good revenue returns on a lower fixed-cost base, annual income from ongoing operations is expected to rise, generating an increasingly solid end-year fund balance, projected to increase to $17.79 million in 2007 and $27.35 million in 2008.

45. *Business acquisition planning, option 1*. Figure 1 in annex 3 projects business acquisition requirements for 2006-2008 under option one. Already-contracted business acquisitions and other income are projected to contribute $28.02 million in revenues in 2006, or 51.7 per cent of the 2006 revenue target of $52.91 million, setting a goal of generating the remaining 48.3 per cent, or $26.18 million in revenues, to attain the year-end revenue target. Since portfolio cycles in option one product lines are shorter than traditional portfolio cycles, this is encouraging, assuring revenues from existing portfolios and other sources at a substantial level.

46. With revenue targets conservatively projected at $50.07 million in 2007 to allow for closure of non-viable service lines (below full-cost recovery) and those falling outside the remit of option one, and based on projected revenues from existing portfolios and other income sources, the goal for additional revenue generation in 2007 is projected at $23.81 million, or 47.6 per cent of the target. For 2008, against a projected target of $52.71 million, the goal for additional revenue generation is projected at $28.54 million, or 54.2 per cent.

V. Option two

47. The current organizational model reflects the provision of a broad range of client-driven services, predominantly organized along geographic lines, with one global client-services unit to work with major clients such as the United Nations Mine Action Service or the GEF small grants programme. Under option two, UNOPS will strengthen its strategic position as a cost-effective, multiple service-provider by operating a range of services – including those offered under option one – for a diversified client base (the United Nations family, IFIs and host governments in crisis environments) in diverse locations.

48. While continuing to provide a range of service lines, UNOPS will rationalize and streamline its corporate and support structures to reduce its fixed-cost base, introduce activity-based costing, and price its services to ensure full cost recovery. If certain portfolios still do not assure full cost recovery, UNOPS will discuss with

clients an upward adjustment to the fee structure, or will negotiate the termination of its services and/or transfer of portfolios back to clients. The option two transition process is expected to be completed by late 2007.

A. Service lines

49. UNOPS service lines will include the following:

(a) ***Comprehensive management*** of complex, large-scale project operations for delivery to clients in low-income countries in crisis, including a range of engineering and infrastructure projects;

(b) ***Large, complex project administration*** (e.g., the Nile River Basin Initiative and other water resource management programmes) where UNOPS assumption of administrative and financial management, human resource administration and procurement services enables clients to focus on achievement of operational goals;

(c) ***Sourcing and administration of specific components or inputs*** of activities; components include procurement of goods, services or work, recruitment and administration of experts, project personnel and client staff; contract preparation; training events; and conference administration; and

(d) ***Project supervision and loan administration*** on behalf of IFIs such as IFAD, or as local fund agent for GFATM.

B. Strategic and operational streamlining

50. While UNOPS will undertake measures to streamline its business processes and cut fixed costs, option 2 will require a more diverse UNOPS structure and more dispersed operations than option one. Thus cost-cutting cannot be as radical or as rapid. However, in addition to the measures cited in Chapter III, above, specific measures to be implemented under option two will include:

(a) Capping of corporate costs, while corporate functions address strategic matters of governance, oversight and inspection;

(b) Transformation of client service units (regional offices and the Global/ Interregional Project Division) into ‘profit centres; activity-based costing; clear targets governed by meticulous performance metrics; no cross-subsidisation between the centres; under-performing centres will be closed or merged;

(c) Rationalization of the regional office base through realignment and integration;

(d) Selective strengthening of country presence in countries where the volume of operations warrants a strong UNOPS presence to manage large-scale, complex operations; a mix of ‘fully-loaded’, ‘light’ and ‘embedded’ operations, as described under option one, will be deployed;

(e) Development of a small global service centre for central support functions; service delivery functions decentralized to operational units (country, regional or global) operating as distinct revenue and cost centres, except where such units pool resources into joint service centres to achieve economies of scale and service reliability; and

(f) PeopleSoft will be used as the sole ERP system, adapted for flexibility and decentralized data processing.

