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COUNCIL

Hundred and Thirty-first Session

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Implementation of Conference Decisions and Proposals from the Director-General

ADDENDUM

Introduction

1. In considering document CL 131/18: *Implementation of Conference Decisions and Proposals from the Director-General* at their sessions in September 2006, the Programme and Finance Committees requested that some supplementary information be provided ahead of the 131st session of the Council to facilitate consideration of the proposals. This document provides this supplementary information in two parts:
 - I. Comparison of locations for the establishment of the main hub of the Shared Services Centre (SSC), in paragraphs 2 – 55;
 - II. Expanded tabular information on the coverage of subregional teams, in paragraphs 56-58.

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I. Comparison of locations for the establishment of the main hub of the Shared Services Centre (SSC)

SUMMARY

2. *Following repeated calls from the governing bodies to achieve efficiency savings and productivity improvements in the administrative area, in 2005 the Director-General proposed the creation of a Shared Services Centre (SSC), emphasizing that “where relevant, transfer of functions to locations where the costs are significantly lower than Rome was to be considered”. Conference resolution 6/2005 on reforms authorized the establishment of the SSC and further details of the proposal were provided in document CL 131/18 (Implementation of Conference Decisions and Proposals from the Director-General). At its session in September 2006, the Finance Committee reaffirmed the necessity of achieving cost savings and was satisfied that the proposals met the spirit of the earlier guidance provided by the FAO governing bodies in connection with the SSC when proposed as a concept. In response to requests of the Programme and Finance Committees during their September 2006 session, this paper provides further details on the proposed configuration of the SSC.*

3. *The provision of administrative and financial services is presently fragmented across headquarters and four Management Support Units (MSUs) in Regional Offices which, inter alia, attracts high administrative costs. With the implementation of modern computer systems, the Organization will be able to move away from the use of paper based forms to electronic ones where the staff processing the transactions no longer have to be geographically close to the decision maker. Consequently, the introduction of these systems has allowed the Organization to look at low cost processing centres to deliver routine, high volume services that are based on documented rules and standard procedures (e.g. human resources servicing and payroll processing, accounting transactions) and to provide related call centre and advisory support.*

4. *To address the fundamental requirement of providing real time processing services and call centre support to FAO’s worldwide operations, the global operations are proposed to be divided into three continental time zones of: a) Latin America and Caribbean; b) Asia and the Pacific; and c) Africa, Europe (including Central Asia) and the Near East, reporting to a coordination centre in Rome to ensure service quality worldwide. With respect to the first two zones, it is proposed to utilize the existing MSU staffing in Santiago and Bangkok respectively to create the SSC hubs, thus greatly facilitating their implementation.*

5. *A precondition in selecting a location for the main SSC processing centre covering Africa, Europe and the Near East is the existence of a strong information technology and communications (ITC) infrastructure, to underpin the electronic workflows between transaction initiators and the SSC support staff. All the locations within this geographical time zone where FAO already has a Regional or Subregional Office were examined and it was concluded that only Budapest and Rome fully satisfy the precondition of a suitable ITC infrastructure. Cairo is also valid, but represents a more expensive and a technically inferior alternative from the ITC perspective. While some other locations where no FAO Regional or Subregional Office is located were also considered and were found to have good ITC infrastructure, it was concluded that these locations suffered from significant disadvantages arising from their distance from headquarters and the lack of support typically provided by Regional or Subregional Offices.*

6. *Other technical factors taken into consideration in selecting amongst the three short-listed locations with good ITC infrastructure (Budapest, Rome and to a more limited extent, Cairo) included, most notably the need for alignment of the working week and working*

hours as well as good travel links vis-à-vis the principal clients of the Organization. It was concluded that apart from Rome, Budapest falls in the same time zone and has the same staff working week as headquarters and many parts of Africa, as well as good travel links with headquarters.

7. Consistent with the reaffirmation of the governing bodies to achieve savings, the Director-General's proposal to locate the SSC hub for Africa, Europe and the Near East in Budapest achieves recurring savings compared with the present configuration of US\$ 8 million per biennium, to be fully realised after its phased implementation between 2007 and 2009. Such savings are largely due to very substantial differences in the cost of support staff between Rome and Budapest since the unit cost of general service staff in Budapest (which comprise nearly 90% of the overall staffing requirements for such an operation) is currently one-third of the corresponding rate in Rome. The proposal entails a reduction of 72 positions at headquarters and a net increase of 57 positions elsewhere, resulting in a net reduction of 15 positions overall.

