

Definition, Identification and Measurement of In-country Transaction Costs in the Context of 'Delivering as One' Pilot Countries

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This Report has been prepared in response to the request by the Delivering as One pilot countries to support their work on Transaction Costs. The work was conducted under the auspices of the undg Task Team on Finance led by UNFPA and an inter-agency reference group. In undertaking this work an inter-agency mission to Tanzania and Uruguay was undertaken and the experiences of Albania and Mozambique were also analyzed. The mission and reference group comprised of a consultant, experts from the pilot countries, UNESCO, undp, UNFPA, UNICEF, WFP and DOCO. Along with the agencies in the reference group, the UN Secretariat, CEB, UNIFEM and WHO also participated in the initial conceptualization workshop where the approach and methodology was discussed in launching this exercise.



**UNITED NATIONS
DEVELOPMENT GROUP**

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Glossary of transaction costs terminology

Term	Definition	Reference
Activity	In the context of this study, the term activity is used interchangeably with the term 'Process' which is described below, although the reference is usually in terms of very simple processes that have few steps and/or stakeholders.	N/A
Administrative costs	The costs associated with administrative processes and activities.	Report; page 31
Administrative cost clusters	Cluster grouping of the costs of administrative processes and activities such as procurement of goods (and services, hiring of human resources (staff/consultants), arranging travel and payments and ICT support.	Report; page 31
Benefit	Within the context of this exercise the following benefits are considered: • Cost reductions from improved business practices • Benefits accruing through increased effectiveness • Benefits accruing from improved quality of products, services • Benefits accruing from simplified and harmonized processes and procedures internally to the UN system • Benefits accruing from simplified and harmonized processes and procedures to external stakeholders • Benefits accruing from increased national ownership and leadership • Benefits accruing through improved application of UNDAF program-ming principles and other standards	Annex 1, Attachment B
Business process	A Business Process is a process (defined below as: "a directly related series of steps that are undertaken in a specific order, each step by a specific stakeholder(s), leading to a common result.") that is associated with the delivery of UN development assistance at the country level. These business processes can be related to either programming or administration.	Annex
Business process mapping	Business process mapping is a visual description of a clearly defined and specific process through the use of workflow/flowchart tools and techniques. It requires: a clear articulation of each step in the process including decision points; an identification of all stakeholders that are responsible for the various step that together form the process; a clear articulation of time-frame for each step and consequently the description of the entire process.	Report; page 32 Annex 3

Glossary of transaction costs terminology

Term	Definition	Reference
Costs	Costs are defined as the monetary value of expenditures for supplies, services, labour, products, equipment etc. for use by a programme entity (or cost center or business unit). For this analysis, costs are the monetary value of the activities (or expenditures) of the agencies and organizations of the UN system in all locations (country, regional and headquarter level) to deliver their products and services (i.e. development cooperation) to the country level in collaboration with their partners. A distinction is made between internal and external costs.	Report; page 17
Direct costs	Direct costs are incurred for and can be traced in full to an organization's activities, projects and programmes in fulfillment of its mandate. Included are costs of project personnel, equipment, project premises, travel and any other input necessary to achieve the results and objectives set out in programmes and projects.	CEB/2006/ HLCM/20, page 3
Indirect costs	Indirect fixed costs are incurred by the Organization, regardless of the scope and level of its activities, and which cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include the top management of an organization, its corporate costs and statutory bodies not related to service provision. Indirect variable costs, usually referred to as programme support costs, are incurred by the Organization as a function and in support of its activities, projects and programmes, and which cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include service and administrative units, as well as their related system and operating costs.	CEB/2006/ HLCM/20, page 3
External transaction costs	Those costs that are incurred by partners of the UN system as result of the UN system actions or from their interaction with the UN system, and are incurred at the country level (government, CSOs etc. and local donor offices) and at the headquarters of the donor agencies to support country level processes.	Report; page 17
Fixed costs	Fixed costs are incurred by the Organization, regardless of the scope and level of its activities. They can be direct or indirect according to the business model and the analytical tools available to the organization. Direct costs are incurred for and can be traced in full to an organization's activities, projects and programmes in fulfillment of its mandate. Indirect costs cannot be traced directly to specific activities, projects or programmes.	CEB/2006/ HLCM/20, page 3

Glossary of transaction costs terminology

Term	Definition	Reference
Internal transaction costs	Those costs that are internal to the UN system whereby a further distinction is to be made between those cost incurred by the UN Country Team at country level and those cost incurred by their corresponding agencies and organizations' sub-regional/regional and headquarters offices outside the country to support their agency's work in-country.	Report; page 17
Interview guide	The survey to be used by the transaction costs Mission to further review and refine the Transactions Costs Concept and Methodology, as well as associated tools such as the Perception Surveys.	Annex 4; Attachment A
Investment costs	In the context of this study, investment costs are those costs that are directly related to the initiation of the DaO approach at the country level and are incurred on a “start up” / “one time” basis. Note: “...pilots have been engaged since the initiation of the pilot process with changing their processes both in the administrative/ operational and programme area, and the general argument is that the cost related to these efforts, to the extent that they are of genuinely “one-time” nature, should be classified as one-time “investment cost” rather than recurrent “transaction cost.”	Report; page 18
One-time costs	In the context of this study, this term is used as a criteria for identifying DaO related Investment Costs, but can be used more generally as costs that are incurred only once but are not necessarily related to the DaO experience.	Report; page 17
Opportunity costs	The value of outputs that could not be generated due to inefficient use of resources (time and cost).	Report; page 18
Overhead costs	Overhead costs are expenses that are necessary for the continued functioning of an Organization's operations, but which cannot be immediately associated with the activities being provided. In this regard, overhead costs are typically also referred to as indirect costs, depending on the business model and the analytical tools available to the organization.	Annex 1
Perception Survey	The survey to be used by the external support/consultants as tool for the assessment of Transactions Costs of business processes that cannot be assessed quantitatively through business process mapping.	Report; Page 30

Glossary of transaction costs terminology

Term	Definition	Reference
Process	A directly related series of steps that are undertaken in a specific order, each step by a specific stakeholder, leading to a common result. That result may be a good produced or a service provided.	N/A
Process results	The goods or services that are produced through a specific and clearly defined process.	N/A
Programmatic cost clusters	Cluster grouping of the costs of activities and processes directly related to programme implementation, including the preparation, implementation, monitoring, evaluation, review and reporting on the UNDAF and its related documents and processes, as well as activities relating to coordination and negotiation with partners, technical assistance and policy dialogues with partners etc.	Report; page 32
Programme costs	The costs associated with programme processes and activities.	N/A
Recurrent cost	Costs that are repetitive and occur when an organization produces similar goods or services on a continuing basis.	N/A
Transactions costs	“Transaction costs for the purposes of this exercise, are the cost associated with the processes and activities that the UN development system engages in, to deliver its programmes at the country level, and which are internal to the UN agencies, as well as those that are incurred by its national partners and donors when interacting with the UN development system. Transaction costs are defined as the resources utilised to perform processes/activities for programmes, within a defined timeframe, and incurred at the country level as well as by sub-regional/regional/ headquarters offices of the UN agencies for country level activities.”	Report; page 17
Variable costs	Variable costs are incurred by the Organization, in relation to the scope and level of its activities. They can be direct or indirect according to the business model and the analytical tools available to the organization. Direct costs are incurred for and can be traced in full to an organization’s activities, projects and programmes in fulfillment of its mandate. Indirect costs cannot be traced directly to specific activities, projects or programmes.	CEB/2006/HLCM/20, page 3

List of acronyms and abbreviations

CEB	Chief Executive Board, United Nations
CPAP	Country Programme Action Plan
CPD	Country Programme Document
CPN	Coordination Practice Network
CSO	Civil Society Organizations
DaO	Delivering as One
F&P	Funds and Programmes
HACT	Harmonized Approach to Cash Transfer
HLCM	High-Level Committee on Management (United Nations)
HQ	Headquarters
MoU	Memorandum of Understanding
NGO	Non-Governmental Organization
NIP	National Implementing Partner
OMT	Operations Management Team
RC	Resident Coordinator
RCO	Resident Coordinator's Office
TCPR	Triennial Comprehensive Policy Review
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UN RC	UN Resident Coordinator
UNS	UN system
SA	Specialized Agencies

Executive summary

This report has been prepared in response to the **increasing demand from the Delivering as One Pilot countries to address the issue of transaction costs within the context of UN development work**. It takes advantage of the specific environment and opportunities of the DaO pilot experience, and more specifically of the fact that four UN Country Teams (UNCTs) have started working on solutions to assess and measure Transaction Cost. It is the result of a mission of senior representatives from various UN agencies to Uruguay and Tanzania, and is based on the work already done by the UNCTs in Mozambique, Tanzania, Uruguay and Albania.

The focus of the DaO pilot process is on improved coherence and effectiveness, of which transaction costs are only one dimension. This analysis of transaction costs aims at identifying instruments through which transaction costs can be monitored and tracked, as transaction costs are a key variable in the DaO pilot process.

This report **operationalizes the term transactions costs**, within the boundaries set by member states in the TCPR and consistent with the UNDG Strategic Priorities for 2010-2011 and builds on the findings of the Joint High Level UNDG/HLCM Mission study on Addressing Country-Level Bottlenecks in business practices. It also provides a framework that will help the UN Country Teams to make a provisional assessment of the nature and changes of transaction cost, and to monitor their direction and trend, as result of the reform processes initiated by them. It identifies techniques and approaches that can be used to assess how change processes, with particular focus on the DaO change environment, impact on the transactions costs for the UN organizations and their partners.

The report distinguishes between transaction costs incurred to **UN system agencies (internal)** and to **its partners (external) at country level**. It recommends to differentiate between “**one-time**” or “**investment cost**” as the efforts and cost related to the search and

experimenting by UN Country Teams in trying to find a better approach for delivering UN assistance at country level and the **recurrent in-country “transaction cost”** that can be expected during normal levels of operations. It notes that the change process will not impact equally on the in-country transaction costs of each of the stakeholders of UN development system operations at the country level, and that **reductions in workload and cost for one stakeholder may increase them at the same time for another**. Also, it is recognized that, according to the business model of the organizations involved, reduction at the field level may imply increases at the subregional/regional/HQ level.

The report introduces the notion of ‘business process mapping’ and emphasises the importance of looking at changes in transaction costs in direct comparison to the quality of the required ‘result’. It is recommended to use the ‘result’ to be achieved by the business process that is being mapped as the common reference point for comparing cost, workload and timeliness in the before/without and with change situation.

The report notes that currently there is **no one single methodology available or in reach** that could provide comprehensive information on levels and trends of in-country transaction costs for the stakeholders of UN system concerned mainly due to the following constraints:

- the complexity of quantifying transaction costs that are incurred by many independent partners with **different accounting systems and business models**, etc.;
- the fact that **no baselines** were established to describe the pre-DaO situations; and
- that current **UN budgeting, cost accounting and reporting systems** do not allow preparation of consolidated cost reports due to differences in cost terminology, definitions and classifications.

In view of these constraints the report recommends

- to use **business process mapping techniques** for assessing transaction costs for specific business processes within this framework to set baselines, to identify performance indicators and to assess benefits, but also to highlight the limits to the use of that methodology;
- to use **qualitative (e.g. perception surveys) methodologies** (for external partners) and **consolidated agency cost and delivery information and reports** (for UN agencies), for assessing overall trends and cost shifts among stakeholders, whereby interagency agreement needs to be reached on cost definitions and classifications to ensure consistency, coherence and compatibility of such reports.

The report reviews several options for tracking and measuring in-country transaction costs out of which it identifies five for follow-up, which are grouped here in terms of availability (numbering in bracket refers to number of option as outlined in report page 23, and 25-28:

Recommended for short-term

- **One-time or regular perception survey** on perceived trends of transaction costs (for external and internal partners, needed in absence of agreed upon performance indicators) (Option 5. Page 24).
- **Detailed process mapping** of selected business processes absorbing high shares of workload or cost, including those of external partners, with comparative analysis of before and with DaO situations (for internal and external cost, require an interagency 'best practices' network and support) (Option 6, page 24).

Recommended for medium-term

- **UNCT consolidates and analyses costing data and analytical reports from different agencies at the country level** (for internal cost only, requires interagency agreement on cost definitions and

classifications) (Option 2, page 24) with a review of such reports during a pilot period (3-6 months) by a dedicated and time-limited Interagency Taskforce of the agencies concerned.

- Survey, tracking and monitoring of an agreed upon and **all-encompassing dynamic set of performance indicators** that are good proxy for transaction costs (for internal and external cost, requires UNCT agreement and good understanding of business processes, best to build upon business process mapping and results of stakeholder surveys) (Option 7, page 24).

Recommended for long-term

- **One budget framework, cost-accounting and reporting system across the UN system that would track all cost, and not only the in-country transaction costs, including transaction costs, to deliver the programme at country level** (internal cost only, preferred but requires inter-agency agreement) (Option 1, page 24).

It is expected that the use of these methodologies will enable RCs/UNCTs **improving their decision making in relation to business process harmonization and streamlining** and assessing the implications for in-country transaction Costs for all stakeholders concerned.

The report concludes that the current approach in the DaO pilot process is to identify the potential for business process harmonization through a bottom-up identification process. It cautions that the economies resulting from harmonization of partial business processes, within the limits of the delegated authorities of country offices, may in some cases be offset by the investment cost for conducting process mapping and process harmonization, including training of staff, etc. It concludes that economies on a larger scale through harmonization of business processes requires involvement of the various agency headquarters, within the framework of their respective internal control and accountability frameworks, and notes that a bottom-up approach to business process harmonization may actually increase overall transaction costs to the UN system.