C. Rationale, niche and added value

51. Under option two, UNOPS will strengthen its capacity to respond to a wider demand for management and operational services, at a time when average net disbursements of ODA are rising, while the Millennium Project, the High-Level Commission on Africa and the recent G-8 summit have underscored the need for poverty reduction, debt relief and investment in developing countries. Growing infrastructure investments and the important United Nations role in peacebuilding and post-conflict reconstruction, through increasingly integrated missions, expand opportunities for UNOPS services. While the market potential for UNOPS services is growing, competition from alternative ODA delivery channels is also increasing.

52. Member State pressure for rational division of labour within the United Nations may inspire recognition of UNOPS unique role as an operational/project management, contracting and complex procurement entity.

53. The UNOPS brand definition will be determined mainly by the characteristics of its service delivery: quality, speed, efficiency, results, sound financial management, cost-competitiveness and client orientation.

D. Risk factors

54. In recent years, variable quality of service and late or unreliable financial reporting have been an issue with a number of clients. The efficiency measures outlined, including improved service-line pricing mechanisms, activity-based costing and systematized client reporting, are designed to eliminate these problems. A particular challenge will be to ensure containment of the costs of delivering multiple service lines to clients in many locations worldwide so that services remain cost-competitive. Recent increases in portfolio volume and client diversification illustrate that UNOPS reputation can be restored.

55. Client relations and marketing UNOPS services assume critical importance for a multiple service-line provider in a competitive market. UNOPS will have to overcome its reputation as a struggling body facing difficulties to remain viable.

56. UNDP has taken increased its internal operational capacities in contracting, procurement, financial administration, human resource management and administrative support, which were subcontracted to UNOPS. The creation of regional service centres – and, in Africa, country service centres – enables UNDP to service its own programmes, and to offer such services to other parts of the United Nations system. Specific articulation in the UNDP financial regulations and rules of its role in direct execution at the field level also diminishes a traditional field of subcontracting to UNOPS. With a continued decline in UNDP business, diversification of the UNOPS client base within and outside the United Nations system is essential. Progress to date is encouraging, primarily in the field of large-scale operations management in crisis countries.

57. Despite pressures from Member States for greater effectiveness, efficiency and cost-reduction in its internal systems and administrative operations, United Nations reform is proceeding slowly, especially at headquarters levels. Inter-departmental or inter-agency rivalries may continue in the kinds of service lines that UNOPS provides, for example in procurement and human resource management. One encouraging development is the ongoing round of discussions between UNDP and UNOPS to define relative strengths and competencies in the procurement field and reduce duplication and competition, while the UNICEF-UNOPS memorandum of

understanding on procurement also seeks to promote synergy between the procurement operations of the two organizations.

58. A comparison of options one and two reveals that the potential for full cost recovery in large-scale operations management assignments in emergency and post-conflict scenarios is stronger (and faster) than the return on loan administration or other option two service lines, but the business risk is commensurate with the return on investment. Under option one, UNOPS relies on short-term, rapid-return portfolios to build its investment capital and reserves. A UNOPS that caters to the needs of countries in crisis and supports clients working with countries at various stages on the development ladder, and in a wider range of service fields, could spread its risks more evenly and make necessary insurance provisions.

59. Success will depend on a mix of factors:

(a) UNOPS ability to offer a range of high-quality services based on actual demand;

(b) Cost-effective delivery of services;

(c) Client diversification; and

(d) The continued desire of United Nations organizations to avail themselves of UNOPS services.

60. UNOPS is committed to improving quality of services and value for money, while progress on United Nations reform may motivate other organizations to use UNOPS services.

E. The process of transition

61. A UNOPS team, appointed as soon as the Executive Board decision is made, will develop the implementation plan for transitioning UNOPS to the option two model, applying the measures previously cited. A key element of the option two plan will be to end cross-subsidization between operations and operational units. Each operational unit will be ‘fire-walled’ as an autonomous ‘profit centre’, backed up by support services provided against an activity-based costing model.