8. Moreover, the generous offer by the Hungarian authorities to cover virtually all of the one-time costs of setting up a SSC hub in Budapest and to cover most of the non-staff operational costs, helps ensure that the proposal provides a good return on investment. A favorable climate for corporate back-office operations in Hungary and macroeconomic forecasts (e.g. on inflation prospects), as evidenced by sources such as the Economist Intelligence Unit, should ensure that the estimated returns are achievable and sustainable.

A. BACKGROUND

9. At its session in November 2005, the Conference approved a 2006-07 budget level that was well below zero real growth requirements and approved a Resolution on reforms in response to the Director-General's proposals.

10. The reform proposals were contained in the Supplement to the Programme of Work and Budget 2006-07 (*doc. C 2005/3/Sup. 1*) where, in response to calls from the governing bodies, proposals were put forward aimed at achieving aggregate efficiency savings and productivity improvement targets of 1-1.5% per annum (i.e. approximately US\$ 10 million per biennium). In this context, it was proposed that a reduction in the number of units and locations at which administrative actions are processed would reduce management costs, facilitate corporate standardization of transaction processing and generate economies of scale. This was to be addressed by the creation of a Shared Services Centre which, building on the positive experience of the Management Support Service, created in 2000 (with a saving of 60 posts), would centralise a number of administrative actions. It was emphasized that, *where relevant, transfer of functions to locations where the costs are significantly lower than Rome was to be considered*¹.

11. Conference Resolution 6/2005, Reform in the Organization, "*supports streamlining of administrative and financial processes aimed at achieving further efficiency gains and enhanced human resources policy and management; and authorizes the establishment of the Shared Services Centre.*"

12. Following the Conference resolution, the Organization set in motion the actions required to fully articulate and implement the Shared Services Centre (SSC). The Report of the 113th Session of the Finance Committee in May 2006, acknowledged that the Secretariat would need to consider proposals for the consolidation of the Regional Office Management Support Units into the SSC in the context of the Secretariat's assessment of the best course of action. It noted that full implementation of the SSC could only take place after the implementation of the HRMS and looked forward to receiving further details at its September 2006 session.

¹ C 2005/3/Sup. 1 (August 2005) – Para. 109

13. Further details were provided in document CL 131/18 entitled *Implementation of Conference Decisions and Proposals from the Director-General* and, during their September 2006 sessions, the Programme and Finance Committees provided the following guidance:

- The Finance Committee, “took note of the US\$ 8 million per biennium savings expected by the Secretariat ... and reaffirmed the necessity of achieving cost savings... It was satisfied that the proposals met the spirit of the earlier guidance provided by the FAO governing bodies in connection with the SSC when proposed as a concept. One Member expressed the view that the justification for the establishment of the SSC hubs required further explanation and looked forward to receiving supplementary information about alternatives considered ahead of the session of the next Council, in order to facilitate understanding and further discussion of the Director-General’s proposals.”
- The Programme Committee “agreed that a reaction of the Council on the proposed SSC configuration would be facilitated by the Secretariat preparing a paper describing fully the factors leading to the selection of Budapest vis à vis other locations, especially in Africa.”
- At the Joint Meeting “some Members expressed differing views, particularly regarding the proposed location of the hub in Budapest. They looked forward to receiving supplementary information regarding the proposed configuration and the alternative locations considered, including in Africa, ahead of the session of the next Council.”

14. In response to the requests of the Programme and Finance Committees during their September 2006 sessions, this paper provides supplementary information regarding the proposed configuration of the SSC and comparatives on the alternative locations considered in arriving at the proposed Budapest hub.

B. OPPORTUNITIES OPENED BY THE TRANSITION TO MODERN ERP SYSTEMS

15. The provision of administrative and financial services is currently fragmented across headquarters (within the existing Shared Services Centre, Finance Division, Human Resources Division and Administrative Services Division) and in the Management Support Units in Santiago, Accra, Cairo and Bangkok. Such fragmentation makes it difficult to achieve economies of scale, causes a lack of uniformity and clarity in service provision and attracts high administrative costs. Moreover, the complexity of service provision creates problems with real-time support as a result of time-zone differences (e.g. the fact that all FAORs are currently serviced from headquarters means that for many offices there is little overlap in working hours).