In view of the increasing attention given to the issue of in-country transaction costs and in order to ensure that all UNCTs interested can benefit from each others' experiences in this respect, the report recommends

- **Sharing of methodologies for, and experiences (best practices)**, in assessing and monitoring in-country through existing UNDG supported online networks and fora to help UNCTs to minimize cost and resources required for this purpose;
- Envisage **periodic reporting of in-country transaction Costs** through a dedicated para in the reports prepared within the framework of the DaO pilot process (e.g. annual stocktaking reports, Annual RC report) for instance in relation to achievements on business process harmonization.

Main report

I. Background

1. The 'Delivering as One' (DaO) country pilots¹ have been working to identify ways to ensure more coherent, efficient and effective operations at the country level. Eight Governments volunteered in 2007 to pilot and test ways of 'delivering as one' under the principle of 'no one size fits all' in their respective countries. Subsequently, the UN Secretary-General requested the Chair of the UN Development Group (UNDG) to lead an effort, with the Executive Heads of the UNDG members, to move forward with the implementation of the 'Delivering as One' pilot initiatives in these eight countries. These 'pilots' were to develop and demonstrate innovative methods for operating at the country level which would deliver the UN's development assistance more efficiently, make it more relevant to national needs and more effective in terms of impact and demonstrate the achievement. This study is intended to assist the pilot countries in these efforts.
2. This pilot initiative was built on the reform agenda set earlier by the General Assembly (GA) resolution 59/250 "Triennial Comprehensive Policy Review of Operational Activities for Development of the United Nations System (TCPR)" of December 2004. This resolution invited "the governing bodies of the UN system organizations to adopt harmonization and simplification measures, with a view to achieving a significant reduction in the administrative and procedural burden on the organizations and their national partners" and requested the UN system organizations "to examine ways to further simplify their rules and procedures" and to "accord simplification and harmonization high priority" taking concrete steps in numbers of areas. In 2005, the World Summit (GA resolution 60/1) called for

stronger system-wide coherence by implementing reforms "aimed at a more efficient, coherent, coordinated and better-performing UN country presence".

The TCPR

3. The 2004 TCPR mentions specifically that "transactions costs" are incurred to the UN organizations and their national partners as the result of the UN system's operational activities. It lists the areas where action of harmonization, simplification, alignment and coordination could result in a decrease in transaction cost. The 2007 TCPR refers in eleven paragraphs to transaction costs (numbers refer to the paras of the TCPR 2007), some of which include calls for specific action:
 - Para 93. Notes that **coordination activities**, while beneficial, represent **transaction costs** that are borne by both programme countries and the organizations of the United Nations system, and requests the Secretary-General to report on an annual basis to the Economic and Social Council at its substantive session on the functioning of the resident coordinator system, including costs and benefits;
 - Para 113. Calls upon the United Nations funds, programmes and specialized agencies to continue to **harmonize and simplify their rules and procedures**, wherever this can lead to a significant reduction in the **administrative and procedural burden on the organizations and national partners**, bearing in mind the special circumstances of programme countries, and to enhance the efficiency, accountability and transparency of the United Nations development system;

¹ Albania, Cape Verde, Mozambique, Pakistan, Rwanda, Tanzania, Uruguay and Viet Nam.

- Para 115. Recognizes that the **growth of non-core/supplementary/extrabudgetary funding and of the number of associated projects** increases transaction costs and is an important factor that can hinder efforts to maximize efficiency of the United Nations development system²;
 - Para 117. Requests the United Nations development system to further **standardize and harmonize the concepts, practices and cost classifications** related to **transaction costs and cost recovery**, while maintaining the principle of full cost recovery in the administration of all non-core/supplementary/extrabudgetary contributions, including in joint programmes;
 - Para 118. Encourages the United Nations funds, programmes and specialized agencies, as appropriate and in consultation with programme countries, to **further lower transaction costs, to conduct missions, analytical work and evaluations at the country level jointly**, to provide their capacity development support through coordinated programmes consistent with the requests of programme countries and national priorities and to promote joint training and sharing of lessons learned;
 - Para 119. Encourages the United Nations development system to **make increased use of national public and private systems for support services**, including for procurement, security, information technology, telecommunications, travel and banking, as well as, when appropriate, for planning, reporting and evaluation, and also encourages the United Nations development system to avoid and significantly **reduce the number of its parallel project implementation units** in programme countries as a means of **strengthening national capacities and reduce transaction costs**;
 - Para 120. Encourages the funds, programmes and specialized agencies of the United Nations system to step up their efforts, in consultation with national Governments of programme countries and in accordance with their development needs and priorities, to **rationalize their country presence through common premises, co-location** and, where appropriate, to implement the **joint office model and expand common shared support services and business units**, in order to reduce United Nations **overhead and transaction costs for national Governments**;
4. Related to the issue of transaction cost, there are other paragraphs that concern country level activities but that require interagency coordination at head-quarters level through the appropriate mechanisms (i.e. CEB, HLCM and UNDG) and that are not within the scope of this review:
 - Para 114. Also calls upon the United Nations funds, programmes and specialized agencies to ensure, to the extent possible, that **savings resulting from reductions in transaction and overhead costs** accrue to development programmes in programme countries;
 - Para 121. Encourages the continuing development of harmonized approaches such as the adoption of the **International Public Sector Accounting Standards**, the standardization of **audit definitions and ratings** and the **harmonized approach to cash transfers**, calls upon the United Nations funds, programmes and specialized agencies to further **harmonize and simplify their business practices**, and recognizes the importance of harmonizing human resources management, enterprise resource planning systems, finance, administration, procurement, security, information technology, telecommunications, travel and banking, and of making use of information and communications technology to the fullest extent.
 5. The TCPR is explicit in defining the areas where reduction of administrative/operational costs is possible (specific mention of administrative and

² Some agencies receive contributions in kind. Transaction costs are also generated through the number and complexity of conditions that come with donor contributions.

financial procedures, procurement, business practices, ICT, and common premises, etc.) but is silent on the specific definition of “transaction costs”. Nonetheless, from the text of the TCPR it can be implied that this term refers to the ‘procedural burden’ that is caused by complex, unaligned and unharmonised processes within the UN development system. This burden is incurred to the UN system’s national partners, and donors and other international agencies at the country and global levels, as well as to itself.

Purpose and structure of this report

6. The reduction of “transaction costs” of the UN system and of the workload that is incurred to the UN system’s partners at country level in the context of the pilot countries has been a key driving force for the Governments, donors and UN Country Teams (UNCTs) when calling for change of the UN development system’s administration/operations as well as for improved development impact at the country level. Consequently, the UN system’s partners at country and global level demand demonstration of the effects and benefits of the DaO pilot experience on the evolution of transaction costs and overall efficiency of the UN system at the country level.
7. This can only be achieved by going beyond the current general concepts of efficiency and transactions cost as referred to in the TCPR. A more operational concept needs to be formulated, including the development of workable and flexible methodologies, that allow UNCTs to measure country-level transaction costs for the purposes of demonstrating effects and attributing causes when testing or introducing new or modifying existing approaches of working together.
8. Each organization participating in UNS country level cooperation, through the UNCTs or as NRA, may have optimized or is aspiring to optimize business processes within their own internal control and accountability framework and corporate structures. More specifically, the UN organizations cooperating at the country level
 - are organized differently due to major differences in mandates, functions, roles and responsibilities;
 - operate differently due to different governance structures, accountability frameworks, business models, internal control and risk management mechanisms, policies, rules and regulations that result in diverse business practices, processes and procedures, even though all share the same business principles of the international public sector;
 - are funded differently and are thus committing resources and are financing activities through different modalities with different degrees of flexibility in multi-year advance commitment;
 - have major differences in the shares of their respective overall global business that is implemented through cooperation programmes/projects at country level which defines the business volumes under the authority of the country level representatives of the UNCT.
9. At the country level, to UNS partners this situation comes across as uncoordinated, unharmonized and unaligned, costly and inefficient, particularly if they have to deal with a multiplicity of UN organizations and are required to establish capacities to be able deal different organization specific business processes and procedures. There is a general assumption that better coordination of the UNS organizations and harmonization of their business processes, would result in a reduction of transaction costs for the UNS and its partners at country level.
10. At country level, UNCT country representatives have some degrees of leeway in organizing locally controlled business practices and processes to palliate these differences at corporate level, but only within the limits of the authorities delegated to them. The overall advantages of local harmonization and simplification therefore depend on the economies of scale that can be generated

as a result, provided that this would not limit the individual organizations' ability to deliver effective and timely results corresponding to their respective roles, responsibilities and mandates.

11. The purpose of this paper is to operationalize the term transactions costs, within the in the context of the pilot countries. It is based on the concrete experiences in some of the DaO pilots (Albania, Mozambique, Tanzania and Uruguay) with assessing transaction costs and develops a framework that will help other UN Country Teams to identify the approach best suited to their specific country situation.
12. More specifically, it provides the UNCTs with the basic concepts, and also assesses their suitability, for assessing how the DaO pilot approach has impacted on the level and direction of transactions costs for the UN organizations and their partners in the DaO pilot countries.
13. Its conclusions and recommendations take account of the findings of the UNDG/HLCM study on business practices and are consistent with and support the implementation of the UNDG Strategic Priorities for 2010-2011.
 - The **background** of this paper provides the framework and context for introducing the issue of transaction costs analysis into the discussions surrounding the DaO pilot approach.
 - The **second section informs on other activities of the UNS that are relevant for the discussion of transaction costs.**
 - The **third section** develops the conceptual framework for the analysis of **In-country Transactions Costs** in the context of the development activities of the UN at country level. It provides a definition for transaction costs and its components, and describes the impact of changes in business processes on transaction costs. It lays the basis for a pragmatic methodology that can be used for establishing baselines and for assessing trends of transaction costs that are arising to the UN development system and its partners at the country level as a result of the DaO initiatives³.
- The **fourth section** reviews different approaches and options, and their strengths and weaknesses that could be used for **assessing and measuring**, and for **monitoring changes**, of in-country transactions costs as result of changes in business processes at the country level.
- The **fifth section** critically reviews in more detail, selected approaches for estimating the transaction costs and provides guidance for identifying business processes, both in administrative and programme areas, with scope for improvement in terms of cost and efficiency. These business processes are grouped within the framework of broader **cost clusters** that are specific to the activities of the UN at the country level and that provide scope for strategic **efficiency savings and/or cost reductions, including improvements in effectiveness and quality in output.**
- The **sixth section on conclusions and recommendations** identifies actionable steps that would enable UN Country Teams to lead and conduct an in-country transaction costs analysis with their own resources. It also identifies various actions at the level of headquarters and governing bodies concerned that are required in order to support initiatives of UN Country Teams, while ensuring the principles of a broad UN system-wide coherence in methodologies and concepts in this respect.
14. The approaches to transaction costs analysis described in this report are an essential step towards defining, measuring and monitoring in-country transaction costs. They will support UNCTs in their efforts to lower in-country transaction costs through harmonization, simplification, alignment and streamlining of country-level

³ Taking into account the several attempts by various organizations to measure and quantify transaction costs within the aid environment. Note studies done in Viet Nam (2000), Tanzania (2005), Ghana (2007) and DRC/Sudan on Humanitarian Pooled Funds (2009)

business practices and processes for both administrative and programmatic activities. Within the UNS, such analysis must cover the UNS organizations and their partners at country level, and ideally the cost of support and resources provided from sub-regional/regional/headquarters offices.

15. The paper does not address the issue of results achieved so far which will be addressed by separate processes such as the forthcoming country-led evaluations as well as the independent evaluation.

II. Related activities of the UN system relevant for this analysis

Joint High Level UNDG/HLCM Mission to address country-level bottlenecks in business practices

16. In November 2009, the Chairs of UNDG and HLCM agreed to field a joint UNDG/HLCM high-level mission (the 'Mission') to identify *"critical areas where further efforts in improvement and harmonization of business practices are needed to ensure the operational effectiveness of the UN system on the ground"*. In March-April 2010, they visited Mozambique, Malawi and Viet Nam and submitted their report "Addressing Country-Level Bottlenecks in Business Practices" to the Chairs (April 2010). The report's recommendations cover the areas of Human Resources Management, ICT, Finance and Procurement, Harmonized Approach to Cash Transfers (HACT), Procurement and basic Common Services and Common Premises, in addition to overall recommendations in the areas of Leadership, Change Management, Strategic Approach, Sound Analysis and Headquarters Support. The Mission observed that *"a number of solutions to greater harmonization of business practices and joint operational modalities have been developed at country level within existing regulations and policies"*, and noted specifically that *"more harmonized business practices at the country level should be institutionalized in all the UN agencies at country, regional and headquarters level."* The Mission also observed that the

implementation of more effective and **harmonized business practices resulted in more effective, higher-quality and robust services** in the countries visited, and that transaction costs and time dedicated to operations were reduced. It noted also that in the short term there may be *"additional costs for business process analysis and redesign as well as additional workload on staff involved in activities aimed at improvement and harmonization. The main challenge at the country level is to balance the call for measurable efficiency and effectiveness gains in operations with realistic expectations of actual savings, from the perspective of a more efficient and effective UN development system at the country level rather than only from individual agency perspective."*

17. The Mission moreover recommended to **"conduct business process and cost-benefit analyses to support strategic decisions on improved and harmonized business practices"** with a view to "simplifying and harmonizing to find ways of increasing productivity gains and reducing transaction costs". It requested that a *"simple cost-benefit analysis framework is developed to be applied consistently across all UNCTs, in order to help identify opportunities for efficiency and effectiveness gains and guide decision-making on business processes, that take into account"* and *"assessing initial investment vis-à-vis potential longer term benefits"*, including *"both financial and non-financial short term and long term implications"*.