62. During the transition, the retention of portfolios – and new business acquisition – will be contingent on two criteria: client demand and full cost recovery. As appropriate, and in consultation with clients, provision of ad hoc services that are redundant, provide limited added value or marginal returns, will be phased out.

F. Financial viability

63. Tables in annex 2 provide financial projections for option two for the period 2006-2008, reflecting cost-reduction measures and structural realignments spread over the 2006-2007 biennium, and on the basis of the assumptions explained in the notes to the financial projections in the annex 2 highlights:

(a) Portfolio delivery and revenues are projected to dip slightly in 2006, on the assumption that while operations management portfolios will continue to grow (but at a slower rate than in option one), other service lines are likely to decline as certain clients withdraw business, or loss-making portfolios are closed down, without sufficient new-client revenues to offset those losses. Thereafter, revenues are projected to grow modestly, in a market characterized by client diversification and competition from other service-providers. IFAD portfolio revenues (and expenditures) are assumed to remain constant. Chrysler Building rental income grows as UNOPS headquarters are downsized.

(b) Salary and benefit costs are based on calculations of downsizing/relocation of the corporate headquarters functions and allocation of more direct costs to project budgets; unlike option one, option two foresees maintaining the regional office network, with some rationalization/mergers; a selectively-expanded country-level field presence is foreseen, the latter predominantly project-funded, with some apportionment to the administrative budget. The transition is projected to take place over the course of the 2006-2007 biennium, i.e., more gradually than under option one; separation costs are spread over the two-year period and are calculated taking into account reassignment of some staff to new locations, and the anticipated return of some UNDP contract-holders to that agency. United Nations reimbursement cost increases are calculated on the 2005 base.

(c) The 2006-2007 transition period is projected to generate small losses from ongoing operations, but to turn around in 2008, generating a surplus of $1.97 million in 2008 and increasing annual surpluses thereafter. The end-year fund balance is thus projected as eroding in 2006-2007, but beginning to climb again in 2008.

64. *Business acquisition planning, option two:* Figure 2 in annex 3 projects business acquisition requirements for 2006-2008 under option two. Existing business acquisitions and other income are projected to contribute $29.01 million in revenues in 2006, or 55 per cent of the 2006 revenue target of $52.77 million, setting a goal of generating the remaining 45 per cent, or $23.76 million in revenues, to attain the year-end revenue target. This is encouraging, with assured future revenues from existing portfolios and other income sources already ahead of trends in recent years. The majority of these revenues, however, will derive from portfolios from post-conflict/post-natural disaster countries. Based on projected revenues from existing portfolios and other income sources, the goals for additional revenue generation are progressively higher for 2007 and 2008, i.e., 50 per cent and 55.1 per cent, respectively, of the total target.

VI. Governance: next steps

65. The MCC was created to provide operational policy guidance, while the Executive Board ensures overall policy directives. In 1994, the Executive Board endorsed the recommendation of the Secretary-General that the MCC consist of the Administrator of UNDP (Chair), the Under-Secretary-General for Administration and Management, and the Under-Secretary-General for Development Support and Management Services. The MCC was enlarged to include executive heads of major United Nations clients as UNOPS business diversified, while the United Nations Comptroller joined the MCC when UNOPS financial situation worsened. The MCC met intermittently when UNOPS was doing well, and more regularly as its financial difficulties increased early in the decade.

66. The Users Advisory Group was formed in 1994 to ensure that UNOPS would be aware of the concerns of United Nations and other organizations utilizing its services, and to make recommendations to UNOPS on market developments and client requirements. The group met only once.

67. Assuming an Executive Board decision in September 2005 on the preferred option to be followed by UNOPS to ensure its sustained viability, UNOPS will review the terms of reference and composition of the MCC, taking into account the market environment, likely client base and business requirements of the option selected. UNOPS will bring its conclusions and recommendations to the January 2006 Executive Board session.

VII. Conclusion

68. The future viability of UNOPS rests on a combination of factors. At the heart of the challenge is its ability to sustain financial health in the face of the uncertainties inherent in being a self-financing service provider. Other factors include the ability to establish and maintain a clear identity and consistently good reputation, fill a clear market need, and provide high-quality, value-adding service at a competitive price, meeting client demands and enabling clients to achieve concrete results. UNOPS must focus on markets where demand is clear, returns on portfolios cover costs, and it has the skills and resources to fulfill client expectations.

