Preliminary estimates on potential efficiencies emerging from the repositioning of the United Nations development system

– Explanatory note –

1. Context

The proposals put forward by the Secretary-General will enable the United Nations development system (UNDS) to be more effective and better support countries in delivering the 2030 Agenda.

While focused on improving overall effectiveness, accountability and cohesion, **these change measures have the potential to also achieve cost savings that could be redeployed into development activities**. While savings will ultimately depend on specific mandates granted by Member States, coordination among agencies to realize the savings, and other complex variables,
external management consultants have estimated that savings from efficiencies could be up to US$ 500 million[1] yearly by 2022. This is based on costs gathered from surveys and data collected from UN development entities and applying a range of potential savings based on external benchmarks and experiences**.** Internal UN calculations consider a **projection of savings of around US$ 310 million[2] a year by 2022,** driven by a more conservative estimate of potential savings from the consolidation of business operations.

These savings could emerge from multiple initiatives. Initial estimates focused on four areas: (1) Business Operations/common back-offices; (2) Common Premises; (3) New Generation of UN Country Teams; and (4) Merger of UN Information Centres with RC Offices.

2. Business Operations at country and global level

As outlined in the SG's December report, the proposal is to establish common back offices for all United Nations country teams by 2022. This would mean all location-dependent services would be consolidated at the country level, while all location-independent global-level business operations would be consolidated into six to seven shared service centre networks (service providers).

Following an internal analysis across UN entities, it was estimated that at least **US$ 1.9 billion** is currently being spent on business operations[3]. Global benchmarking shows that both public and private sector organizations optimizing general and administrative expenses can generally create savings of between 10 to 30%.

That said, given the specificities of the UN system - including the diversity in administrative policies and mandates and decentralized decision-making, we expect that consolidating business operations at both

[1] Up to $380 million in business operations savings, and up to $120 million in savings resulting from achieving 50% UN common premises.

[2] Up to $190 million in business operations savings and up to $120 million in savings resulting from achieving 50% UN common premises.

[3] US$1.9 billion is a conservative estimate of personnel costs, based on results of participating entities from a recent survey of UNDS entities. Additional costs come from entities not surveyed, as well as non-personnel costs, but neither are included in this estimate.

country and global level could potentially achieve up to **10-20% of reduction in spend, amounting to savings in the range of US$ 190 million to US$ 380 million** in entities' business operations by 2022. These resources would be available for reinvestment for realignment or in entity services and activities in support of Member States.

3. Common Premises

The Secretary-General proposes an ambitious target of increasing the current percentage of UN common premises from **16% today to 50% by 2021**. Currently, UN entities are housed in a total of approximately 2,930 sites worldwide, including project sites. Of these, approximately 2,460 are single premises, i.e. housing one agency only (84%), while only about 470 are common premises, i.e., housing 2 or more agencies (16%). The current average number of agencies in a common premise is 3.

In addition to enabling more effective cross-agency coordination, co-location can also generate both facility and personnel efficiencies that can reduce expenditures. For example, rent, utilities, energy and sanitation can be shared, with best practices showing a potential of up to 25% of reduction in cost when these sharing occur. Meeting the target of 50 % common premises by 2021 could lead to **up to US$ 80 million** in savings in rent and facilities. In addition, moving to such a level of co-location could also generate additional savings due to personnel synergies, by reducing the support personnel required, such as security guards and receptionists. The impact of such measures is estimated to be **up to an additional US$ 40 million** in savings.

Hence, achieving the 50% common premises target set out by the Secretary-General could amount to annual savings of **up to US$ 120 million,** in addition to delivering more intangible, and very important, benefits such as much more effective collaboration among UN entities.

4. New Generation of UN Country Teams

The driving force behind the new generation of UN Country Teams is to provide a more tailored and demand-driven response to Member States that better responds to the paradigm shift of the 2030 Agenda and the multidimensional nature of the Sustainable Development Goals.

This effort could also lead to a **more cost-effective** UN country presence, through more systematic colocation and hosting of entities by RC Offices. In reducing the number of representational offices, co-location and common premises could be an effective way to ensure mandates and national demands continue to receive the required attention. As such, the move toward a new generation of UNCTs reinforces the impetus to achieve the SG's 50 % target on common premises.

5. Integrating UN Information Centres with RC Offices

Merging UN Information Centres with RC Offices, as proposed, allows for some small scale financial savings. UNICs are currently present in 59 locations, with a biannual budget of close to US$ 45 million. They already co-locate with other entities and RC Offices in several locations, hence limiting the estimated volumes in savings.

Further integration of UNICS with RC offices could nonetheless generate up to US$ 1 million on rent and facilities, according to broad initial estimates, in addition to intangible benefits of co-location and increased country-level capacities in the areas of communication, advocacy and outreach.

6. Conclusion

Initial estimates have shown that **annual savings of up to US$ 500 million** are possible, focusing on four areas: business operations, common premises, a new generation of country teams, and merging UN information centres. **Internal UN calculations, using a more conservative estimate of potential savings in business operations, put this number at $310m**.Achieving such efficiencies will however depend on a variety of other factors:

- **First,** many of the targets can only be achieved if other components within the overall package of proposals for the UN development system move ahead, such as the proposal for an empowered and impartial RC and a new generation of UN Country Teams (to meaningfully drive forward country-level business operations and common premises) as well as increased cooperation and clear, focused and accountable leadership within the United Nations Development Group to ensure successful implementation of the various initiatives.