UNDG Strategic Priorities

18. The UNDG Strategic Priorities for 2010-2011 were decided in May 2010. They place the response *"to the TCPR and global development priorities"*, very high on the UNDG agenda, to ensure that *"the UN development system becomes more internally focused and coherent"* in order to *"give direction to UNDG efforts at the global, regional and country level to facilitate a step change in the quality and impact of UN support at the country level"*. UNDG sees the acceleration of the process for *"harmonization of business practices"* as one of seven priorities to maximize UN impact at country

level. UNDG also intends to place the “*increase of agency incentives and support for UNCT collaboration on programming and business practices*” at the UN system level at the center of its priorities. Within this context it is envisaged that UNDG drives the “*next generation business practice reform for global replication*” in DaO countries and that “*agencies scale up business practice harmonization*” and “*strong joint development results*” supported by “*harmonized management and administrative systems*”.

Country-led evaluations and independent evaluation of the DaO approach

19. This review is considered part of the DaO initiative process and is not meant to duplicate or replace part of the country-led evaluations that were presented at the High Level Tripartite Conference on ‘Delivering as One’ in Hanoi in 14-16 June 2010. Its purpose is to support the UNCTs with a methodology to approach the issue of “transaction cost”. It also does not attempt to anticipate on the work of the independent evaluation called by the GA of the DaO process, but may contribute to and facilitate its work by focusing on the specific dimension of transaction costs and the methodologies available to assess them.

III. Definition of transactions costs within the ‘Delivering as One’ Context

20. The approach developed here relies on the concepts developed in economic theory and management sciences for the private sector, but adapted to the specific context of the international aid environment. It is developed specifically the UN development assistance context, as inferred to by the TCPR, within the particular context of the ‘Delivering as One’ pilot initiatives. It is further based on the fact that UN system development

activities at the country level involves stakeholders and partners outside the UN system, who are interacting with the UN system as donors, recipient, beneficiaries or collaborating partners, and who will incur costs to achieve agreed upon results within the UN development cooperation.

Stakeholders

21. The TCPR stipulates clarifies in paras 93⁴ (*transaction costs that are borne by both programme countries*) and 120⁵ (*to reduce United Nations overhead and transaction costs for national Governments*) the fact that transaction costs from UN supported activities are incurred in particular to national governments and the UN system and that they need to be monitored and reduced.
22. Analysis and tracking of transaction costs, therefore, needs to look at all the stakeholders involved with UN system development activities at the country level. Distinction is made between stakeholders internal and external to the UN system, as well as offices of stakeholders at country level as well as the offices of stakeholders outside the country level, at subregional/regional/headquarters level:

- **Internal stakeholders**

- **UN system organizations (at country level):** in-country offices – Offices and Representatives of UN system organizations, UN Resident Coordinator and his/her office
- **UN System organizations (non-resident):** offices outside the host country: non-resident UN system organizations, UN agency subregional, regional and headquarters offices of UN system organizations

- **External stakeholders**

- **National partners:** government coordination authorities, line ministries, Civil Society Organizations, NGOS,

⁴ See the exact quote on page 11.

⁵ See the exact quote on page 12.

Community Based Organizations, beneficiary groups, etc.

- **Donors agencies** : in-country offices and offices outside the country at subregional/ regional/capital level)

23. The involvement of these stakeholders with activities of the UN system at the country level differs from country to country. The level of the overall transaction costs resulting from the interaction of these stakeholders in relation to UN related activities depends on the number of UN organizations they are interacting with, the degree of harmonization and alignment of the programme and administrative business practices among the UN organizations as well as with their partners.

24. For instance, the national authority responsible for coordination requires a capacity to process and analyse the approval documents, implementation reports etc. from all UN system agencies that are operating in that country. If the formats for these documents and reports differ substantially, the national coordinating authority may need to establish additional capacities to support their review, harmonization and consolidation. The related costs would be typical transaction costs at country level. Their overall level would depend on the number of UN agencies operating in the country concerned as well as the number of different formats used by the different agencies. Harmonization and simplification of formats for approval documents and reports would facilitate this coordination and oversight task on the national partner side and reduce their as well as overall transaction costs.

Definition of transaction costs

25. **Costs** are normally defined as the monetary value of expenditures for supplies, services, labour, products, equipment etc. for use by a programme entity (or cost center or business unit). In this context they are the monetary value of the activities (or expenditures) of the agencies and organizations

of the UN system in all locations (country, regional and headquarter level) to deliver their products and services (i.e. development cooperation) at the country level in collaboration with their partners.

26. Economic theory distinguishes, within the context of the 'theory of the firm', between "production cost" and "transaction cost" to explain the emergence of firms and the vertical integration of economic actors.

27. For the UN development system, and for the purpose of this review, the term '**transaction cost**' is used to mean the costs that are incurred by the UN system and its partners as a result of processes or activities for aid delivery by the UN system (UNS) and that are either internal or external to the UNS.

- **Internal transaction costs** are those costs that are internal to the UN system whereby a further distinction is made between those **costs incurred by the UN Country Teams at the country level** and those incurred by their respective corresponding **agencies and organizations' subregional/regional and headquarters offices outside the country** to support their agency's work in-country⁶. Information on internal transaction costs to the individual UNS organizations participating in the UNCTs may be available through the respective corporate accounting systems of the agencies and organizations concerned. Given the nature of the UNCT activities, costs related to activities of the UNCT country team and its partners would largely be the value of staff time dedicated to specific activities and processes, and only to a limited extent, for material inputs, or services (office material, communication etc.) and/or capital goods (vehicles, IT equipment and office space).
- **External transaction costs** are those costs that are incurred **by partners of the UN system** and they result from their interaction

⁶ Annex 1A provides a synoptic view on the different approaches to classifying or slicing cost for different purposes within the UN system.

with the UN system. They are incurred at both the country level (government, other national partners and local donor offices) and at the headquarters of the donor agencies and international partners and are related to their support to country level activities with the UNS. Accurate information on external transaction costs, as defined here, is be very difficult to obtain and quantify, and attempting to do so would be very time-consuming and costly.

- An additional dimension are the **opportunity costs** for the UN Country Team's actions which are here defined as the value of outputs that could not be generated due to inefficient use of resources (time and cost). For the purposes of this report, however, we will not be analysing the opportunity costs associated with UN development assistance due to the potential complexity that it would add to the analysis and the limited current utility of the information provided.
- Within the context of the DaO pilot approach, it is needed to distinguish between **recurrent transaction costs** relating to the UNS organizations activities both under the DaO and without DaO modality and the **investment costs** that correspond to those costs that were needed to set up new accountability frameworks and business processes in the DaO pilot countries to allow working in a new operational environment.

28. The approach developed in this report is limited to analysing the transaction costs resulting from in-country activities for development assistance within the DaO framework. Transaction costs that are incurred at the various headquarters (and other offices outside the host-country) of the UNS organizations and of the donors, and thus outside the country level, are important but out of the scope of this proposed methodology, mainly because difficult if not impossible to assess by the UNCTs. This dimension may possibly be covered at a later stage, once sufficient experiences with the country-level analysis has been accumulated and

more comparative advanced knowledge on and understanding of the different business models of the various UN organizations that participate in country-level activities becomes available.

29. Therefore, as a conclusion to this section, the following definition for assessing transaction costs of the UN system in the 'Delivering as One' context has been agreed by an interagency working group:

"Transaction costs for the purposes of this exercise, are the cost associated with the processes and activities that the UN development system engages in, to deliver its programmes at the country level, and which are internal to the UN system, as well as those that are incurred by its national partners and donors when interacting with the UN development system.

Transaction costs are defined as the resources utilised to perform processes/activities for programmes, including advocacy, technical advisory and policy dialogues within a defined timeframe, and incurred at the country level as well as by sub-regional/regional/headquarters offices of the UN agencies for country level activities.

Such transaction costs consist of programme costs and management, /administration/ support cost. These costs can also be classified as direct and indirect costs and would include both staff cost and non-staff.

Transaction costs are one of the variables through which the efficiency and effectiveness of UN country operations can be measured, which should be supplemented by an assessment of quality and, effectiveness of programmes and the sustainability of programme results."

Issues and limitations related to assessing transaction costs

30. Internal transaction costs: The classical approach towards assessing internal transaction costs would be to assess the costs required to generate a specific output at a certain level of quality and within a given timeframe. Theoretically the financial and management information systems of the UNS organizations should be able to provide the information on the value of the resources allocated to deliver products and services to a member state, whether a beneficiary or donor country, within a given time period. Theoretically, the UNS corporate systems should allow calculating per-unit costs (i.e. units of products and services) as efficiency criteria for their activities at the country level by relating them to the quantity and quality of services provided. However, there are a number of practical constraints for this approach:

- The current budgeting, cost accounting and reporting systems of the UN system agencies and organizations are designed to meet the specific business requirements of each agency/organization and financial reports on costs are not immediately comparable. There are differences in the definitions of what constitutes the value of products and services for development, what constitutes costs for supporting their delivery and how costs incurred by country offices and their respective subregional/ regional/ headquarters offices for the benefit of a programme country are presented in existing financial reports.
- Establishing a unit cost of UNS products and services would allow monitoring their evolution over time, and thus tracking the impact of reform on their level. However, the nature of the UNS products and services, within the framework of its operational activities, is highly

diversified. Calculating unit cost requires cost-accounting systems that follow UN system-wide agreed upon standards and classifications but which are not available at this stage.

- Currently, there are no baselines or methodologies developed anywhere in the UNS that would permit comparing transaction costs per output, per organizational unit or for UNCTs as a whole, before and with reform or monitor their evolution over time⁷.
- Most of the UN agencies have introduced since 2006, in response to the TCPR 2004 and as part of the UNDG led reform process, qualitative improvement in their country programming. This resulted in agency specific change management initiatives at country level, most around topics highlighted in the revised UNDAF guidelines⁸. Transaction costs changes associated with change of management practices around these areas are thus by nature due to the imperative to improve and not due to DaO initiatives. Distinguishing between these latter costs and those relating to the DaO initiative is however important to be able to understand the causes of changes and trends of transaction costs resulting from the DaO initiatives.

31. In order to be able to make effective use of the existing corporate budgeting, accounting and reporting systems of each of the UN organizations to identify, monitor and track internal transaction costs, a number of conditions would need to be in place. These include the existence of analytical cost accounting and reporting systems and a system-wide agreement on using the same cost definition and classification, or at least a comprehensive mapping of agency specific definitions and classification to allow consolidation of reports of the UNS organizations concerned. Additional reporting would need to be integrated with existing

⁷ It is expected that the interagency mission and the subsequent mapping of business processes will contribute to remove this constraint in the future by establishing 'baseline' now for selected processes.

⁸ e.g. gender mainstreaming, environment, strengthening evaluation function, improving the cluster coordination in humanitarian situations, strengthening the rights based approach to programming, strengthening the results based management practices, strengthening the UN contribution to achieving MDGs and MDG based plans at country level etc.

results-based monitoring and management reports, to avoid the risk of parallel reports and processes. This approach is, therefore, not available in a short-term and at a low-cost, as it requires interagency agreements through consultations and probably system changes or adjustments for UNS organizations involved.

32. This report therefore recommends, in the short time, to assess internal transaction costs through a different methodology that allows obtaining information on the main trends at relatively low cost, and that is based on the detailed analysis of selected business processes for which the country representatives of the UNS organizations concerned have delegate authority.

33. **External transaction costs** are those cost that are incurred at the country level to in-country partners of the UNCTs. This includes the national coordination ministry, line ministries, civil societies (including CBOs, NGOs and other beneficiary groups), the private sector and the local donor representatives, to the extent they are involved with the UNCT's operational activities. Their involvement would cover, among others, negotiation, coordination, design, implementation, monitoring, evaluation and oversight, using typical instruments and mechanisms such as like workplans, project documents progress and financial reports, participation in meetings and/or missions, monitoring systems and visits programme progresses, and resource use by the UNS organizations.

34. The need for a reduction of external transaction costs of the UN systems activities at the country level to its partners, particularly of government partners, is an essential section in the TCPR and seems also to have motivated some of the discussions leading to the DaO pilot process. Quantifying these external transaction costs is a very complex undertaking, mainly because obtaining and consolidating related information does not seem feasible at reasonable cost and at within a reasonable time-frame at this stage.

35. A way-out would be to survey the UNCT's in-country partners to obtain their views about the evolution of their transactions costs that result from their interaction with the UNCTs and in particular how the DaO reform process in the pilot countries would have impacted on them. These views or perceptions can be surveyed for their overall interaction with the UNCTs as well as in relation to specific UNCT related business processes.

36. **Opportunity costs:** Any analysis of transaction costs needs to take into account the cost to the UN system and its partners from a less than optimal setup of the UN system's operational activities at the country level. A more efficient and effective ("optimal") setup of the UN operations at the country level is one of the results expected from the DaO approach that envisions to apply the best approach to best business practices taking into account also the institutional realities of the UN development system as a whole. The opportunity cost would be the difference between the transaction costs at in an optimal and a less optimal operating environment.

37. **Investment costs:** The UNCTs in the DaO pilots have been engaged in change management practices since the inception of the pilot initiatives. In all pilots, the mechanisms and practices for interagency cooperation and coordination were reviewed and adjusted, which included review and changes of business processes in both the administrative/operational and programme areas. The general understanding is that the costs related to these efforts, to the extent that they are of genuinely 'one-time' nature, should be classified as one-time 'investment costs' rather than recurrent 'transaction costs'.