69. The strategic approach of option one is to radically focus geographic coverage and offerings on large, complex portfolios permitting full cost-recovery, and to align capacities, systems and structures to achieve results for clients. UNOPS will quickly reduce its fixed-cost structural base, with most changes to be completed in 2006. This will enable UNOPS to regroup, establish a clear identity in the fields that contribute to its largest revenue share, and consolidate a reputation for delivering rapid, efficient, high-quality results in difficult environments, while supporting and strengthening national partner capacities.

70. The strategic approach of option two is more gradual in nature, as changes will be rolled out during the course of the 2006-2007 biennium. The portfolio mix will remain diverse, comprising complex, full-service operations management portfolios and portfolios involving the provision of individual service support processes and inputs. Option two will require a more diverse structure and more dispersed operations than option one. Efficiencies and cost-effectiveness will be realised through rationalization of corporate structures, sound financial management, optimization of technology, and improvements in business processes systems.

71. A decision of the Executive Board will allow UNOPS to embark on the required changes. The alternative options have one common goal: to enable UNOPS to become a sustainable, financially-viable, client-focused, results-oriented, high-quality operations management and service provider that helps clients achieve their objectives and build their capacities. In January 2006, UNOPS will present to the Executive Board proposed changes to its financial rules and regulations and proposed modifications to its governance structure.

Annex 1
Option 1 - Financial Projections

$ Mln	*EB Approved 2005 budget* (1)	2006	2007	2008	
SECTION 1: DELIVERY					
Delivery Amount	641.40	685.77	537.34	549.87	1
SECTION 2: REVENUES AND EXPENDITURES					
Total Revenue (net of ULOs)	***53.77***	**54.20**	**50.07**	**52.71**	
Revenue from implementation of project portfolio & serv	51.96	51.19	45.51	47.04	2
Of which IFAD	*8.44*	*8.10*	*8.10*	*8.10*	
Other Revenue (Interest, Rent)	1.81	3.02	4.56	5.67	3
Total Revenue after Direct Costs	***53.77***	**54.20**	**50.07**	**52.71**	
Administrative Expenditures (KY001-KY004)					
Salary and Benefits	*28.00*	23.55	16.20	15.80	4
General & Administrative	*10.05*	9.01	6.02	5.84	5
Salary and Benefits/General & Admin for IFAD		*7.12*	*7.12*	*7.12*	6
ASHI Accrual		1.21	0.21	0.22	7
Subtotal	*38.05*	40.88	29.55	28.99	
Reimbursements Expenditures					
PeopleSoft/ Atlas Payment to UNDP	*3.50*	2.50	2.50	2.50	8
Reimbursement Costs	*3.91*	5.02	5.35	5.70	9
Subtotal	*7.41*	7.52	7.85	8.20	
Allowance for Doubtful Accounts	*0.70*	0.79	0.86	0.94	10
Chrysler Building Rent Expense		4.92	5.07	5.03	11
Change Management programs (separation cost)					
Audit Observations Related Initiatives	*4.70*				
Host Government's contribution account					
Investments for IT systems transition		0.00	0.00	0.00	12
Total Administrative Expenditures	***50.86***	**54.12**	**43.33**	**43.15**	
Income/ (Loss) from On-going Operations	***2.91***	**0.08**	**6.74**	**9.56**	
Separation cost		5.69	0.71	0.00	13
SECTION 3: FUND BALANCE ROLL FORWARD					
Beginning Fund Balance	*14.46* (2)	17.37	11.76	17.79	
Income/ (Loss) from On-going Operations (and Separation)	*2.91*	(5.61)	6.03	9.56	
Savings on Prior Biennium Purchase Orders					
Ending Fund Balance (including $6 million operating reserve)	***17.37***	**11.76**	**17.79**	**27.35**	
Reserve should be (% on Delivery + Total Admin Exp.): *4%*	*27.69*	*29.60*	*23.23*	*23.72*	

Notes: (1) January 2005 Executive Board Approval

(2) Actual number from Consolidated Financial Statement for 2004.