16. With the implementation of Oracle HRMS in 2007, the Organization will have completed a major transformation of its administrative systems from typically paper-based processes to fully electronic ones, taking full advantage of electronic workflow and self service functionality. In its paper-based processes, staff members would typically use paper forms to request action from administrative staff, who would in turn review the requests and have to key the data into systems under their restricted access. Clearly, with paper forms, proximity between the requestor/decision maker and processor was important to facilitate routing. The new ERP systems support a renewed management model where staff members and managers can key the request directly on the computer and route it electronically to the processor. Such systems therefore facilitate a new business model where the processor no longer has to be geographically close to the decision maker for efficient operations – the transaction, routed electronically, can be just as easily processed from any location. Consequently, the introduction of these ERP systems has allowed the Organization to look at low cost processing centres (SSCs) as part of its drive for increasing efficiency and lowering administrative costs.

C. FUNCTIONS TO BE PERFORMED BY THE SSC

17. The SSC will be expected to deliver services to headquarters and field offices across the whole Organization. Such services fall broadly into two categories:

1. The administrative processing of transactions, which are:
 - high in volume
 - routine in nature
 - based on agreed and documented rules and standard procedures
 - individually of low strategic importance, and
 - location independent.

The kinds of services which meet the above criteria include:

- HR servicing and entitlement processing
- payroll processing
- travel advances and travel expense claim processing
- accounting journals and adjustments
- Letters of Agreement processing
- accounts payable processing and payments
- routine procurement services, and
- inventory records maintenance.

2. The SSC will increasingly be involved in providing real-time specialist help desk support and call centre advisory services across the whole Organization. This is because the implementation of the new management model, facilitated by the imminent introduction of systems such as Oracle HRMS, and the decentralization of more authority to managers and staff, would envision administrative transactions being initiated by users in headquarters and field offices.

18. A viable Shared Services Centre configuration must therefore:

- simplify the service delivery model by reducing the number of service delivery points which are currently fragmented across headquarters and four regional offices;
- group like services together and achieve economies of scale;
- ensure full time-zone coverage across worldwide FAO operations so that the structure can provide real-time advice and on-line support to FAO users across the globe; and
- reduce unit and overall costs of processing transactions and providing support and advisory services.

D. FACTORS CONSIDERED IN ARRIVING AT PROPOSED CONFIGURATION OF SSC HUBS

Proposed 3-hub configuration

19. A critical factor to be borne in mind in the creation of real-time services and on-line call centre support to FAO's worldwide operations, having regard to cost and efficiency, is the need for an SSC structure of processing and call centre hubs that can take care of the different time zones. In order to address this requirement, the global operations have been divided into three continental time zones of: a) Latin America and Caribbean; b) Asia and the Pacific; and c) Africa, Europe (including Central Asia) and the Near East. Therefore three hubs, one in each continental time zone, are proposed². Irrespective of the locations of each hub, the SSC would require a

² A single hub configuration, with Rome serving as a worldwide SSC was also considered but this would result in a significantly higher cost of operations as summarized in paragraph 53 and Table 2 of Council document CL 131/18. It

coordination centre in Rome to monitor and manage each continental time zone. It will retain responsibility for ensuring service quality worldwide and performing functions which necessarily are based in headquarters (e.g. management of the headquarters travel agency).

20. The locations considered for SSC hubs are those where FAO already has a Regional or Subregional Office. This not only greatly facilitates initial implementation of the SSC hub, through the availability of existing facilities and proximity of experienced personnel in the RO/SRO, but also provides essential, on-going, logistical support to the SSC staff *vis-à-vis* management and administrative structure, liaison with the host government, etc. The proposal is therefore to utilize existing regional offices in Santiago and Bangkok to service Central and South America and Asia and the Pacific respectively. These Regional Offices already contain Management Support Units whose staff will be used to create the SSC hubs, supplemented by a further two posts in Bangkok and three in Santiago. This approach not only utilizes existing administrative knowledge from within these regional MSUs, but also minimizes the social impact of SSC implementation on staff in these offices.