Impact of changes to business processes on workload and transaction costs

38. Modification of business processes through streamlining, simplification, harmonization or alignment may result in a change of workload and cost associated with them. The distinction between workload and costs is important, as within the

framework of the UNS' cooperation at country level stakeholders with different human resource cost interact and cooperate. The cost of an international civil servant is in many cases substantially different from the cost of a national counterpart, but there may also be differences between the costs of UNS human resources for the same type of work. For instance, even if the workload to achieve a specific result is the same, if performed by national or UNS human resources, the cost for the same result may be very different.

39. For this reason, analysis of the impact of change of business processes needs to take into account the resulting change to the workload and its costs (price of that workload) required to deliver the same result.
40. Transaction costs can be assessed at the level of stakeholders, or the sum of stakeholders, or at the level of specific business processes.

...on overall levels of workload and transaction costs for all stakeholders

41. UN reform activities are likely to impact on the transaction costs of the UNS at many levels, both at headquarters and country level. Theoretically, transaction analysis in relation to operational activities of the UNS could therefore consider the following approaches:
 - Include the **transaction costs for all UNS organizations**, at all locations (i.e. country office, subregional, regional and headquarters level), for the partner organizations of the UNS (i.e. donors with their offices in all locations, NGOs etc.) as well as for the national institutions in recipient countries. In practice, this information would be extremely difficult to generate, if not impossible.
 - Include **only the transaction costs of the operational activities on a country by country basis**. The cost incurred in offices outside the country would be included, but as in the previous case, generating such information would be very difficult, apart from the fact that

identifying the costs incurred in subregional/ regional/headquarters' offices in support of the operations in one country would create considerable methodological difficulties.

- Include **only the overall in-country-level transaction costs of the UNS and its partners** (donor agencies, government and NGOs) in relation to the UNS' operational activities, and in a further refinement, consider separately the country-level transaction cost for each organization of the UNS and for each partner.
42. Within the framework of this report, it is recommended that the UNCTs limit their analysis to estimating
 - the **total level of in-country transaction costs** that are incurred to the sum of all stakeholders involved, i.e. agencies/institutions of the UNS organizations operating at the country level as well as
 - the **in-country transaction costs of each individual organization and external country-level partner**.
 43. The focus of this report is to enable UNCTs in the DaO pilot countries to assess changes in in-country transaction costs as result of their reform activities. The analysis of transaction costs outside the country level, i.e. at the subregional/regional/ headquarters offices of the various UNS organizations and partners is therefore beyond their scope and mandate, apart from the methodological difficulties in assessing them.
 44. This report will thus review the methodologies available to assess in-country transaction costs for UNS organizations and their local partners.

...on level of workload and transaction costs for individual stakeholders, and shift/transfer between them

45. The reform activities in the DaO countries focus on the harmonization, simplification and alignment of business processes relating to programme and

administration. Revision of businesses process can impact in different ways on the stakeholders participating in a business process. It may reduce the workload for some stakeholders relating to the 'revised' business process but actually increase the workload for others. Depending on the cost of human resources of each stakeholder in each business processes, this could result in an increase of transaction costs for the business process concerned even if the overall related workload of all stakeholders has been reduced. For example:

- Introducing consolidated reports on the UN system activities at country level may lower the workload for those partners of the UN agencies who require such consolidated reports (e.g. coordinating institution and/or donors). They can now focus on reviewing only one consolidated report, instead of having to review and analyse several agency specific reports in different formats and to consolidate them themselves. At the same time, the workload for the UNS organizations may increase as they would have to consolidate individual agency reports into one report and/or format. In case that preparation of such reports requires the use of headquarters' supported systems, this could imply aligning the headquarters' systems or considerable manual work in the UNS country offices. The overall result may thus be a lowering of the overall workload and of transaction costs for the Government and other partners of the UNS, while the overall transaction costs in relation to reporting and report reviews may actually increase. This situation may occur if the costs of the human resources employed by the UN system organizations as compared to those working for the Government are higher. On the other hand, the reduction in time spent by the Government on the report consolidation and review may free up national capacities to focus on other important strategic programmatic issues, in the spirit of the TCPR resolution.
- The introduction of HACT may have increased the initial transaction costs for the UN to set-up the necessary mechanisms and assurance

plan and undertaking prior risk assessments. However, HACT is expected to reduce UNCT workload for cost control while increasing it for monitoring. At the same time, the workload and costs for National Implementing Partners who assume the responsibility for submitting detailed expenditure reports may increase.

46. Transaction costs analysis therefore has to be business process specific and needs to take into account how stakeholders interact with each other in the business process concerned. It requires an analytical description of their interaction before and after change of the business process concerned. The analysis would identify the rules and procedures that govern the business process, the roles and responsibilities of each of the participating stakeholders, the time they need to perform their tasks to perform every step in the process, and the cost of each step.
47. As result of business process change, transaction costs may shift from one stakeholder to another and in some cases, hidden transaction costs may actually become visible and effective cost to the UNCT as for instance in those cases where premises are provided free-of-charge by a Government to individual organizations of the UNCT and not shown as costs in their accounts. In the moment, that these organizations move out from the Government provided premises to join the Common UN Premises they have to pay rent. They would thus have an increase in costs in their accounts, while the Government may have savings as it can use the buildings for another purpose while the overall transaction costs relating to UNS activities that include may remain unchanged.
48. Within the context of the DaO reform, UN staff transferred or newly recruited to dedicate his/her time to the DaO approach would be considered as recurrent transaction cost, if they continue to deal with the DaO approach, while it is a one-time investment cost, if they were assigned to the DaO approach only for a limited period for setting up procedures, processes, coordination, harmonization and simplification mechanisms.

IV. Approaches and options for assessing transaction costs in 'Delivering as One' countries

Current approaches

49. Currently, four DaO pilot countries (Albania, Mozambique, Tanzania and Uruguay) have made efforts towards assessing transaction costs:
- Albania, Mozambique and Tanzania have pioneered, within the framework of business practice harmonization, the use of business process mapping analysis in selected areas (local procurement, ICT) within the framework of local delegated authorities.
 - In addition, Tanzania proceeded with a consolidation of delivery information extracted from the accounts and delivery reports of the UNCT member organizations to arrive at a ratio between the programme and administrative cost.
 - Uruguay has designed a local survey of all internal and external stakeholders involved with the DaO approach and the Coherence Fund, in particular, to assess their time and cost related to these processes.

Issues and limitations

50. The approaches and methodologies developed by the four UNCTs differ substantially. There is a need to review them, and additional potential approaches not yet tested, in order to arrive at a commonly acceptable methodology or methodologies that can be adopted by other UNCTs within a reasonable timeframe and cost limits.
51. The main issues are, relating to the transaction costs of UNS activities for development at country level, at this stage:
- **no methodology** is in place that generates the data on internal in-country transaction costs on an automatic and sustainable basis, nor to estimate, measure, track and monitor them;

- **tracking of real external transaction costs** is neither practical nor feasible, one has to rely on alternative and less precise approaches, such as surveys of perception of the stakeholders concerned;
- **none of the methodologies** available at this stage are suitable to **cover both internal and external transaction costs**; and
- **no baseline exists** against which internal and external transaction costs could be measured, tracked and monitored.

52. Against this backdrop of constraints, seven approaches have been identified as being potentially available for transaction costs analysis. Some of the options have been tested or will be tested in some of the pilot countries. They differ in the degree of reliability of information that can be generated which depends on how budgets are being planned, and whether the information can be generated through systematic real-time tracking of costs using financial systems. The access to detailed cost information is, however, largely dependent on whether the stakeholders concerned are part of the UN system family or not (i.e. national governments, NGOs, bilateral donors, etc.).
53. Even within the UNS family there are serious limitations in generating consolidated reports as real cost information on transaction costs covering all UNS organizations can only be generated if all organizations adopt budgeting and cost accounting systems using commonly agreed standards and classifications, or if they agree on standards and classifications that would permit converting available information to one common standard.
54. In the absence of such common systems and/or standards and cost classifications, information on transaction costs will have to rely on surveys of perceptions of the stakeholders involved with UN development activities at country level or monitoring of agreed upon performance indicators, that are sufficiently robust and reliable and suitable to provide timely information on transaction costs at reasonable cost.

Options available for measuring, monitoring and tracking in-country transaction costs

55. The seven options referred to above for measuring and tracking in-country transaction costs are at this stage the following:

Global:

1. UN system establishes one **Budget framework, Cost-accounting and Reporting system covering all UN system organizations** that would allow to track all internal costs, and not only the in-country cost, to deliver the programme at the country level, including transaction costs.

Country Level:

2. UNCT consolidates and analyses **financial and costing data and analytical reports from all UNCT member organizations**.
3. UNCT conducts **annual cost-surveys to track trends and structures of all costs** related to UN operations at the country level, all-inclusive of all partners (governmental, nongovernmental and donors) at country-level.
4. UNCT conducts **one-time or regular surveys on transaction cost estimates** in collaboration with key stakeholders to establish a transaction costs model of UN in-country activities or only those related to the DaO approach (the latter considered by UNCT Uruguay).
5. UNCT conducts **one-time or regular perception surveys** on perceived trends of transaction costs.
6. **UNCT conducts detailed comparative business process mapping and analysis** of selected processes absorbing large shares of workloads or cost for Pre and Post DaO.
7. UNCT conducts **surveys, tracking and monitoring of all-encompassing dynamic set of agreed performance indicators** that are good proxy for transaction costs.

56. None of these approaches is sufficiently complete or suitable to provide a full picture of in-country transaction costs of UN system activities at the country level but they are not mutually exclusive. Information on transaction costs will therefore have to be approximate and can only be obtained through a combination of these methodologies provided UNCTs have the capacities and resources required for this purpose.

57. Currently, only the options 2 (TAN) and 6 (ALB/MOZ/TAN) have been initiated or tested⁹. Option 6 (business process analysis) seems to be the most promising from the UNCT experience but will provide information only in relation to specific business processes and would not be suitable to provide information on the transaction costs of the entire UNS development activities in the country concerned.

58. Option 2 presents some limitations as its focus is on in-country costs. Not all organizations reflect the cost for support provided from their respective sub regional/regional/headquarters for the country level in their country programme delivery reports. Nevertheless, it seems attractive as an interim solution provided it is possible to map cost classifications and definitions in order to ensure comparability of the information from the different organizations. The only relevant long-term solution is option 1 as it would allow capturing all internal transaction costs of the UNS organizations, avoid the duplication of efforts in the field offices and not be limited to only in-country costs. Nevertheless, this option is very challenging as its implementation requires interagency consultation, negotiation and agreement to align the different corporate systems and procedures to one common standard.

59. All methodologies that rely on surveys (i.e. options 3, 4, 5 and 7) have their limits due to the related recurrent costs and time required to conduct them. In addition, apparently, there is overall “survey fatigue” among partners of the UN system who

⁹ The option 2 has been initiated by Tanzania UNCT, option 4 by Uruguay UNCT and option 7 by both Mozambique and Tanzania UNCTs.

consider any interaction with the UN system organizations that is not related to direct delivery of programmes (products and services) to ultimate beneficiaries as transaction costs.

60. Comparative analysis between the Pre and Post DaO situation for the overall activities of the UNCT in any of the DaO pilot countries is not possible in the absence of baselines describing the situation before the DaO approach. These baselines were not established probably because setting baselines at the time would have been a very complex task at the time and significantly delayed the DaO initiative. On the other hand, it should be possible to construct, post factum,

baselines for specific business processes based on UNS organizations' rules and procedures prevailing at the time before the DaO initiative.