05-45093 (E) 300805

0545093

Explanatory notes to Option 1

Nb	**Note**				
1	**Delivery Amount**				
		Reference projects Database 2005 (total Delivery: $732 Mln)			
		Revenues included:			
		- Project Management: Post conflict			
		- Project Management: Development in Least Developed Countries			
		- Other service lines when delivered in the countries already included above and their total income is over $30,000			
		- All IFAD projects maintained for the first three years			
		Growth was then assumed (2005-2008) at:			
		- 16% in 2006, 8% in 2007 and 2008 for Project Management Post Conflict based on market projections and past UNOPS busi			
		- 3% per year for Project Management Development			
		- 0% per year for other services			
		Projects not falling within the focus of UNOPS will be phased out in 1.5 years.			
		Complete phase out will be performed by June 2007.			
2	**Revenue from implementation of project portfolio & services**				
		Revenues are calculated based on current fees:			
		P. Mgmt Post Conflict	6.9%		
		P. Mgmt Development & Common Services.	7.9%		
		Project Administration	7.9%		
			2006	**2007**	**2008**
		Resulting average fee	6.30%	7.00%	7.10%
		Direct costs related to project management will be fully charged to the project.			
3	**Other Revenue (Interest, Rent)**				
			2006	**2007**	**2008**
		Interest from UNDP interfund balance	0.20	0.20	0.20
		Interest on Reserve	0.20	0.20	0.20
		Rental Income Chrysler	2.62	4.16	5.27
		Total	3.02	4.56	5.67
4	**Salary and Benefits**				
		Based on the presence of these offices:			
			2006	**2007**	**2008**
		Salary and Benefits	**14,456,277**	**15,179,091**	**15,938,045**
		Fully Loaded offices	3,318,891	3,484,835	3,659,077
		Light offices	1,641,038	1,723,090	1,809,244
		Embedded offices	0	0	0
		R&D	2,222,715	2,333,850	2,450,543
		Service Centre	6,595,104	6,924,859	7,271,102
		Liaison offices	678,530	712,457	748,080
		Phase out period of 1.5 years (Jan 2006-Jun 2007).			
5	**General & Administrative**				
		Based on the offices above, G&A will be:			
			2006	**2007**	**2008**
		G&A	**5,422,230**	**5,693,341**	**5,978,008**

Annex 2
Option 2 - Financial Projections

$ Mln	*EB Approved(1) 2005 budget*	2006	2007	2008	Notes
SECTION 1: DELIVERY					
Delivery Amount	*641.40*	598.00	590.78	593.70	1
SECTION 2: REVENUES AND EXPENDITURES					
Total Revenue (net of ULOs)	***53.77***	***52.77***	***53.16***	***54.37***	
Revenue from implementation of project portfolio & serv	51.96	50.16	49.47	49.27	2
Of which IFAD, PAPP, GFATM	8.44	9.50	9.30	8.90	2b
Other Revenue (Interest, Rent)	1.81	2.61	3.68	5.10	3
Total Revenue after Direct Costs	***53.77***	**52.77**	**53.16**	**54.37**	
Administrative Expenditures (KY001-KY004)					
Salary and Benefits	*28.00*	22.06	23.17	24.32	4
General & Administrative	*10.05*	13.81	13.37	13.45	5
ASHI Accrual		1.21	0.21	0.22	6
Subtotal	*38.05*	37.07	36.75	37.99	
Reimbursements Expenditures					
PeopleSoft/ Atlas Payment to UNDP	*3.50*	2.50	2.50	2.50	
Reimbursment Costs	*3.91*	5.02	5.35	5.70	7
Subtotal	*7.41*	7.52	7.85	8.20	
Allowance for Doubtful Accounts	*0.70*	1.04	1.06	1.08	8
Chrysler Building Rent Expense		4.81	5.07	5.14	9
IT systems transition cost					10
Audit Observations Related Initiatives	*4.70*				
Host Government's contribution account					
Total Administrative Expenditures	***50.86***	**50.45**	**50.73**	**52.40**	
Income/ (Loss) from On-going Operations	***2.91***	**2.32**	**2.43**	**1.97**	
Separation cost		2.55	3.83	0.00	11
SECTION 3: FUND BALANCE ROLL FORWARD					
Beginning Fund Balance	*14.46*(2)	17.37	17.14	15.74	
Income/ (Loss) from On-going Operations (and Separation)	*2.91*	(0.23)	(1.40)	1.97	
Savings on Prior Biennium Purchase Orders					
Ending Fund Balance (including $6 million operating reserve)	***17.37***	**17.14**	**15.74**	**17.70**	
Reserve should be (% on Delivery + Total Admin Exp.): *4%*	*27.69*	*25.94*	*25.66*	*25.84*	

