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UNOPS: Financial, budgetary and administrative matters

**Rationalization and strengthening of the procurement function
in UNDP and the partial merger between the
Inter-Agency Procurement Services Office of the United
Nations Development Programme and the United Nations
Office for Project Services**

Report of the Administrator

Summary

The present conference room paper is submitted pursuant to Executive Board decision 2007/27 (paragraph 6). Following a consultant review commissioned by UNDP in 2006 into the merits of a possible merger of certain IAPSO functions into UNOPS, UNDP and UNOPS have jointly undertaken further analysis and consultation, and have agreed in principle on a partial merger of certain functions currently performed by UNDP/IAPSO into UNOPS. The elements of the partial merger, the rationale and expected benefits for UNDP, as well as the resulting rationalization of the procurement support function within UNDP, and the structural, staffing and budgetary implications, are provided for the information of the Board.

Elements for Executive Board action

With respect to UNDP, the Executive Board may wish to take note of the rationale and benefits of the partial merger of certain direct procurement and procurement-related inter-organization functions carried out by UNDP/IAPSO into UNOPS, and the consequent rationalization and strengthening of the procurement support functions within UNDP as a way for UNDP to achieve better development results and capacity-building through its programmes and activities.

I. Background

1. The rationalization and strengthening of the procurement function in UNDP has gained increased importance, especially in view of the recent growth in the volume of procurement. Related to this, the potential for a merger between the UNDP Inter-Agency Procurement Support Office (UNDP/IAPSO) and the United Nations Office for Projects Services (UNOPS) has been a subject of consideration over the years, and more recently in the report of the Joint Inspection Unit entitled *Procurement practices within the United Nations System* (JIU/REP/2004/9).

2. In late 2006, UNDP engaged a consultant to undertake a review of possible options for a merger. At the first regular session 2007, in decision 2007/9, paragraph 4, the Executive Board “notes the study being undertaken by the Administrator on the options for a potential merger between the Inter-Agency Procurement Services Office and UNOPS, and encourages UNDP to inform the Board of the outcome of the study at its annual session 2007”. UNDP has taken advantage of the opportunity of the partial merger to rationalize and strengthen the procurement support function in UNDP in order to better manage its operations and risks in procurement.

3. Following the consultant study, UNDP and UNOPS jointly reviewed the findings and recommendations, undertook internal consultations, and carried out further analysis in order to determine the best option.

4. At the annual session 2007, the UNDP Associate Administrator made a statement informing the Executive Board that the two organizations are in the process of working together to agree on a partial merger of certain UNDP/IAPSO functions into UNOPS, while other UNDP/IAPSO functions will be closely integrated into UNDP. The UNOPS Executive Director made a similar statement on the subject. In its decision 2007/27, at paragraph 6, the Executive Board “requests UNDP and UNOPS to provide to the Executive Board, at its second regular session 2007, further details on the intended partial merger of certain functions of the Inter-Agency Procurement Services Office into UNOPS, including any comments and recommendations of the Management Coordination Committee of UNOPS”.

5. The present conference room paper provides such details, along with the rationale and implications of the partial merger that are relevant to UNDP. The report of the UNOPS Executive Director, DP/2007/CRP.6, provides those details of the partial merger that are relevant to UNOPS.

II. Rationale for and benefits of the partial merger for UNDP

6. The volume of procurement in UNDP has risen from \$877 million in 2002 to almost \$2.4 billion in 2006. During the same period, the UNDP/IAPSO share was \$82 million (9 per cent) and \$138 million (6 per cent) respectively. Of the \$138 million in 2006, \$120 million involved procurement of goods, primarily motor vehicles, but also pharmaceuticals, medical supplies, elections equipment and office equipment. Approximately 9 per cent of UNDP/IAPSO total procurement, or \$15 million, was for non-governmental organization clients. Meanwhile, in 2006 70 per cent of the UNDP procurement volume was related to the procurement of services across all UNDP country offices, as well as at headquarters. Over the past two years, the percentage share of UNDP procurement by UNDP/IAPSO has decreased, which is partially due to the fact that UNDP/IAPSO has been repositioning itself to

provide more advisory services and training to country offices and to specific capacity development activities that support programme countries.

7. The decision to opt for a partial merger derives from the need for UNDP to rationalize and strengthen the procurement support function to country offices and headquarters units. The benefits of this move are twofold. First, UNDP is positioning its support function to better manage risk in its growing procurement activities. Second, UNDP is better enabling the procurement function to be an integral component of delivering development results and an important part of the package of services that UNDP provides to its counterparts in terms of both direct support and capacity development. The partial merger for UNDP, then, is part of a larger opportunity rather than the sole focus for change.

8. This approach complements the direction UNDP is taking: away from stand-alone procurement projects, as well as focusing on procurement that is key to development results. In that respect the partial merger responds to key elements of the United Nations reform agenda. UNDP and UNOPS are exploring a stronger partnership arrangement whereby UNDP will make use of the expanded service offerings that UNOPS will be able to provide following the partial merger.