21. The third hub needs to be placed in the central time-zone to service headquarters, Europe, Africa and the Near East. In view of the substantial FAO operations in this central time zone, this hub will be the main SSC operational centre. The locations within this geographical time zone where FAO has, or will have, a Regional or Subregional Office are the following: Accra, Addis Ababa, Ankara, Budapest, Cairo, Harare, Libreville, Rome and Tunis.

22. In arriving at a proposed location, the Organization also considered the feasibility of establishing an SSC hub in a location where no RO/SRO is located, such as Johannesburg, Durban or Nairobi. While these locations have good ITC infrastructure, they suffered from significant disadvantages arising from their distance from headquarters and lack of support from Regional or Subregional Office structures, which not only hinders travel missions of a troubleshooting, training and monitoring nature, but also increases associated costs.

Prerequisite for suitable SSC hub in the central time zone: IT infrastructure

23. A precondition for being able to support the new business model for the SSC is the existence of a strong information technology and communications (ITC) infrastructure. Excellent ITC facilities are essential to underpin the electronic workflows between transaction initiators and the SSC support staff. A pre-requisite to transferring the processes carried out by the headquarters SSC, Finance, Travel and Procurement groups will be that the workflow for each of these processes becomes fully electronic, supported by document imaging functionality. For example, with the adoption of HRMS the Organization will move into a totally electronic workflow between transactions initiators and approvers for virtually all HR processes. The increased reliance on electronic workflows for this and other administrative processes, (HR, travel, etc.) will require provision of an excellent telecommunications and technical IT infrastructure to guarantee effective communications with the SSC. Without meeting this vital requirement, no offshore hub would function.

24. The cost and quality of the telecommunications line is dependent on two segments, the long haul link between Rome and the field office location (i.e. FAO internal communications), and "local loops" at each end to link the FAO office in that city with that of the local telecommunications company. The standard approach is that each FAO office has such a link to headquarters, and also a local Internet Service Provider (ISP). A telecommunications line with a capacity of 2Mb (the recommended bandwidth) is required to support the business model of the SSC. This is a far superior ITC requirement than that needed for a typical Regional or Subregional Office. The Organization's assessment of the service availability and reliability of the ITC infrastructure in each Regional and Subregional Office location within the central time zone is summarized below.

also entails a much larger social impact in terms of redeployment and terminations due to the abolition of all four regional MSUs.

25. Budapest, Hungary: A direct fibre connection is possible, on the same backbone as that already used, and would provide high quality (i.e. with very low latency) for ERP system performance at an offsite location. A local loop already exists in Rome for several potential suppliers. The Hungarian ISP market is thriving and their voice telephone network is good. The service would cost one-third the rates offered in the locations in Africa where FAO has a regional or subregional presence and is therefore very competitive.
26. Accra, Ghana: FAO internal telecommunications are currently provided by satellite, a service commissioned 5 years ago to replace a previous service which was poor and unreliable, due mainly to the unreliability of the local loop. Even the present service does not have sufficient reliability for a high-intensity processing centre and there have been several days of no-service over its period of operation. Performance of the FAO's financial system is noticeably slower over the satellite link because of high latency inherent in satellite communications. The Ghanaian voice telephone network is improving but still exhibits poor line quality and cannot yet substitute FAO's present satellite connection also for voice communications and is not up to the required standard for a high-intensity processing centre.
27. Cairo, Egypt: FAO internal telecommunications to RNE Cairo are good, as is the Egyptian telephone connection. However, the local loop within Cairo is less reliable and FAO currently operates 2 local loops so that it can switch to the alternate loop in the event of failure.
28. Harare, Zimbabwe: Satellite communications are also provided to Harare and similar problems to those experienced in Accra would occur with the Oracle system if Harare were to be upgraded to a high-capacity processing centre.
29. Libreville, Gabon: FAO and other UN organizations do not have extensive direct experience of the ITC infrastructure in Libreville, but there are problems with reliable local ISPs and the local loop costs offered to FAO were very high.
30. Addis Ababa, Ethiopia: FAO has been unable to gain permission to install its default method of WAN connection in Ethiopia and the FAO internal link uses the UNECA as its transport, which would be difficult to scale up for the purposes of SSC.
31. Tunis, Tunisia: Difficulty was experienced in obtaining regulatory agreement to upgrade the SNEA connection to conform to what is now being installed in other subregional offices.