Notes: (1) January 2005 Executive Board Approval
(2) Actual number from Consolidated Financial Statement for 2004.

Explanatory notes to Option 2

Nb **Note**

1 **Delivery Amount**

The following growth rates have been applied to calculate delivery projections:

	2006	2007	2008
Project management - Emergency	6.0%	8.0%	8.0%
Project management - Development	1.5%	3.0%	3.0%
IFAD	0.0%	0.0%	0.0%
Other	-25.0%	-20.0%	-20.0%

2 **Revenue from implementation of project portfolio**

The current average fee of 6.8% has been used to calculate revenues from implementation services of project portfolio.

2b

	2006	2007	2008
IFAD	7.80	7.60	7.20
GFATM	1.50	1.50	1.50
PAPP	0.20	0.20	0.20
Total	9.50	9.30	8.90

3 **Other Revenue (Interest, Rent)**

These revenues include:	2006	2007	2008
Interest from UNDP interfund balance	0.20	0.20	0.20
Interest on Reserve	0.20	0.20	0.20
Rental Income Chrysler	2.21	3.28	4.70
Total	2.61	3.68	5.10

4 **Salary and Benefits**

Salaries and benefits will reduce due to the relocation to a lower cost duty station, the reduction in the number of expensive s (P5s and D1s), and the separation of some of the resources dedicated to those service lines that do not allow for full cost recc

5 **General & Administrative**

General & Administrative Expenses will reduce (vs. current levels) due to the consolidation of Regional Offices, the relocation of the Headquarters to location where rent is cost-effective, and the relocation of some the liaison offices to the same cost-effective location as Headquarters' (see details below).

Headquarter costs:

Budgetary Account Description	**2006**	**2007**	**2008**
Subtotal Regular Staff Costs	4,988,985	5,238,435	5,500,356
Subtotal Other Personnel Expenses	287,820	302,210	317,321
Subtotal Operating Expenses	1,086,087	1,140,391	1,197,411
Total Expenses	**6,362,892**	**6,681,036**	**7,015,088**

Starting from the COST budget of Divisions (2005), current assumptions were made:

CANANE (Geneva) - Budget	
Saving from locating Vienna and Rome Offices at HQ	-0.2
Saving from locating CANANE at HQ	
- removal of corporate redundancies	-0.45
- saving on rent	-0.23
LAC	

Annex 3
Options 1 & 2 : Revenue Gaps/Business Acquisition Goals 2006-2008

Figure 1

Option 1: Revenue gaps/business acquisition goals

2006-2008

Revenue	2006	2007	2008
Total Revenue Target	54.2	50.07	52.71
Other Revenue	3.02	4.56	5.67
revenue from service only	8.1	8.1	8.1
Revenue from new acquisition phased by year from projec	6.4	3.4	0
Carry Over from Prior Year	10.5	10.2	10.4
Revenue Gap	26.18	23.81	28.54