- **Second,** creating significant savings in the area of business operations is dependent on system-wide coordination and cooperation. This includes ensuring the contribution of many UN entities and increased cooperation within the UNDG to further define and execute initiatives, given the distributed nature of costs and underlying activities. The associated changes could be transformational. As such, system-wide leadership, buy-in and accountability will be essential.

- **Third,** changes would need to be implemented with rigor and speed and would require upfront investment of resources, especially in terms of the requisite senior substantive leadership, dedicated staff time and change management. It should be noted that fully realizing the annual cost savings will ramp up over time, given the time required to properly design and implement these initiatives, and investment required to realize the ultimate savings.

- **Fourth**, as most of the savings will be made at the level of the individual UN entities, savings will occur across several entities and in a distributed way. Hence, savings cannot be easily aggregated and transferred from one part of the UNDS to another. The goal is not to reduce the overall budget available for development activities, but rather to ensure a more impactful use of the resources allocated to the UNDS. It is therefore proposed that these savings be reinvested into development services and activities for member states

Annex – additional data and assumptions on estimated efficiencies

Data behind potential business operations savings	**Description**	**Data**
Current annual spend on business operations	- To achieve an estimate of current situation, all UNDS entities were surveyed on their business operations spend in Oct-Nov 2017 - 13 entities responded, representing ~$25bn of total ~$30bn UN operational costs for development - Non-personnel data was unavailable so was not used in savings estimate, making this a conservative estimate of current spend	At least **$1.9bn**
Potential savings	- International best practices for organizations going through these kinds of general and administrative optimizations, indicated at least 10-30% savings of the in-scope activity are possible - Actual savings depend strongly on scope of transformation, execution rigor, system buy-in and leadership, ability to capture savings and capital and time invested - UN context would likely deliver less savings than best practice due to decentralized leadership structure and geographic footprint	**10-20%**
Estimated potential savings		**US$ 190 million to US$ 380 million** ($1.9bn *10- 20%)

Common premises

	Single premises (SP)			**Common premises (CP)**			**Total**
	Agencies per premise	# of single premises	% of total premises	Agencies per premise	# of common premises	% of total premises	# of premises
Current situation	1	2,460	84%	3	470	16%	2,930
Future situation	1	640	50%	5	640	50%	1,280

Details on future number of premises

There are currently around 2,930 UN premises, of which 16% are common premises (i.e., have more than 1 UN entity located in it). Currently, common premises have an average of ~3 UN entities per premise. The assumption is that in future, the proportion of common premises will rise to 50%, and the average number of UN entities per premise will also rise to an average of 5 entities per premise. This will lead to a total of 1,280 premises instead of the current 2,930 (see table below).

The average number of entities per premise in the future could be higher (going up to as much as 7 entities per premise), but this would mean co-locating every UN entity in every location there is a UN entity present, which is likely not feasible in the proposed time frame given long-term leases and premises which are currently provided rent-free to entities by UN member states.

Details on rent and facilities savings

There is no current granular data available on the overall cost of rents for all UN premises. As such, preliminary estimations were calculated using the total number of entities multiplied by an assumption of the average rent and facility (maintenance, energy, etc.) per entity. This cost estimate of $170,000 per year is based on a sample of available data for UN entities, and checked against a database of average rents & facilities costs in 100+ countries.

Co-location generates efficiencies in both rent and facilities costs, with international best practices and existing business cases for One UN houses showing a potential of up to 25% of reduction in cost. This reduction comes from improved space management, better lease negotiation, and scale-advantages in maintenance services (e.g., sanitation) and utilities.

Whether these savings can be achieved is strongly dependent on the market for premises in a certain market and the effectiveness of lease negotiation.

	Single premise (SP) costs			**Common premise (CP) costs**					**Total rent & facilities cost**	**Savings**
	# of single premises	Cost per entity	**SPs total cost**	# of common premises	Cost per agency	Agencies per common premise	Discount from co-location	**CPs total cost**		
Current situation	2,460	$170k	**$420m**	470	$170k	3	0-25%	**$180m**	**$590m**	
Future situation	640	$170k	**$110m**	640	$170k	5	0-25%	**$510m**	**$510m**	**Up to $80m**

Details on personnel synergies

Common premises also allow certain personnel synergies. While a single entity premise currently needs at least 2 security guards (to account for different shifts) and a receptionist, a common entity premise with 5 entities located in it would not necessarily need a five-fold number of guards and receptionists.

To calculate the potential savings, the average salary of security and receptionist personnel ($18k per annum according to sample set of UN entity in-country costs) needs to be taken and multiplied by the number of personnel expected to be needed across the system.

The assumption is that a single entity premise needs, on average, 2 security guards and 1 receptionist. A common premise with ~3 agencies would need ~4 guards and ~2 receptionists. A common premise with ~5 entities located in it would need ~6 guards and ~3 receptionists to account for the substantially larger premises, which is still a significant reduction compared to being in single premises.

	Single premise costs				**Common premise costs**					**Total costs**	**Savings**
	# of single premises	# of staff needed	Cost per staff	**Total single premise costs**	# of common premises	Entities per CP	# of staff needed	Cost per staff	**CPs total cost**		
Current situation	2,460	3 [4]	$18k	**$120m**	470	3	6[5]	$18k	**$40m**	**$160m**	
Future situation	640	3 [1]	$18k	**$30m**	640	5	9[6]	$18k	**$90m**	**$120m**	**Up to $40m**

[4] 2 guards and 1 receptionist
[5] 4 guards and 2 receptionists
[6] 6 guards and 3 receptionists