61. For this reason, any of the methodologies outlined above, or a combination of them, to assess in-country transaction costs would also need be designed with a view to also serve as baseline for future reference.
62. The following table provides a comparative analysis of the seven options listed above, taking into account this reality and these constraints, with recommendations for each option:

No.	Option	Comparative analysis of different methodologies for assessing transaction costs in DaO context				
		Key features	Conditions or key assumptions	Advantages	Disadvantages	Recommendations
1	One Budget framework, Cost-accounting and Reporting system across the UN system	UN system establishes jointly budgeting methodology and cost-accounting system that can be used for tracking all cost to implement programmes at country level	Common system, standard cost, cost classification and standards, coding, definitions, integration with HQ systems Integration with existing corporate management and RBM based reporting of participating organizations	Full cost tracking by agency, possibility of agency or issue-specific cost tracking, improved management Automatic reports with limited manual work Reliable and comparable data, information and reports across the UN system agencies/organizations at all levels (country, subregional, regional and headquarters) Once established, and after high initial investment, low transaction costs for generating reliable and analytical information at country level	Information only available once established, i.e. no DaO related comparative analysis possible Only internal cost and no information on transaction costs of external partners Reports would provide only information on the share between programme and administrative cost. Further analytical work and assumptions are required to deal with changing delivery volumes and changing programme structure by organization to identify changes in internal transaction costs Not feasible in short or medium term	Highly desirable for placing on the agenda of HLCM and essential for DaO To cover external partners needs to be supplemented by other instruments

No.	Option	Comparative analysis of different methodologies for assessing transaction costs in DaO context				
		Key features	Conditions or key assumptions	Advantages	Disadvantages	Recommendations
2	UNCT consolidates and analyses financial and costing data and analytical reports from different agencies	UNCT would request each agency to provide information based on their specific cost accounting systems and analytical reports, consolidate it into one UNCT analysis that is updated on periodic basis Requires specific expertise on cost-accounting and understanding of the different systems.	Need for common cost classification, standards and conventions to convert data to one locally agreed standard	No need for major investment into accounting systems Relies on existing analytical data (when available) and reports Could possibly be done with local expertise Provides estimates on operating cost to programme delivery ratio Attractive to external stakeholders	Need for sustained analytical capacity to consolidate accounting information from different agencies External cost are not covered (exclusive of UN partners) Provides information only on cost incurred in-country (excluding subregional/regional/headquarters) Requires considerable manual work and interpretation Intercountry comparative analysis would require intercountry agreement on methodology, standards, interpretation etc. Reports provide only information on the share between programme and administrative cost. Further analytical work and assumptions are required to deal with changing delivery volumes and changing programme structure by organization to identify changes in internal transaction costs	In view of risk of divergent interpretations results need to consult with concerned agency headquarters experts on subject matter prior to sharing with external stakeholders To cover external partners needs to be supplemented by other instruments
3	Annual cost-survey to track trend and structures of all cost related to UN operations at country level all-inclusive of all partners (governmental, nongovernmental and donors) at country-level	UNCT would conduct survey relating to cost-structures and workload analysis of all country-level stakeholders working with UN development assistance with specific focus on transaction cost	Agreement on standards for such survey and on data to be collected, agreement of stakeholders Full updated inventory of stakeholders required Human resources across stakeholders have reliable information on time spent on UN matters Business structure needs to be relatively stable over time	Could be updated online and little manual work Process relatively light to manage and to consolidate data for reports if number of stakeholders limited Could possibly be done with local capacities but design may require additional assistance Can cover all stakeholders Basic methodology used and known by some agencies/organizations (e.g. UNDP, WFP, FAO)	Requires agreement by all parties on methodology, standards Becomes very complex/complicated with many partners/stakeholders and large programmes Provides information only on cost incurred in-country (excluding subregional/regional/headquarters) Intercountry comparative analysis would require intercountry agreement on methodology, standards, interpretation etc. In absence of corporate standards risk of inconsistent approach across agencies and countries	Not recommended at this stage as it requires thorough understanding, analytical capacities and resources

No.	Option	Comparative analysis of different methodologies for assessing transaction costs in DaO context				
		Key features	Conditions or key assumptions	Advantages	Disadvantages	Recommendations
4	Perform one-time or regular survey on transaction costs estimates by key stakeholders to establish transaction costs model of UN activities or DaO activities only (model considered by UNCT Uruguay)	UNCT designs survey based on perceptions of interviewees	Survey must include all stakeholders of UN activities in both design and response Full understanding of stakeholders that resulting information is based on perceptions Full updated inventory of stakeholders required Good knowledge of business model and capacity to interpret results and findings	Could be updated online but will require in practice to be supplemented by face-to-face interview Can be done with local capacities (including local consultants) Can cover all internal and external stakeholders Suitable for tracking of perceptions of transaction costs from strategic perspective	Results will be numeric which may hide fact that it is based on perceptions Results require interpretation and good understanding of business models and processes Becomes very complex/complicated and potentially unreliable with many partners/stakeholders/activities and large programmes Predominately qualitative and not quantitative assessment, Risk of biased responses	To proceed with model in Uruguay provided acceptable to partners but not to extend to other countries
5	Survey, tracking and monitoring of agreed upon and all-encompassing dynamic set of performance indicators that are good proxy for transaction costs	UNCT identifies indicators for transaction costs that can be tracked through a reliable performance framework Periodic review of performance indicators to ensure their relevance for management action Requires common system for regular data generation and use	Agreement to focus on trends rather than precise cost information Indicators would include 'time' and 'quality' as conditions	Could be updated online Keeps focus of attention on key indicators Reliable trend for transaction costs if indicators well chosen Good tool for tracking harmonization/streamlining action Can cover all internal and external stakeholders Suitable for overall tracking of transaction costs from strategic perspective Usually less costly as predominantly process indicators and if generated within the processes	No information on levels of transaction cost No numeric information but only trends Results require interpretation and good understanding of business models and processes	Recommended only if agreement that relevant for UNCT and external stakeholders

No.	Option	Comparative analysis of different methodologies for assessing transaction costs in DaO context				
		Key features	Conditions or key assumptions	Advantages	Disadvantages	Recommendations
6	Detailed business process analysis of selected processes absorbing high shares of workload or cost, with comparative analysis of before and with DaO situations	Detailed mapping of selected business processes including flowcharts, cost tables etc.	Capacity to apply methodology Agreement on terminology, methodology, expected results from key business processes to enable comparative analysis of equivalent business processes of different agencies	Detailed costing of selected business processes provide reliable data on changes in workload and cost Permits identifying and quantifying shifts in workload and cost among stakeholders, both internal and external Good basis for identifying and implementing management improvements Established methodology for change management Not dependent on pre-existing baseline as it can be constructed any time	Covers only selected processes Numeric information is only valid for model scenarios No overall picture Very costly and time-consuming and not suitable for transaction costs tracking and monitoring Depending on process identified for simplification and its place in the accountability framework of agencies concerned requires validation and approvals outside UNCT Feasibility of implementation depends on the degree of delegation to UNCT over key business processes	Encouraged provided focus on quick wins and central to substantially lower transaction cost
7	One-time or regular perception survey on perceived trends of transaction cost	Interview based survey of stakeholders of their perceptions of trends related to transaction cost	Agreement on methodology and content of survey Understanding on limitations of methodology and ensuing results or feedback from stakeholders	Can be completed online but must be complemented by person-to-person interviews Provides information on relevant trends Can cover all internal and external stakeholders Suitable for onetime assessment of perceptions of change of transaction costs of before and with DaO from strategic perspective Rapid results once established	No information on absolute levels of transaction cost Based on perception with risk of bias from all stakeholders Only qualitative and sometimes anecdotal on perceived trends Requires close guidance and interpretation by UNCT/RCO Need for baseline or alternatively first survey is baseline	Feasible but requires close attention by UNCT/RCO

V. Review of selected approaches

Cost information generated by budgeting, cost-accounting and reporting systems of UNS organizations to serve as basis for estimating internal transaction costs

63. Two approaches to measuring and monitoring the level of in-country internal transaction costs at country level have emerged as possible solutions for UNS organizations. They are, however, not suitable for measuring external transaction costs, as cost information for external, non-UN system stakeholders such as Governments, Civil Society Organizations, NGOs and donors is not readily available or accessible, and cannot be easily consolidated.

- The first approach would be to establish **One Budget framework, Cost-accounting and Reporting system across the UN system that can track all costs related delivering programme results at the country level.** The advantages of this such an approach are its potential to: i) generate at all times real-time information on all cost categories; ii) provide tools and create a framework for analytical work; and iii) provide the basis for good and efficient financial cost-management of country-level operations. Conditions for such a system are that it would need to be common for all UN organizations and cover all field operations of the UNS, and that it would be supported by common cost standards and classification, coding, definitions, integration with HQ systems, etc. However, setting up such a system would require a considerable upfront investment by all UNS organizations concerned, which is unlikely to be feasible in the short-term. Nonetheless, it is recommended to put forward the idea for setting up of such a system for HLCM's consideration to initiate conceptualization and feasibility studies.
- The second approach would be building on the approach initiated by the UNCT Tanzania (Programme vs. Administrative Cost) whereby

the UNCT consolidates and analyses costing data and analytical reports from all UNCT member organizations operating in the country, and distinguishes between programme and administrative costs. UNCT would extract information from cost accounting systems and analytical reports provided by each UNS organization, consolidate them into one UNCT report and update them periodically. This approach requires the existence of common cost classification, standards and conventions through which the data and reports from the different organizations agencies are converted to one locally agreed standard with local adaptation. To minimize the risk of inconsistency and inaccuracy and thus of major misrepresentations it is advisable that consolidation of organization-specific reports be performed by specialists familiar with the cost-accounting within the UNS organizations, in close collaboration with the various UNS country representatives. However, in view of the current differences in analytical requirements among the UNCT organizations, the absence of one common system and common and consolidated reporting risks creating additional manual workload within the UNCT. These high cost and workload may be prohibitive for many UNCTs.

64. An additional challenge relating to these two options is the difficulty to identify whether changes in internal transaction costs levels are due to variations in efficiency and effectiveness resulting from management actions or the result of variations in the overall programme delivery volume or other factors. Annex 2 attempts to develop an approach for resolving this issue but the result would provide indicative and not precise information on the impact of business process change on internal transaction costs.
65. A perfectly reliable and objective assessment of in-country transaction costs for UNS operations at country level through these two approaches is therefore very difficult and only possible at a very

high cost¹⁰ and probably not feasible in the immediate future. Moreover, these two approaches would not be suitable to provide information on external transaction costs of the UNS partners.

Qualitative solutions for assessing internal and external transaction cost

...Stakeholder perception surveys

66. For monitoring and tracking external transaction costs incurred to partners of the UNS at country level, the only available option is to track their perception of the evolution and trend of the transaction costs for their organizations or offices. This can be achieved through open or semi-closed interviews or questionnaires. The UNCT needs to decide on whether to survey only representatives of the partner institutions or all human resources in the partner institutions dealing with the UN system.

67. These surveys would focus stakeholders' perceptions of trends and directions related to transaction costs. They would avoid providing detailed numeric information mainly because such information has the risk of creating the impression of precision that is not possible with this methodology. The surveys would invite the interviewees to distinguish the "investment costs" that were required for setting up the DaO initiatives from how they see how the "recurrent transaction costs" for their offices evolved in both the without and with DaO initiative situations.

68. Perception surveys should ideally be conducted with all stakeholders, both external partners (Government coordinating ministry, line ministries, Civil Society Organizations and NGOs, National Implementing Partners) and internal (UN RC, agencies of the UN Country Team and where feasible Non-resident agencies). They could be conducted through interviews using a simple interview guide, which would help create a common understanding with partners and stakeholders on the issue of

internal and external transaction costs, as well as through a more comprehensive questionnaire using formatted questions (see Annex 4 for examples).

69. The decision on who to survey or interview should take into account the following elements:

- Overall number of partner institutions and number of staff in each institution that are actually working with the UNS of the UNCT;
- The existence of baseline surveys;
- The possibility to test interview questions prior to conducting the survey;
- The willingness of partner institutions to take part in such surveys, both for setting up baselines as well as on a recurring basis;
- Agreement with partner institutions on performance criteria that can be used as representative indicators of external transaction costs and easy to monitor at a low cost.

70. The perception surveys would provide structured information on:

- The partners/stakeholders interacting with the UNS or UNCT, and the intensity of their interaction;
- The state of awareness of the partners/stakeholders of the issue of transaction costs, and their importance in relation to their interaction with UNS supported operational activities in the country;
- The importance of 'recurrent transaction costs' as compared to one-time investment cost related to setting up the DaO approach;
- The assessment by the partner/stakeholder whether they perceive that their own recurrent transaction costs related to UNS supported activities have decreased, increased or remained unchanged.

71. The results of the perception surveys will need to be consolidated by the UNCT in order to arrive at

¹⁰ Absence of clearly defined baselines; difficulty to clearly define "transaction cost" and to assess to whom they are incurred; need to distinguish between "investment cost" for developing the framework for working under DaO conditions and the true recurrent "transaction cost" under newly defined frameworks; complexities of a dynamically changing framework under DaO.

an overall assessment for the entire UNS operational activities for the country concerned. This consolidated assessment would take account of the relative weight in the volume of the partners/stakeholders' actual interaction with the UNCT during the period under consideration.

72. Stakeholder perception survey should also be performed with the members of the UNCT, to complement the information obtained from consolidating cost and delivery reports described above.

Analytical solutions for assessing internal and external transaction cost

...Business process mapping

73. The methodologies described beforehand are suitable to provide information on overall trends of transaction costs for the UNS at the country level but are insufficient for identifying the genuine causes of transaction costs. They are not suitable for guidance on how business processes should be modified in order to improve effectiveness and reduce costs.
74. This would require *mapping of selected business processes* relating to administrative/operational and programme activities and processes at country level that involve the UNCT organizations and their partners. Inter-agency coordination mechanisms under the UNCT, RCO and UNCT member organizations offices and the UN system's projects and programmes would also be included.
75. Focus would be on those business processes that are known or considered to absorb a large share of UNCT resources and of external partners (through the perception survey for external transaction costs and general knowledge of the UNCT) and thus offer a high potential for a reduction of internal and external transaction costs through harmonization, simplification, alignment or other measures to make them more efficient.
76. One of the challenges for the business mapping approach is that it can only generate acceptable results if it compares processes that are indeed

comparable, particularly if the objective is to identify the scope for economies or to assess the change in transaction costs in the before and with-DaO situations. It is recommended to use the result to be achieved by the business processes as the common reference point for comparing cost, workload and timeliness in the before/without and with change situation. This result must be at a reasonably high level to ensure business processes or combinations of business processes are compared for the same result at the same qualitative and quantitative level, and not for different results, whereby criteria of timeliness in providing the result would need to be included.

77. A distinction is made between administrative/operational cost clusters versus programmatic cost clusters, mainly because different groups of stakeholders within the UNCT are involved in these two clusters which group activities and processes that use resources for achieving results.

- **Administrative/operational cost clusters** would typically include processes and activities relating to procurement of goods and services, hiring of human resources (staff and consultants), arranging travels and local transport, protocol and security matters, making payments and providing ICT support. For instance, in case of procurement, the common reference point could be the delivery of goods or of a specific group of goods, and the mapping would cover all the processes and steps required to procure and to making these goods available to the ultimate beneficiary in the country. Taking the ultimate beneficiary as point of reference is important as this allows comparison of transaction costs where national implementing partners are part of the delivery chain (as for instance for financial transactions under the HACT modality). In order to avoid complicating the mapping and analysis, the UNCT would focus on local procurement where most of the processes are under control of the UNCT; regional and/or international procurement that involve regional offices and headquarters support should be excluded due to the difficulties in isolating the cost that are attributable to the country operation.