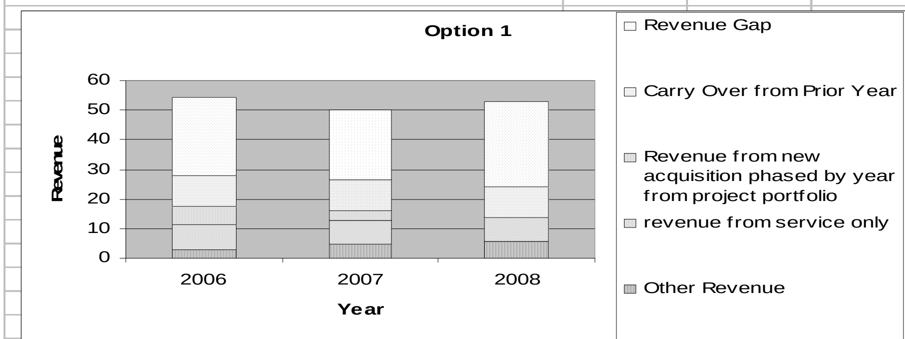
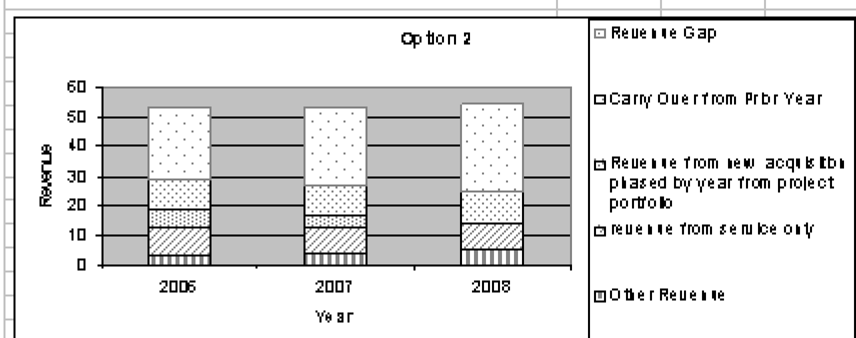


Figure 2

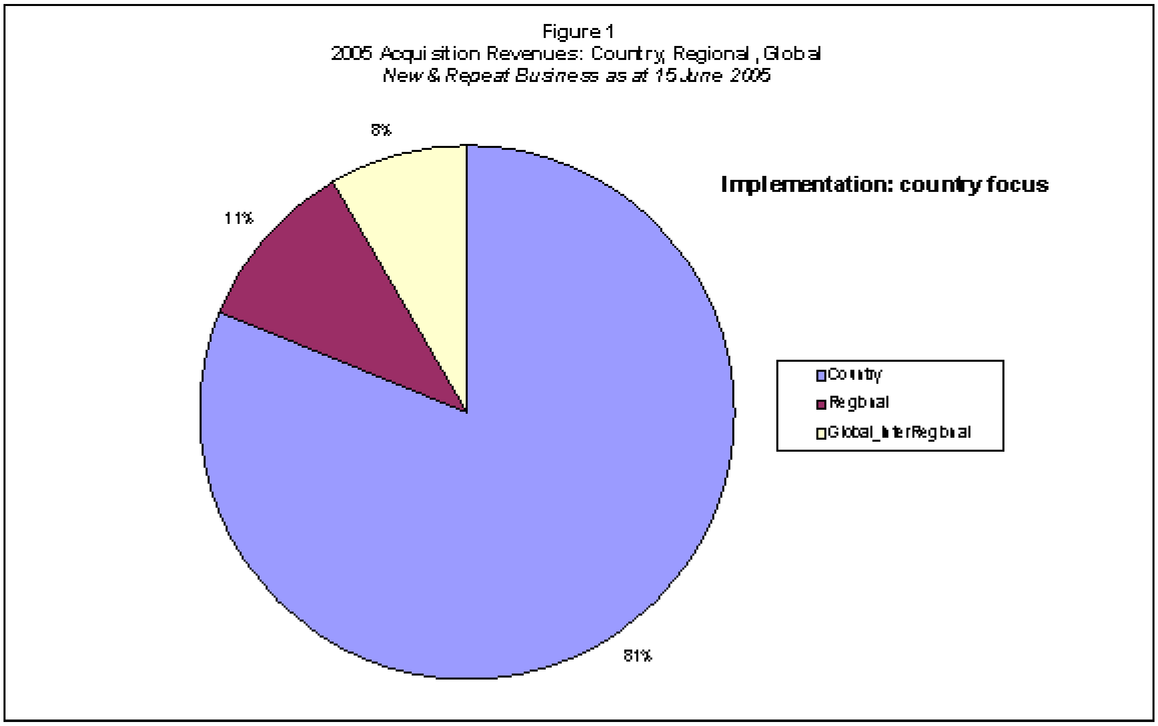
Option 2 : Revenue gaps/business acquisition goals