Summary

From the IT point of view, Cairo represents a more expensive and a technically inferior alternative to Budapest. Other options in Africa, while meeting the Regional or Subregional ITC requirement, are not practicable with respect to the ITC requirement for SSC operations. Consequently, when considering other important factors in determining the recommended location for the SSC hub for the central time zone, the Organization focused on the locations of Budapest, Cairo (although a significantly lesser ITC option) and Rome itself.

Other important factors in determining a suitable SSC hub in the central time zone

32. The following technical factors were also analyzed in arriving at a recommended location for the SSC hub in the central time zone:
- a) Alignment of working week, especially with headquarters, which is the main SSC client for this time zone (e.g. it is responsible for over two-thirds of HR transactions)
 - b) Working hours – alignment with headquarters

- c) Travel links, especially with headquarters
- d) Security level

33. The first three factors above essentially focus on proximity and inherent facility to respond to the needs of the principal clients of the Organization. This is becoming increasingly recognized as important in the general concept of offshore operations. Some companies that have set up offshore centres in distant locations are now reviewing such decisions and more emphasis is being placed on “nearshoring”, which is a concept of moving administrative support to a low cost area, which nonetheless is not too distant from main operations.

34. Of course, aside from these technical factors, saving in staff costs compared with present arrangements, aimed at reducing unit and overall costs of processing transactions, is an essential requirement which is addressed in a later section.

a) Working week

35. Since the vast majority of servicing will be directed to headquarters staff, the chosen location for the SSC hub should have the same working week as headquarters from an economic and cost-effective viewpoint. While Budapest and almost all of the other locations work Mondays to Fridays, the notable exception is Cairo. In the event of locating the SSC hub in Cairo, the SSC would provide servicing to the central region on only four of the five days per week, thus limiting its capacity to provide real-time advice and on-line support to FAO’s main users in the central time zone.

City	Differences in working week
Budapest	-
Cairo	Sun–Thurs: 08:00–15:00
Rome	-

b) Working hours – alignment with headquarters

36. To facilitate real-time help desk and call centre support, it is important to maximize the time-zone alignment with the SSC’s main client, headquarters.

37. The table below shows the time difference between headquarters Rome (i.e. the main SSC client) and the list of eligible SSC locations. Only Budapest, and obviously Rome have zero time difference. It is also recalled that Rome and Budapest are also in the median time zone for the African continent.

City	Time difference
Budapest	0
Cairo	+1
Rome	0

c) Travel links

38. Excellent infrastructure and travel links are necessary to facilitate travel missions of a troubleshooting, training and monitoring nature between the SSC hub and headquarters. Clearly not only proximity but travel time between the SSC hub and headquarters is an influencing factor.

39. The table below describes the travel times and costs associated with travel to and from headquarters. Of the three locations meeting the ITC requirements (Rome, Budapest and Cairo),

Rome clearly has zero cost while Budapest is better located than Cairo, both in terms of travel time (1 hour, 50 minutes compared to 3 hours, 20 minutes) and travel cost (US\$ 350-650 compared to US\$ 560-970). In fact, Budapest is even connectable with a one-day return journey from Rome. DSA is comparable in both locations.

Comparison of travel costs between locations

City	Travel time	Routing	Average Cost in US\$ *	DSA in US\$
Budapest	1 hrs 50 mins	Direct – Daily	500	199
Cairo	3 hrs 20 mins	Direct - 6 times a week	765	193
Rome	N/A	N/A	N/A	302
* Travel cost represents a range of airfares, depending on availability and advance booking schedules. Fares indicated are net fares, excluding taxes and surcharges.				

40. The non-staff cost requirements for an SSC hub are minimal, as a proportion of staff costs, both in the present structure and in any of the possible proposed structures. However, in the case of Budapest, which is the more economical of the two non-headquarters locations in terms of travel costs, an increased requirement of some US\$ 100 000 per annum may be foreseen for travel costs as trouble-shooting and training requirements arise.

d) Security level

41. The table below provides an indication of the security risk history in the selected locations. Only Rome and Budapest result in a zero security phase in terms of UN New York security rating during the period 2005/06.