- **Programmatic cost clusters** would for instance include the preparation, implementation, monitoring, evaluation of and reporting on programmatic activities in the UNDAF and its related documents and processes, as well as activities relating to coordination and negotiation with partners, advocacy, technical advisory and policy dialogues with partners, among others. The common reference point for comparing different processes before and after changes could be a strategic document circumscribing the UN system and individual UN organizations assistance including assessment documents¹¹, legal and financial commitments and agreements signed with the Governments¹² to produce concrete results over a multi-year time frame (CPAPs in case of F&P and general programme documents in case of SAs), and operational and/or project/programme documents¹³ that commit the delivery of concrete outputs over annual or multi-year timeframes.

78. Business process analysis and mapping would provide information on the stakeholders involved in the selected processes process, their workload and cost relating to the business process, and describe the result (product or service) in qualitative and quantitative form, both for the Pre and Post DaO situation. When comparing the processes and costs in the Pre and Post change situation, the analysis would provide verifiable information on actual and expected workload shifts (in case of mapping processes *post factum* to the change process) among stakeholders as well as the expected change in quality and timeliness of delivery of the product/service. The workload shift analysis would cover the shifts among all the stakeholders involved in the specific process, including the subregional/ regional/headquarters offices of the members of the UNCT, both resident and NRAs.

79. Change in business processes may require a substantial investment particularly of staff time. Any decision on whether to invest into business process analysis and mapping therefore needs to make an up-front assessment of the expected savings from the proposed change, but also of the cost for conducting it. It should be approached like an investment analysis and always include the following elements:

- the one-time cost for effecting changes (investment) which would include design of new processes, training of staff,
- the recurrent costs under the situation Pre and Post DaO, and
- the benefits under the situation Pre DaO and those expected Post DaO (see Annex 1, Attachment B).

80. In the specific case of the DaO initiatives, it would also make sense to identify the organizations, participating in the UNCT, to which of these costs and benefits, expected¹⁴ or realized, are incurred as result of change processes. Hidden cost or benefits (e.g. premises provided free of charge) should be identified and reflected appropriately.

81. Annex 3 provides guidance for identifying business processes suitable for UNCT's business process mapping including an example of the proposed approach.

Monitoring transaction costs through a set of proxy performance indicators

82. The perception surveys with internal and external stakeholders, and the detailed mapping of business process, could result in an agreement among them on using a set of specific performance indicators that would be easy to track and report on, and that would not result in substantial additional cost to any of the participating organizations for generating and

¹¹ CCAs and other assessments, UNDAFs, UNDAF Action Plans, One Programmes, One Plans, CCPDs, CPDs, etc.

¹² UNDAF Action Plan, CPAPs for F&P, general programme documents for SAs and other legally binding commitments and agreements.

¹³ Joint Programmes, Annual Work Plans and other project/programme documents.

¹⁴ See Annex 1, Attachment B.

maintaining them. However, performance indicators usually do not function passively, but frequently also act as incentives, intended or non-intended, to perform into a certain direction. In view of the differences in business models of the organizations involved in the UNCTs, it is essential to assess how such performance indicators would impact on the performance on all participating organizations.

83. Under these conditions, tracking and monitoring of agreed upon and all-encompassing dynamic set of performance indicators could be a good proxy for transaction costs but it will not be easy to identify the right ones without involving all the stakeholders concerned.

84. The perception surveys as well as the business process mapping would be the essential preparatory steps for identifying proxy performance indicators as they would be the framework within which a dialogue could be developed on which indicators would be suitable as proxy, and to agree on them.

85. Possible areas within which indicators could be developed are:

- the evolution of the **annual share between programme and administrative cost** for the UNCT as a whole, provided distortions resulting from changes in programme volume or programme structure for each organization have been eliminated or neutralized (see for a proposed solution in Annex 2);
- the evolution in the **number of different report formats and reports** (e.g. progress reports, financial reports etc.) submitted to national authorities (and donors) in relation to overall programme volume for the entire UNCT;
- the evolution of **human resources** (e.g. person months) in government, donors (if possible) and UNCT dealing with overall coordination, monitoring and reporting functions in relation to overall value of the operational activities for development of the UNS in the country concerned (including administrative and other cost) etc.

86. Each of these indicators would need to be further developed to be robust, operational, practical and meaningful. Their introduction and use requires agreement within the UNCT on the methodology to be used, on their limits and their expected effects. A typical issue would be the cost (particularly the case of specialized agencies) incurred in offices outside the host country in support of country operations (e.g. technical support, procurement, human resources etc.) that are difficult or very costly to capture by the UNCT.

Issues, risks and limitations

87. This review comes at a time of dynamic changes in the way the UNS operates in the DaO pilot countries. These changes are expected to bring a shift in the role of the UNS in the countries with regard to its government partners particularly in cases where the UN uses national procurement system and HACT more prominently. The changes may also require an adaptation in the capacities of the UN system to enable it to perform more upstream roles with increased focus on providing technical assistance and engaging in advocacy and policy dialogues and advisory than roles of project based service delivery and programme management¹⁵. The dynamic nature of the ongoing change process implies that a classical cost comparison analysis that can rely on baselines and compare pre-reform and post-reform cost structures, is not the most adequate nor realistic and feasible approach at this stage.

88. Any approach to analyse transaction costs in this fluid environment should therefore take account of this particular limitation and assess whether baselines exist or can be established retroactively.

- The **perception surveys** proposed to cover external partners have the advantage that they will generate reasonable but approximate information on overall trends and directions as perceived by these partners. However, in the absence of baseline data, any information on the past or the period of pre-DaO initiatives

¹⁵ A finding of the study of the undg Task Team on Change Management, 2008-2009.

would have to rely on the memories of individuals with the implicit risk of personal bias and memory gaps. Another constraint may be the mobility of the personnel in the stakeholder institutions (e.g. Government, donors and the UN system). For this reason, perception surveys need to be closely managed and overseen by the UNCT, and results and findings need to be submitted to quality control by persons who are well familiar with the business models and operations of the different UN organizations operating in the country.

- The **consolidation of cost and delivery information and reports** from the different UN organizations is constrained by the fact that definitions and cost classifications among agencies may differ substantially which requires a cautious handling of the disclosure of information to external parties. Until the UNS organizations have an agreed mapping of related definitions and classifications, all members of the UNCT should agree to the consolidated report and findings before they are shared with external parties.
- **Business process mapping** has the advantage that it relies very little on subjective perceptions as it can be derived from written rules, regulations, procedures and processes of the organizations involved which allows permits to create post-factum baselines of the pre-DaO business processes and. The disadvantages are that i) it may be very labour-intensive and time-consuming; and ii) not all UNCTs may have access to appropriate capacities for undertaking business process mapping. Moreover, the same mapping exercise may be duplicated by different UNCTs, unless existing mappings and experience sharing are coordinated timely among interested UNCTs. In addition, and in contrast to the other approaches, it allows to incorporate the role of subregional/regional/headquarters offices to the extent they are involved within the framework of the agency specific internal control frameworks. This bottom-up approach has also limitations, as it can only cover those resources and processes that are actually managed by and under the control of each of the members of the UNCT members, and within their respective delegated authority delegated.
- Establishing **baselines using agreed upon performance indicators** for monitoring transaction costs over time requires a solid understanding of business processes and of the business models of all organizations involved, including the external partners. It requires an agreement on the appropriateness, neutrality, and fairness of performance indicators among the UNCT members so that each of the selected performance indicators measures changes/ progresses adequately and does not generate dynamics for or against any of the participating organizations and partners. As a comprehensive description of all business processes and models will take time, UNCTs may introduce performance indicators progressively as agreed indicators become available. For instance, once local procurement is fully mapped and new processes been agreed upon and implemented, agreeing on specific performance indicators for this particular process would be useful and meaningful. Indicators would need to be designed to take account of 'quality' and 'timeliness' dimensions as these attributes drive costs.
- The options discussed and available at this stage all rely, in different degrees, on judgement and perceptions, and on methodologies that are prone to errors, or provide only partial views of the reality, and thus **do not allow for generalizations**. It is therefore advisable to focus presentations of findings and conclusions from any of these methodologies on qualitative statements that have been validated through solid interagency quality assurance reviews and to avoid presentation of numeric results alone. Moreover, any presentation of findings and conclusion should be accompanied by explanations how they were arrived at, the methodologies, the information sources and the approaches used to adapt the data and analysis.
- The scope for harmonization and simplification of business processes at the country level is

defined by the **internal control and accountability frameworks** that are put in place by the respective Executive Heads and/or Governing Bodies of the organizations participating in the UNCTs through their country-level representatives. There may be differences for each member of the UNCT organization

- in the **level and nature of delegation of authority** they have been granted by their respective headquarters;
- in the nature of the **internal control framework** that governs their activities at country level; and
- the potential for **economies of scale** that could result from consolidation of processes of different agencies into one business process supporting all organizations at country level.

89. As a consequence, the following issues need to be factored in when redesigning business processes:

- The **level of delegation of authority/responsibility** to UNS organization country representatives depends for each business practice on the decision of the agency head concerned (at global level), and may in some cases even require consultation with Governing Bodies. Usually it results from an assessment of risks by each Organization, within the framework of its internal control framework, and its capacity to establish clear segregation of duties at the Organization's country office. This may limit the scope of business practice that can be harmonized and simplified at country level without involving the headquarters offices concerned.
- The benefits from country-level consolidation, harmonization and simplification of business practice as well as from the establishment of new business practice (e.g. common procurement, joint communication, etc.) depend on the **economies of scale** that could be generated as result. The limiting factor for such country-level

initiatives is the level of delegation granted by each agency to its country representative within which he/she can commit his/her organization to such practice. Activities that are not covered by the delegated authority of agency representatives are normally out of scope for country-level consolidation/harmonization.

VI. Conclusion and recommendations

Operational recommendations

90. The following recommendations are in line with the High Level HLCM-UNDG mission recommendations for harmonization of business practices and attempt to:

- provide a framework for each UNCT for assessing whether in-country transaction costs are a relevant factor for their partners at the country level as well as for themselves;
- outline a methodology for monitoring in-country transaction costs and their trend over time, with particular focus on DaO pilot countries, for UNS organizations and external national partners; and
- to create a supporting framework for UNCTs, through the UNDG, that enables them to assess in-country transaction costs using the methodologies introduced in this report and potentially use the transaction costs analysis as a step for further harmonization, simplification and alignment of business processes at the country level.

...Support to UNCTs – Practical steps for monitoring and tracking in-country transaction cost¹⁶

91. For the continued roll-out of operationalizing the concepts and methodologies outlined in this report, the following accompanying actions would enable the DaO pilots to launch perception surveys and basic business process mapping:

¹⁶ Recommendations relating to the two countries visited by the interagency team are contained in separate notes on findings relating to each country visit in Uruguay and Tanzania and are not replicated in this note.

- a. **Monitor and facilitate** planned or on-going business process mapping exercises by UNCTs to ensure that such exercises follow common and comparable standards and generate quality results.
 - b. Ensure that UNCTs intending to map business processes **are aware of already mapped business processes** to **prevent repetition** of exercises already undertaken elsewhere.
 - c. Foster an agreement, **within** framework of the DaO approach, (and if possible on other UN reform efforts that lead to harmonization of business processes) to introduce **business process analysis and mapping as a standard procedure for business process harmonization and simplification at the country level**. The standard procedure should include the analysis of **workload shifts among stakeholders** and **comparative analysis of without and with change situations** as **mandatory** component (with particular focus on external partners including agency sub-regional/regional/headquarters offices), taking into account benefits and other changes, such as the timeliness of delivery to beneficiaries and impact on quality of product/services.
92. The above can be achieved through simple and immediate measures such as:
- d. Providing an **overview of transaction costs and transaction costs analysis**, operational **guidance notes on conducting perception surveys** and **process mapping** based on models developed by the pilot UNCTs and the interagency mission on transaction costs (Annex 3).
 - e. **Mapping and harmonization of terminology, definition and cost classifications for reporting and accounting relating to country-level agency reports, budgeting and cost-accounting information** need to be mapped and harmonized to arrive at
- a standard country-level report format for consolidated programme and administrative costs¹⁷. This requires an interagency agreement to ensure that reports and information from different organizations are comparable and reports can be automated to reduce time for preparation and errors of manual work.
- f. Disseminate **methodologies, guidelines and UNCT experiences on transaction costs** through UNDG and HLCM and include them **in the ‘UNDG toolkit’** as well as in the relevant **UNDG website** that leads to relevant documentation, definitions and resources, including country experiences.
 - g. Expand an **existing forum (e.g. the CPN network)** and **“best practices” network for discussion and exchanges of information and “best practices”** (this may require a moderator who is also familiar with UN cost-accounting and budgeting standards) to include the topics transaction costs and reporting. The result would be a compilation of mapped processes and an inventory of solutions/ best practices including monitoring of actual implementation.
 - h. Provide a **help-desk function** within the framework of DOCO’s UNDG toolkit help desk to UNCTs wanting to give attention to transaction costs through guiding them in review and choice/combination of methodology options and setting up road map.
 - i. DaO pilots would **launch basic perception surveys** and **basic business process mapping** and set results as **baseline for selected processes**.
- ...Measuring transaction costs
93. In the absence of an overall encompassing methodology that would allow the development and use of one tool to track internal, external, opportunity and investment costs, it is further recommended to consider the following actions:

¹⁷ This information is needed to establish ratios between programme and administrative cost which could be an indicator for the appropriate level of administrative cost as compared to programme delivery, and implicitly also for transaction cost.