Procurement support structure in UNDP

9. The new structure for UNDP, resulting from the rationalization process and the partial merger, will address exposure to risk through:

- (a) strengthened corporate capacity to develop procurement policies and standards, monitor compliance, and conduct oversight;
- (b) greater integration of programme and operations, facilitated by dedicated procurement specialists focusing on key programme areas;
- (c) internal quality enhancement of procurement processes and tools, and professionalization of staff;
- (d) increased attention to procurement oversight and responsiveness to operational demands;
- (e) inclusion of procurement capacity development activities as identified for programme country governments; and
- (f) creation of partnerships with other United Nations entities, including UNOPS, for value-added services in non-key procurement areas.

10. Structurally, UNDP will align the procurement support functions performed by the UNDP Procurement Support Office (PSO) of the Bureau of Management for the functions retained from UNDP/IAPSO. PSO will focus on policy, strategy, quality assurance and oversight functions. A new global procurement operations office in Copenhagen, also under PSO, will be created for the functions retained from UNDP/IAPSO. It will focus on advisory support, including training, and direct procurement for country offices, as well as capacity development activities for programme country counterparts. UNDP expects to capitalize on the existing procurement expertise of IAPSO, as well as the combined procurement knowledge of the various organizations that now focus their procurement activities in Copenhagen, namely, UNFPA, UNOPS, and the United Nations Children's Fund.

III. Details of the partial merger

11. In the partial merger, UNOPS will take over the direct procurement services carried out by UNDP/IAPSO that relate to goods that are of common use to its clients, including vehicles, office machines and communications equipment, managing the e-procurement platform Web Buy – for most organizations of the United Nations system, as well as for governmental and non-governmental ‘partners in development’. UNOPS would also take over UNDP/IAPSO responsibilities for certain services that support the United Nations procurement system, especially the United Nations Global Marketplace, which is the portal for the vendor community for United Nations system procurement opportunities, permitting registration of suppliers worldwide to supply goods and services to the United Nations system and providing access to procurement notices and contract awards. At present, the development and maintenance costs of this tool are shared among the 15 United Nations organizations using it. UNDP pays close to \$30,000 each year as its share. UNOPS would also take over the annual statistical report to the Executive Board on procurement by the United Nations system of organizations. The details as they relate to UNOPS, including rationale and implications, as well as mandate issues for consideration by the Executive Board, are contained in DP/2007/CRP.6.

12. UNDP would retain direct procurement functions carried out by UNDP/IAPSO that are critical to the delivery of UNDP development results. UNDP would also retain those UNDP/IAPSO capacity development functions for procurement that serve both the needs of programme country government counterparts as part of public sector reform initiatives and UNDP internal needs. Finally, UNDP will retain, pending the outcome of an ongoing inter-organization review of the various inter-organization mechanisms, the secretariat function that services the former Inter-Agency Procurement Working Group – now known as the Procurement Network – under the High-Level Committee on Management.

13. UNDP and UNOPS management foresee a 1 January 2008 implementation date for the partial merger.

Staffing and budgetary implications

14. The combined pre-merger staffing of UNDP headquarters and UNDP/IAPSO procurement support totalled 57 plus 20 appointment of limited duration (ALD) positions, while the new structure will comprise 39 staff and no ALD positions, the reduction of approximately 30 positions going to UNOPS in relation to the functions it would absorb. The profiles of the UNDP functions, however, reflect a shift towards more professional expertise to better support UNDP procurement requirements.

15. Since 2000, UNDP/IAPSO has funded a major share of its operating costs from the fees generated by its procurement services. With the transfer of the bulk of the UNDP/IAPSO direct procurement services to UNOPS, UNDP is opting for a mixed funding strategy for procurement support to compensate for the lost revenue.

16. Currently, in advance of the partial merger, the total cost of UNDP/IAPSO and UNDP headquarters functions supporting procurement amounts up to \$9.24 million per annum, of which \$1.02 million per annum is funded through the biennial support budget and the remainder, \$8.22 million, from a mix of extra-budgetary, reimbursable services and programme resources.

17. After the partial merger, the total procurement support function for UNDP will cost \$6.80 million per annum. This will be a reduction of \$2.44 million compared with the situation before the partial merger. UNDP foresees that of the total cost of the future procurement support function, \$1.24 million per annum may be funded through the biennial support budget to cover procurement support functions of a corporate nature. This implies an increase of \$0.22 million per annum from the biennial support budget for strengthened corporate oversight and control functions. The remainder of the budget requirements (\$5.56 million) will be covered from extra-budgetary, reimbursable or programme resources, as appropriate.

Next steps for implementation

18. The implementation activities that are jointly planned with UNOPS in the period September-December 2007 will focus on:

- (a) meeting staffing demands in both UNDP and UNOPS through a transparent and fair competency-based assessment following the Staff Regulations of the United Nations and Staff Rules;
- (b) ensuring business continuity through a smooth transfer of business and assets from UNDP/IAPSO to UNOPS, clear communication to clients, suppliers and stakeholders, and establishing interim business- and risk-management measures;
- (c) implementing the strengthened procurement support function, especially those aspects relating to risk management and corporate oversight; and
- (d) concluding arrangements, as necessary and appropriate, pertaining to the partial merger

III. Conclusion

19. The partial merger will be beneficial to UNDP and to United Nations reform along the following dimensions:

- (a) aligning UNDP procurement services to support its programmatic focus areas along with a strengthening of the procurement function to minimize identified risk and increase the procurement aspects of the capacity development mandate of UNDP; and
- (b) advancing the United Nations reform agenda by building on complementarities between UNDP/IAPSO and UNOPS.