City	Last update	Security phase 2006		Security phase 2005		Security level (prone)	
		Phase capital	Phase elsewhere	Phase capital	Phase elsewhere	Phase	Type Threat
Budapest	14/06/06	0	0	0	0		
Rome	04/04/06	0	0	0	0		
Cairo	25/07/06	1	1-2	1	1-2	Amber	Medium

Based on the foregoing factors, i.e. working week, working hours, travel links and security level, the option of Cairo, which was already a less desirable alternative from an ITC perspective, is further weakened. Consequently, in narrowing down the options to look at the financial perspective, only Budapest and Rome were considered further.

Savings in staff costs to reduce unit and overall costs of transaction processing

42. Taking the foregoing sections into account, the Organization believes that Rome and Budapest are able to effectively deliver on-line administrative services to Europe and Central Asia (including headquarters), Asia and the Near East. However, the governing bodies have repeatedly emphasized the necessity of achieving cost savings through the implementation of the SSC without losing efficiency and the ability to successfully deliver on-line services. Locations other than Rome and Budapest have been excluded even though Cairo and Accra could theoretically yield greater savings, but this is due to non-attainment of factors considered to be prerequisites to the efficient and successful operation of the hub for the central time zone.

43. The table below demonstrates that between these technically viable alternatives, savings expected by the governing bodies can only be achieved by moving the services to a lower cost location than Rome (i.e. Budapest). The differential in proforma annual costs between Rome and Budapest for a mid-point G-5 graded staff member is tabulated below.

City	Annual standard cost of mid point general service staff member (US\$)	Index
Rome	81,500	100%
Budapest	27,500	34%
Budapest saving vs Rome		66%

44. The Organization therefore concludes that a Budapest-based hub for the central time zone would meet all of the objectives set out in paragraphs 32 to 43.

45. The table below summarizes the current administrative structures in AF department and the regions and the impact on these structures in various units and locations as a result of the proposed SSC configuration.

Administrative posts before and after the implementation of the SSC

Location / Unit	Posts before full implementation of SSC		Posts after full implementation of SSC		Total Change	
	Professional	General Service	Professional	General Service	Professional	General Service
Headquarters						
AFD	23	131	23	80	0	-51
AFF	38	37	33	31	-5	-6
AFS	18	79	16	71	-2	-8
AFH	24	35.5	24	35.5	0	0
<i>Subtotal headquarters</i>	<i>103</i>	<i>282.5</i>	<i>96</i>	<i>217.5</i>	<i>-7</i>	<i>-65</i>
Regional Administrative Support Units						
Accra	5	42	4	30	-1	-12
Bangkok	5	47	5	49	0	2
Budapest	0	0	8	64	8	64
Cairo	4	29	3	23	-1	-6
Santiago	4	32	4	35	0	3
<i>Subtotal regions</i>	<i>18</i>	<i>150</i>	<i>24</i>	<i>201</i>	<i>6</i>	<i>51</i>
TOTAL	121	432.5	120	418.5	-1	-14

46. The proposed reconfiguration of the staffing of the SSC, particularly the creation of 72 posts in Budapest (of which 64 in the general service category) and the reduction of a similar number of posts at headquarters would yield biennialized savings of US\$ 8 million upon its full implementation. The social impact of this reduction would be mitigated by placing staff requiring redeployment on current vacant positions, which are partly available as a result of the Director-General's decision to freeze external recruitment since August 2005, and future vacancies due to retirements through to 2009.

47. The issue of Rome-based cooperation between FAO, WFP and IFAD potentially has an important bearing on administrative support structures of these agencies. FAO and its sister agencies in Rome are looking at ways to provide common services. However, the Joint Meeting of the Programme and Finance Committees in September 2006 recognized that this has to be considered as a medium term objective (for example, all three agencies are currently operating different ERP systems which are relatively new in their implementation life) and that Members would themselves first raise this matter in the other Rome-based agencies. Nonetheless, it also has to be considered that even in a common services platform, the delivery of such services from a low cost location is perhaps even more valid in view of the larger volumes and resources involved. **Discussions are ongoing with FAO's sister agencies in Rome to further develop joint services, particularly in the areas of IT and administration. There is a great deal of interest from all parties, but it has to be recognized that this is a highly complex area, in particular taking account of the three different ERP systems mentioned above and, in that context, it has to be seen as a medium term objective rather than action which can solve immediate budgetary requirements.**