1. Internal transaction costs

94. On the condition that the item 91(e) above (harmonization of terminology, definitions and cost classifications) has been implemented, and in absence of “One Budget Framework, Cost Accounting and Reporting System” (Option 1 on page 24, or the comparative analysis table on page 26), it is recommended that:
- j. UNCTs consolidate cost data of the recommended coordination processes from all UNCT member organizations into one format based on the yet to be agreed UNS terminology and definitions to identify programme delivery and administrative cost (based on Tanzania model).
 - k. During a pilot period (3-6 months), a dedicated and time-bound Interagency Task Team reviews UNCT consolidated reports, both to raise awareness at headquarters of country-level information/reporting needs, as well as to ensure that compilation of such reports follows agreed standards and definitions. This Task Team should also track the time/resources spent by each organization and the RCO to elaborate such new consolidated reporting and assess with the UNCT the relevance of such information for the decision-making.
 - l. UNCTs initiate business process mapping exercises for key business processes with high costs in the overall UNCT cost structure, describing situations prior to the DaO approach as a baseline. They would analyze alternative scenarios with a focus on the workload and cost for the UN system and its partners in the country concerned. The UNCT should consider time required to achieve results in alternative scenarios, as well as the nature and quality of expected results (services and products). The mapping of new business processes would need to take into account the scope and limits of agency specific internal control and accountability frameworks and delegated authorities of the UNCT member organizations and establish performance parameters as baseline for performance monitoring.

2. External transaction cost

95. Depending on the receptivity of external partners at the country level (Government/donors/CSOs) on surveys and discussions surrounding transaction costs, UNCT may opt to supplement their reform processes with stakeholder surveys and take the following steps:
- m. UNCTs agree on the scope of the survey coverage (select representative institutions or all partner institutions), the type of respondents (heads/representatives, knowledgeable resource persons, all staff of partner institutions or individual resource persons) and the modality (open or closed) of interviews based on survey guides to be made available through the UNDG Toolkit.
 - n. UNCT conducts perception surveys and validates findings through direct interviews and workshops.
 - o. UNCT monitors, on a periodic basis (annual or biannual), the evolution of agreed indicators through perception surveys.
96. Such perception surveys would serve as the baseline for UNCTs that do not have established baselines, which, most probably, is the case for the majority of the UNCTs.
97. An additional tool for capturing external transaction costs would be to map the involvement of country-level UNS partners in business processes through the process mapping tool. Findings on external transaction costs would be limited to the business process being mapped and sample calculations in terms of volume of transactions etc.

3. Investment cost

98. It is advisable that UNCTs assess the approximate order of magnitude of investment cost for setting up the DaO framework to avoid that related cost and workload are treated as transaction costs. Otherwise there is a high risk that any gains through reduction in long-term recurrent cost would be offset unfairly by the necessary cost related to

discussing and pioneering new concepts. The perception surveys, particularly of external partners, would help assessing whether the issue of investment cost vs recurrent transaction costs in relation to the DaO approach is understood and accepted.

4. Reporting and monitoring of transaction cost

99. In order to institutionalize monitoring of transaction costs within the UNCTs, it is recommended to introduce the topic “transaction cost” on a trial basis, as para or chapter in the **RC Annual Report** (and the stocktaking reports) for the DaO pilot countries. More detailed guidance for the content and thrust of such chapters would need to be prepared to ensure that they address the issue in a comparable manner to allow cross-country analysis. Reports on in-country transaction costs should need to comment on trends in terms of transaction costs volume, shifts of certain transaction costs among stakeholders due to changes in business processes, issues and challenges encountered, solutions implemented and progresses observed.

UN system-wide harmonization of business processes at corporate level

100. Economies of a larger scale require that harmonization of business processes in the administrative and programme area not be limited to what can be done within the delegated authorities of country-level representatives, but also encompasses business processes at the respective headquarters. This is of course a major undertaking and requires political will, resources and the coordinated support and leadership of the governing bodies of all organizations involved.
101. UNS organizations operating at the country level would harmonize, simplify and align their rules and regulations, corporate business processes, budgetary framework, reporting and cost-accounting systems and standards from a global perspective encompassing both headquarters and field level processes. The result of such harmonization, simplification and alignment would

be common business processes and procedures, in line with accountability frameworks and internal control systems, as well as financial reporting according to common standards. This approach would not only result in savings in transaction costs in the long-term, but also facilitate the interaction and cooperation among UN organizations at the country level and with national partners in joint operations and activities, which would have to be set against the system-wide investment in harmonization, simplification and alignment.

102. Under such an agenda, concrete results will take several years to be available, even under the best of circumstances, even if placed on the agenda now. For this reason, including this topic for system-wide consideration by the Executive Heads of the UN organizations at the CEB has some urgency.

UN system-wide harmonization of business processes relevant for country-level operations

103. The High Level undg-HLCM mission (March-April 2010) of country-level bottlenecks in business practices documents their observations on progresses, challenges and recommendations in the following functional areas: human resources management, information and communication technology, finance and HACT, procurement and common services and common premises. The mission also came up with a number of actionable recommendations in the areas of: leadership, change management, strategic approach, sound analysis, headquarters support to be taken up by UNCTs and headquarters through HLCM and undg coordination.
104. The focus is on changes that can be introduced at country-level without modifying agency/organization specific accountability and internal control frameworks. Leadership for change is given to the UNRC and the UNCT, working through the OMT, whereby the scope for harmonization and alignment is within the framework and limits of delegated authority and powers of the agency representatives at country level. The mission also noted that many changes have already taken place within the existing rules, regulations and business practices.

Additional considerations of interagency nature for improved management of business processes at the country level

105. The experiences of business process harmonization/simplification/streamlining pursued by the DaO pilot countries mostly focused on areas where country offices have control over the process management that has its limits due to the differences in the delegated authority among the members in the UNCT. A systematic mapping of the delegated authorities of each UNS organization related to key business practices would be useful to consider harmonizing the delegated authorities in key areas. While an increase in the delegated authority and responsibility for country representatives at the country level would make their efforts in harmonize and simplify business processes more effective it would also increase the risk for their organizations. This risk could be partly mitigated by interagency agreement on establishing at country level an UNCT Internal Control Framework that would oversee specific harmonized business processes and/or common business units (e.g. procurement). Such a UNCT internal control framework would be designed to ensure transparency on rates, equitable services, compliance, oversight, accountability, etc.). However, it could constitute additional workload for UNS country representatives and increase transaction costs to the UNCT as a whole. Care needs to be taken, in its design, not to duplicate the functions of UNS regional offices or headquarters and not to jeopardize other essential functions of country representatives.
106. Within this framework, three options are currently available for harmonization/simplification :
- i) establishing '**common business units**' whereby each business unit would be led by a '**lead agency**' (similar to, but not exactly the same as the 'cluster' approach in humanitarian reform);
 - ii) continuing with '**organization specific business units**' but with harmonized/simplified processes; and
 - iii) establishing '**common business units**' based on the harmonized/simplified processes, jointly managed by the OMT/UNCT.
107. The lead agency in the option i) would follow its own existing rules, regulation, processes and procedures, and service all other UN organization based on cost-sharing and service agreement. The options iii) will require the establishment of such a "**UNCT Internal Control Framework**" based on:
- Agreement on a list of criteria/conditions for the "UNCT Internal Control Framework".
 - Agreement on the business processes that are to be covered.
 - Agreement on the detailed terms of reference for the "UNCT Internal Control Framework" which can be used by all UNCTs.
 - Clearance by the Internal Audit Services and external auditors of the UNCT member organizations of the "UNCT Internal Control Framework". Some organizations may need to report to their governing bodies that they joined such a "UNCT Internal Control Framework" for specific business processes.
 - In addition, development of a standard Memorandum of Understanding (MoU) for both options ii) and iii) by the respective legal services of UNCT member organizations would facilitate implementation of these options. The standard MoU for the option iii) should clarify the rationale of the "UNCT Internal Control Framework" and its relationship with agency specific internal control framework for the risk mitigation purpose.
108. Once a "UNCT Internal Control Framework" is established, the UNRC may recommend, through the undg, to the Executive Heads of UN system organizations to review and increase, where applicable, the levels of relevant delegated authorities for their country representatives, in order to achieve economies of scale and improved efficiencies.

Appendix: Summary of recommendations by responsibility at Global level

Interagency Responsibilities

Medium/long term

- Agree on and implement **One Budget framework, Cost-Accounting and Reporting system** across the UN system (through HLCM mechanism).
- Agree to introduce business **process analysis and mapping as standard procedure for business process engineering** of UN country level activities within framework of DaO (and other UN reform efforts that lead to harmonization of business processes) with mandatory analysis of cost, benefits and workload shifts within the UNCT and with regard to external partners including agency subregional/regional/headquarters offices.
- Agree on and establish a common country level UNCT Internal Control Framework that would oversee specific harmonised business processes and/or common business units. Such a framework would ensure transparency on rates, equitable services, compliance, oversight and accountability, etc.

Short term

Internal cost monitoring

- Agree on **standards/definitions for consolidated reporting** using existing reports to enable mapping of agency specific reports to UN system-wide standards (through Interagency Task Team).
- Develop guidance note on **business process mapping**.
- Support UNCTs in agreeing on common **core methodology** and **parameters** to be monitored for establishing **baselines and periodic monitoring against baseline** (through specialist consultant and Interagency Task Team).
- Establish within “UNDG Toolkit” a website on internal cost monitoring.
- Use existing **focal points** in each agency to serve as help desk to respond to queries.

External cost monitoring

- Support UNCTs in the identification and establishment

a list of topics (content of survey) that should be covered through perception survey of external stakeholders (e.g. Government institutions, CSOs, Donors).

- Support UNCTs in the identification of performance parameters and common methodology that could be used for establishing **baselines and periodic monitoring of against baselines** (through specialist consultant and Interagency Task Team).

DOCO Role

- Facilitate the **identification of resource persons** who could assist in performing the required task at the country level.
- Act as **clearing house for methodology on questionnaires/mapping** of definitions.
- Act as **global repository for perception survey questionnaires and methodologies** by using the facilities offered by the ‘UNDG toolkit’, together with UNDG toolkit Reference Group.

UNCT Role

Short term

UNCTs would take advantage of interagency repositories of mapped business process, of available solutions for harmonized/streamlined business processes and perception surveys, and

- conduct perception surveys after agreeing on the purpose and content (list of topics to be covered, scope and range);
- perform business process mapping of existing processes after verifying that the repository does not contain models that could be used to describe the country-specific situation;
- design new processes supported by feasibility studies (including cost-effectiveness analysis, identification of qualitative benefits, analysis of impact of changed processes on stakeholders in specific business processes) that take into account economies of scale, and agree on modalities for cooperation (MoU);
- identify performance indicators resulting from business process mapping as baseline for performance monitoring of specific business processes.

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ANNEX 1: DEFINITIONS OF COST AND BENEFITS

Attachment A: Cost categories and the definition of transaction costs

Costs of a program or a project can be analyzed according to different parameters/axes/premises/angles.

1. Costs can be defined as **direct and indirect, fixed and variable**:

The 1st High Level Committee on Management Working Group on Cost recovery, (whose aim was to draw up common cost recovery principles to compensate agencies fairly for their organizational support costs, and to reduce the level of subsidization of Regular Programme/core resources used for extra-budgetary/voluntary funded activities), determined that an Organization's costs could be split in 3 categories:

- Direct costs,
- Indirect variable costs,
- Indirect fixed costs

The addition of these 3 categories gives 100% of the costs incurred to implement a program or project.

This analytical framework varies according to the business model of an organization (e.g. level of decentralization etc), the type of activities performed (e.g. goods vs. services delivery, or upstream vs. downstream activities), and the information system in place which allows the organization to track costs with more or less details. As a consequence, an organization's cost structure can evolve over time. There is also some judgment in the classification of the costs between categories.

2. Costs can also be categorized by **item of expenditures**, such as staff, consultant, travel, equipment...

- These categories are detailed in the chart of accounts. Budgets, in the past, were built by items of expenditures. More and more, with the introduction of RBM, this split is used to track expenditures for the accounts but is less used for the budget presentation.

- Here again, the sum of these items of expenditure gives 100% of the resources of a program or a project.

- *Each item of expenditure can be classified as direct, indirect variable or indirect fixed.*

3. Costs can also be categorized as **program costs** or **support costs**. The categorization of these costs implies that an analytical assessment is undertaken; which is often done bearing in mind that UN partners often consider support costs as being too heavy or costly.

- Program costs are usually further broken down into activities.
- The addition of program and support costs should give 100% of the resources needed to implement a program or project.
- *Most of the support costs are usually categorized as indirect variable costs or fixed costs. All items of expenditures can be program or support costs.*

4. Costs can be split according to the location: in-country, sub-regional, regional and headquarters.

- The addition of these costs should give 100% of the resources involved in a program or activity.
- *At each level (in-country, regional, HQ) costs can be further split into program & support costs, direct & indirect, fixed & variable, items of expenditures or modalities of action.*

5. Costs can also be presented by **modalities of action**. Modalities of action regroup the resources needed to achieve specific outputs into categories of a more general nature (e.g. conferences or training etc), and can be further broken down by item of expenditures.

- In the budget preparation, the estimate of the costs of a program or a project is often done

with a combination of cost by item of expenditures and modalities of action.