2006-2008

Revenue	2006	2007	2008
Total Revenue Target	52.77	53.16	54.37
Other Revenue	2.61	3.68	5.1
revenue from service only	9.5	9.3	8.9
Revenue from new acquisition phased by year from project portfolio	6.4	3.4	0
Carry Over from Prior Year	10.5	10.2	10.4
Revenue Gap	23.76	26.58	29.97



Annex 4
UNOPS business trends



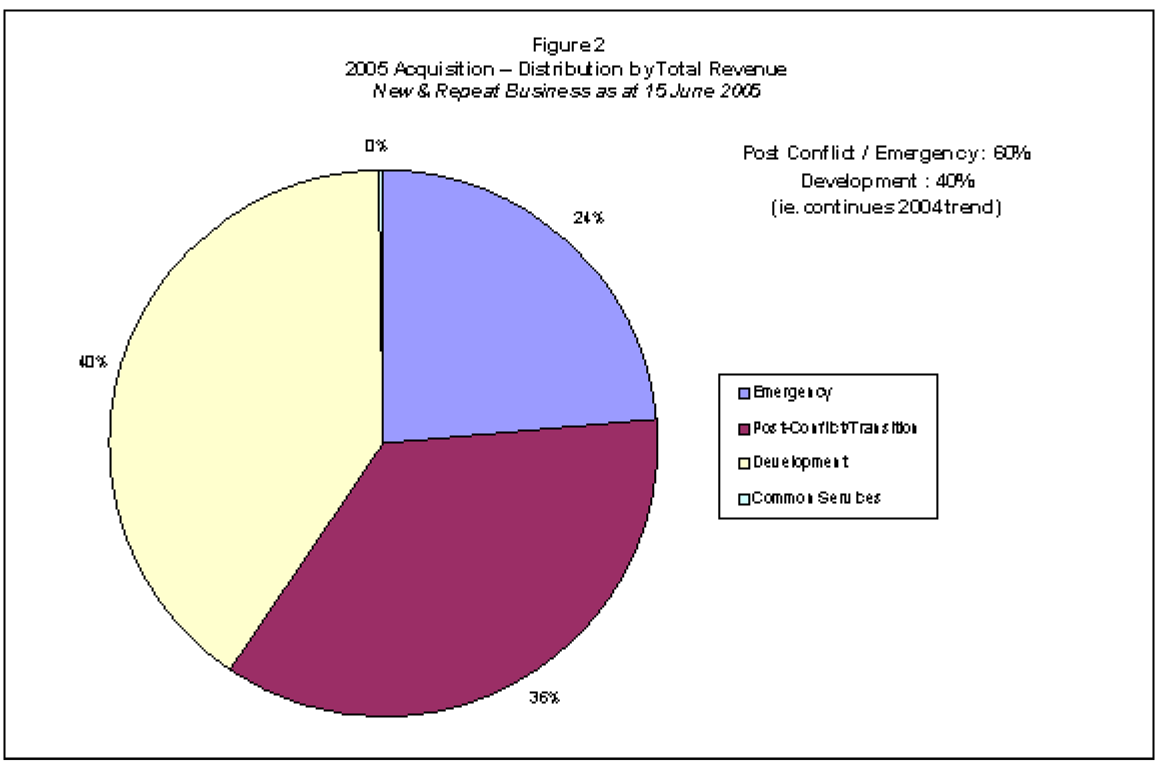


Figure 3
Ongoing 2005 operations:
Large portfolios generate healthy returns; many small transaction-intensive portfolios generate marginal returns