E. SUITABILITY OF PROPOSAL FOR BUDAPEST HUB FOR CENTRAL TIME ZONE AND SUSTAINABILITY OF SAVINGS

48. The Organization is satisfied that Budapest provides a suitable environment for a service centre. At least 30 major international companies have already established service centre operations in Hungary, some as far back as 1991 and others as recently as 2006. These service centres employ from 40 up to 1200 employees each and cover the full range of administrative, financial, IT and HR services, including companies which are themselves in the business of offering outsourcing services in this sector. Indeed, the Economist Intelligence Unit (EIU) cites Hungarian government policy as “being aimed at luring corporate back-office operations into the country”. Qualified local staff are also available.

49. In order to satisfy itself regarding the sustainability of the staff cost savings which would arise from the establishment of the Central European hub of the SSC in Budapest versus the present configuration, the Organization undertook a risk analysis based on economic projections for Hungary. This was considered to be especially important as most of the savings arise from cost differentials between General Service staff costs in Rome and in Budapest. General Service staff would constitute nearly 90% of the total staffing of the SSC in Budapest (i.e. 64 GS staff and 8 Professional staff proposed), and the current unit cost of GS staff in Budapest is around one-third of the cost in Rome. This alone provides some comfort in that a three-fold wage increase in Euro terms would be required in Budapest to reach parity with wages in Rome (assuming there are no wage increases over the same period in Rome).

50. On the macroeconomic environment, Hungary has not yet adopted the Euro and the anticipation of its doing so was considered to be a potential inflationary factor. However, the Economist Intelligence Unit states in its Country Forecast for Hungary that “the government has admitted that its original target of adopting the Euro in 2010 is no longer realistic, with membership unlikely to occur before 2013.” Bloomberg makes a similar projection on the same topic. This timeframe would therefore allow for considerable savings to accrue to the Organization. In the shorter term, restraint in government spending, with expenditure freezes foreseen in 2007 and 2008, will help keep inflation in check.

51. Indeed, data from the Economist Intelligence Unit (EIU) shows Consumer Price Inflation forecasts for Hungary remaining low, with the year-on-year change remaining below 4% and Hungary being in the lower third of the countries in its region for inflation projections. Although inflation will rise to about 6% in 2007, largely due to increasing energy costs, it is forecast to fall back to below 3.5% from 2008 onwards.

52. For the reasons cited above, the projected staff cost savings of US\$ 8 million per biennium compared with the present configuration are seen as sustainable. However, it is also recognised that they will not accrue immediately as the implementation of the SSC is to be phased between 2007 and 2009 in order to have an orderly implementation of the proposal and to minimise the impact on staff.

53. Regarding the one-time costs of the SSC, including the proposed hub in Budapest, it should be noted that the *Aide Memoire* signed by FAO and the Hungarian Authorities, covers the provision of MOSS compliant premises free of charge, and also virtually all one-time costs to be incurred in Hungary (e.g. refurbishment, electrical systems, civil works, security installations, IT cabling and equipment such as computers, telephony, furniture, training and relocation). The eventual savings of US\$ 8 million per biennium compare with estimated transition costs to be covered by FAO of US\$ 2.3 million. Of these it is envisaged that US\$ 1.1 million will be incurred in 2007.

54. According to the *Aide Memoire* signed by FAO and the Hungarian Authorities, most of the recurring non-staff costs (such as utilities, heating, maintenance, cleaning, security, portering and mail distribution) would also be covered by the government of Hungary, offsetting incremental non-staff costs (e.g. travel) of establishing a hub outside Rome.

55. The biennial savings of US\$ 8 million from 2009 onwards provide a good return on investment, following a necessarily phased implementation in the period of transition between 2007 and 2009.

II. Expanded tabular information on the coverage of subregional teams

56. Table 3 of document CL 131/18 (which is placed after paragraph 61) indicates the countries covered by the five subregional offices being established as per the decisions of the Conference in its Resolution 6/2005.

57. During the discussion in the Programme Committee in September 2006: *“it was suggested that consideration of decentralization measures covered in the document would be facilitated if, beyond the data given in Table 3 on the country coverage for the five approved subregional offices, more complete information were to be provided for all regions, including data such as the population to be served, the extent of rural poverty and the prevailing pattern of agriculture.”*

58. Accordingly, an expanded table is provided below, covering all geographical areas to be served by the approved and proposed multidisciplinary teams. Indicative statistical aggregates have been included to broadly illustrate the status of agriculture and rural development in these areas³.

³ It is important to note that some of the data may not be available for all countries in the same area, hence the averages indicated in the table must be treated with caution and should be considered as purely indicative. The averages are “weighted” by taking account of countries’ population.

Number of country served	Total population (millions) 2004	Rural population (%) 2004	Rural poverty (%) Lasted available data	Proportion of undernourished (%) 2001-2003	Human Development Index (HDI) (multiplied by 100) 2003	Share of agriculture in total GDP (%) 2004	Net agricultural trade (exports-imports) (US\$ million) 2004
SFC - Central Africa (Cameroon, Central African Republic, Chad, Republic of Congo, Democratic Republic of Congo, Equatorial Guinea, Gabon, Sao Tome and Principe)							
8	89	63	57	56	49.8	34	-500
SFE - Eastern Africa (Burundi, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Somalia, Sudan, Uganda)							
9	197	75	47	38	44.8	22	433
SFS - Southern Africa (Angola, Botswana, Comoros, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia, Zimbabwe)							
15	179	61	58	31	53.7	7	435
SFW - Western Africa (Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo)							
15	248	57	46	16	43.1	29	-322
SAA - Eastern and Southern Asia (Afghanistan, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Korea DPR, Laos, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Thailand, Timor Leste, Viet Nam)							
20	3,353	65	22	16	64.5	13	-4,766

Number of country served	Total population (millions) 2004	Rural population (%) 2004	Rural poverty (%) Lasted available data	Proportion of undernourished (%) 2001-2003	Human Development Index (HDI) (multiplied by 100) 2003	Share of agriculture in total GDP (%) 2004	Net agricultural trade (exports-imports) (US\$ million) 2004
SAP - Pacific Islands (Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu)							
14	8	80	41	12	68.6	22	204
SEC - Central Asia (Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey, Turkmenistan, Uzbekistan)							
7	139	45	35	11	71.8	13	1,588
SEU - Eastern Europe (Albania, Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Serbia and Montenegro, Slovakia, Slovenia, the FYR of Macedonia, Ukraine)							
19	188	38	32	4	81.2	6	-2,752
SLA –Caribbean (Antigua and Barbuda, Bahamas, Barbados, Belize, Cuba, Dominican Republic, Dominica, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent/Grenadines, Suriname, Trinidad and Tobago)							
16	35	41	36	20	76.4	9	-1,758
SLC - Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Mexico, Panama)							
7	144	31	46	9	74.3	5	-2,176
SLS - South America (Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Paraguay, Peru, Uruguay, Bolivarian Republic. of Venezuela)							
10	366	18	60	9	78.7	7	44,482

Number of country served	Total population (millions) 2004	Rural population (%) 2004	Rural poverty (%) Lasted available data	Proportion of undernourished (%) 2001-2003	Human Development Index (HDI) (multiplied by 100) 2003	Share of agriculture in total GDP (%) 2004	Net agricultural trade (exports-imports) (US\$ million) 2004
SNG - Gulf countries (Bahrain, Kuwait, Oman, Saudi Arabia, Qatar, United Arab Emirates, Yemen)							
7	56	35	45	17	77.6	5	-12,974
SNN - North Africa (Algeria, Libyan Arab Jamahiriya, Mauritania, Morocco, Tunisia)							
5	82	39	29	5	67.6	12	-6,759
SNO - Oriental Near East (Egypt, Iraq, Iran, Jordan, Lebanon, Syrian Arab Republic)							
6	197	43	23	6	72.6	14	-5,448

SOURCES :

Total and Rural Population: **UN Population Division. 2002 Revision. *World Population Prospects* and **FAO**.**

Rural poverty: **World Bank and **FAO****

Proportion of undernourished: **[HTTP://WWW.FAO.ORG/FAOSTAT/FOODSECURITY/INDEX EN.HTM](http://www.fao.org/faostat/foodsecurity/index_en.htm)**

Human development index: **UNDP: *Human Development Report 2006* and **FAO****

Share of agriculture in total GDP: **World Bank and **FAO****

Net agricultural trade: **FAOSTAT**