- A cost analysis by modalities is always partial (i.e. there is no way to add up the modalities to have 100% of the resources of a program or a project).
6. For the purpose of an analysis over time (e.g. the cost of a new multi-year program or project), costs can be categorized as **one-time start-up costs, investment costs or recurrent costs.**
7. Costs of a process are the costs of resources involved in a process or a cycle
- A flowchart of the work involved in the process or in the cycle needs to be developed, including situation analysis, planning, implementation, monitoring, periodical reviews, evaluation, etc.
 - When analyzing process costs, double counting of cost need to be avoided, as two different processes or cycles may comprise the same elements.
 - Process costs do not add up to 100%.
 - Process cost analysis is often used to measure the result of a change in order to assess the pertinence of an investment for changes. This requires an establishment of a baseline that enables comparative analysis.
8. The concept of “**transaction costs**” was introduced in this review to help measure the pertinence, evolution and benefits of the Delivering as One Initiatives. In this context and for the purpose of this review, “transaction costs” refer to the costs incurred by the UN system organizations and its partners from processes or activities implemented in order to support the program country government achieve development results. Such costs are either internal to the UN or external (i.e. incurred by UN partners), and have scope for increases and decreases through alignment, harmonization and streamlining in short-, medium- and long-term.
- Costs are defined as the monetary value of expenditures for supplies, services, labor, products, equipment, etc. for use by a program entity (or cost center or business unit). For the purpose of this study, costs are the monetary value of the activities and expenditures of the UN system organizations in all locations (country, regional or HQ level) to deliver their products, services and support to program country governments and other partners (i.e. development cooperation) at the country level. A distinction is made between internal and external costs.
 - Internal costs are those costs that are internal to the UN system whereby a further distinction is to be made between those costs incurred by the UN system organizations individually and the UN Country Team collectively at the country level and those costs incurred by their sub-regional/regional and HQ offices and corresponding inter-agency coordination and consultation mechanisms outside the country to support their agency’s work-in-country.
 - External costs are those costs that are incurred by partners of the UN system as a result of the UN system actions or from their interaction with the UN system, and are incurred both at the country level (government, CSOs, the private sector, local donor offices, etc.) and at the HQ of the donors to support country level processes and activities. Although information on internal costs to the UN system organizations may be available through the respective corporate financial and cost-accounting systems, external costs as defined here could be very complex, time-consuming and costly to measure and monitor.
 - An additional dimension that needs to be considered is the costs of opportunity lost, i.e. the value of outputs that the UN Country Team could not generate due to the inefficient use of resources (time and costs).
 - An analysis of transaction costs is generally conducted by process or by unit, and variations in these costs can help identify areas where costs could be reduced or eliminated, or where efficiency gains are achieved.

ANNEX 1: DEFINITIONS OF COST AND BENEFITS

Attachment B: The concept of ‘Benefits’ in the context of transaction costs

It has been noted that the reforms undertaken under the DaO experience have led to qualitative shifts in the way the UN conducts business in the country. The analysis of these shifts together with the benefits that may have accrued as a result will lead to a more complete description of how the “transaction costs” have changed in the country. However, this comprehensive analysis would require a closer review of the nature of the shifts and corresponding ‘benefits’, how they are generated and how they can be measured. It has also been observed that some of these changes are more ‘evaluable’ and less ‘measurable’. What is provided below is a brief overview of the concept of “benefits” in the context of analysing transaction costs in the Delivering as One approach.

1. Cost reductions from **business practices**:

These cost reductions are the actual, financially measurable decreases in the cost required to achieve the same result through modification of key business processes under the DaO approach.

Examples of savings: Decreased annual costs of rent, fuel, travel, electricity, ICT infrastructure and service, etc.

2. Benefits accruing through **increased effectiveness**:

These benefits accrue through adjustment of existing or introduction of more effective instruments and/or processes which ensure that a higher share of UN development assistance reaches the ultimate beneficiary than in the situation without these adjustments or changes.

Examples of processes that could influence programme impact: UNDAF, UNDAF Action Plan, Common Country Programme documents, joint programming and joint programmes, common M&E, communicating as one, etc

3. Benefits accruing from **improved quality of products, services**:

These benefits can be described as the improved quality, measured through the relevant and appropriate quantum, of the outputs/results of key business processes; where these outputs and results are either products produced or services provided by the UN either for internal or external clients.

Examples: , quality and appropriate office equipment, improved ICT services, more efficient and economical travel services, quality and well organized workshops and training courses, etc.

4. Benefits accruing from **simplified and harmonized processes and procedures internally to the UN system**:

These benefits accrue from the increased timely responsiveness, relevance and delivery of products and services to internal clients through simplification and harmonization of key business processes by placing the processes under a broader system-wide harmonization.

Examples: Common HR practices (recruitment, training, job descriptions, etc.), common procurement unit (?), agreed common consultant rates, security measures, contingency planning, PEP Kits, Avian Flu preparedness.

5. Benefits accruing from **simplified and harmonized processes and procedures to external stakeholders**:

These benefits can be described as gains in relation to a reduction of time and resources that external stakeholders require to respond to UN supported assistance, and which derive from simplified and/or harmonized processes and procedures for key business.

Examples: the UN help desk (one contact point for all requests), simplified and harmonized/unified reporting,

UN division of labour, more coordinated consultations (less meetings), quicker responses to requests for technical assistance, unified project format, One UN Funds, HACT, etc.

6. Benefits accruing from **increased national ownership and leadership**:

These benefits accrue as a result of increased national ownership and leadership in the entire life cycle of UN's development assistance that is more enhanced under 'Delivering as One' approach. (the UN should be able to provide support that is more focused, relevant to the national context and sustainable on its own, it is not simply dependent on increased national ownership and leadership)

Examples: early hand-over to Governments and national partners, clear prioritization of competing development agenda, better national coordination among ministries longer term sustainability of results, aid coordination of all development partners, nationally scaling up showcase/pilot activities, increased effectiveness of capacity development initiatives that are longer-lasting and more appropriate, etc.

7. Benefits accruing **through improved application of UNDAF programming principles and other standards**:

These benefits accrue from the application of UNDAF programming principles and other agreed standards such as Human Rights Based Approach to (Development Cooperation and) Programming (HRBA), gender mainstreaming, result based management (RBM), environmental sustainability, capacity development increased focus on the most vulnerable by proper targeting and prioritization, etc. Although, initially these benefits may appear 'to compromise' on the ability of partners to achieve results, these principles are more likely to achieve equity and produce sustainable results. These benefits are more evaluable and less 'quantifiable' in the short or medium term.

ANNEX 2

Approach for estimating internal transaction costs using reports on delivery of products and services using budgeting, cost-accounting and reporting systems of UNS organizations

Recommended steps¹⁸

1. Ensure issues relating to definitions, cost classifications, what cost items to include (country expenses vs outside country expenses), periodicity and issues relating to NRA are resolved.
2. Agree on one year as baseline (year 0) and prepare organization-specific reports, establishing overall cost of programme and administrative, and calculate their ratio¹⁹, using agreed upon common definitions, cost classifications etc. for consolidation into one UNCT report.
3. Prepare identical report for subsequent years (year 1, 2, ...), after baseline year, using same parameters for each organization.
4. Calculate for each organization and for each year ratio between administrative and programme costs in baseline year and subsequent year 1, 2 etc. (=administrative cost ratio)
5. Compare the absolute values for administrative cost and the administrative cost ratio (see step 2). The change in the administrative cost ratio for the year under consideration with the value obtained for the baseline year would give an indication of the scope of savings in administrative cost per programme cost delivered.
6. Each agency would analyse its own result regarding changes in absolute values for administrative cost and administrative cost ratio, and assess to what extent these changes are result of
 - Changes in programme volume
 - Improvement of administrative and programme business processes as part of normal management action
 - Improvement of administrative and programme business processes as part of DaO reform processes, and more specifically the result of harmonization, aligning and streamlining of agency specific business processes into UNCT common business processes that would result in reduction of transaction costs for the UNCT.
7. Each organization would assess, for its own programme, the share of transaction costs obtained applying the steps under step 6, and apply the resulting percentage to the difference in the administrative costs between the year under consideration and the baseline year.
8. The result obtained for each organization would be summed up and would be the change in transaction costs resulting from the reform processes for the entire UNCT.

¹⁸ This approach would need to be tested with the material developed in Tanzania.

¹⁹ (Administrative costs/Programme Costs)* 100

ANNEX 3

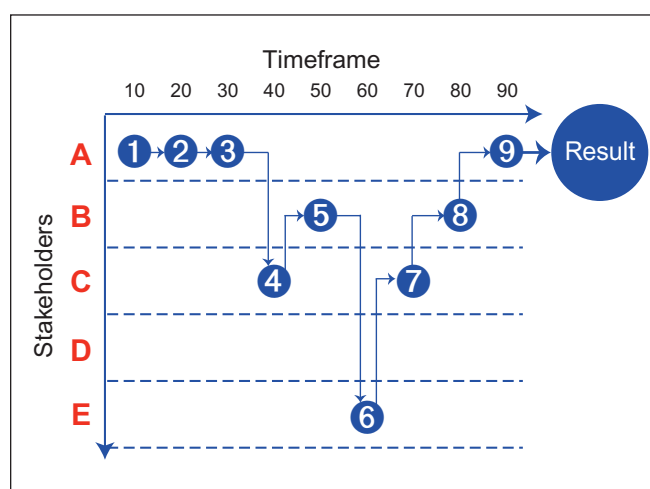
Guidance for identifying and mapping business processes

Recommended steps for the process mapping approach²⁰

1. Identifying business processes to map
 - a) An inventory must be made of key processes that are undertaken at the country level that can either be related to the programme cycle or administrative functions. A list should be made of all potential processes under each area.
 - b) It should be possible to have a reasonable amount of clarity as to what types of steps the process entails and in what order these steps are to be undertaken.
 - c) Each process must have a clear and common end result that is directly attributable to that specific process.
 - d) If there are additional steps or associated processes that are undertaken in parallel to the one identified, which also contribute to the same result, then the identification is incomplete and these additional steps need to be incorporated into the definition of the original process.
 - e) Larger more complex processes can be separated into a related group of shorter more specific processes but in each case the process must end in a specific result with a clear indication of how the processes, and hence results, are inter-related.
2. Creating the baseline
 - a) Once a process has been defined, it needs to be mapped out clearly in terms of each specific step that is to be taken from the first initiation of the process to the final result. The steps should include all types of key actions/tasks including meetings, teleconferences,

analysis, drafting of reports, reviews, feedback, and moments of decision.

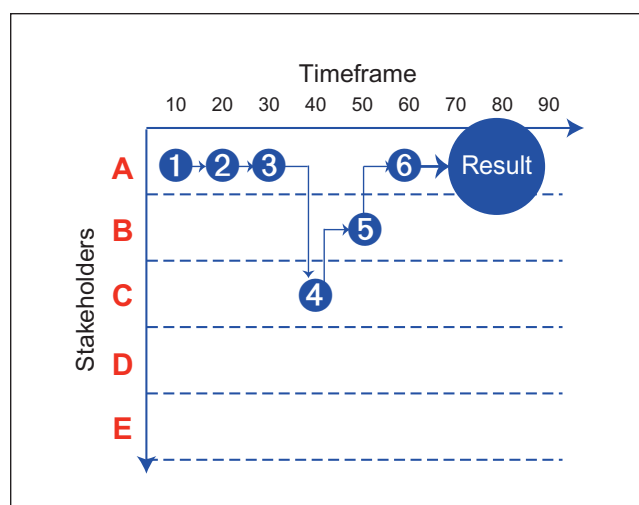
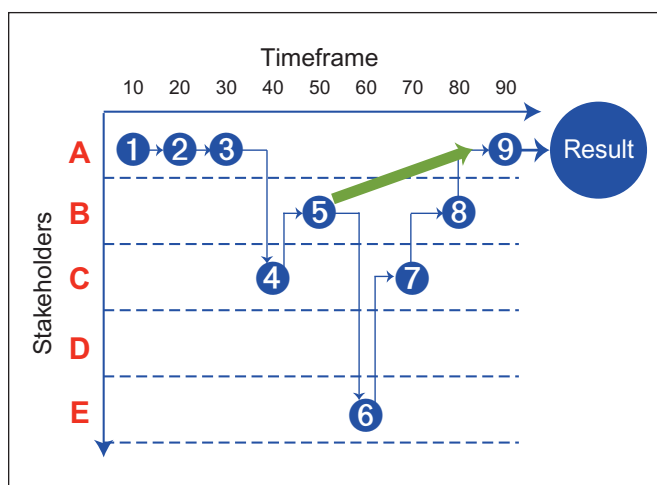
- b) The mapping should use standard flowchart mapping techniques which identify clearly the detailed steps/tasks/actions/decisions involved, timeframe and responsibilities.
- c) Each step has to have a clearly identified stakeholder (i.e. persons/offices that have responsibility for a task and/or decision in the process).



- d) Based on this mapped process, an estimate would need to be provided of the resources that would be required by each stakeholder to carry out each related step. These resources (Staff time and other \$ costs) would have to be financially quantifiable.
- e) Each step would need an estimated timeframe in which it was to be completed. When the timeframes for each step are aggregated, the timeframe for a complete process would be able to be established.

²⁰ A methodology for this has already been developed in some of the pilots, most notably in Mozambique and also in Albania and Tanzania.

- f) The result would be the dollar cost and the overall timeframe of the process concerned, which are two of the variables needed for measuring changes in the transactions costs of that process.
- g) It is also important to measure the change in the quality of the service or product that the business process leads to. However, the change in the quality of the result is a dimension that can only be ascertained from the clients or beneficiaries of these processes and should be assessed through a perception survey or alternatively a more quantifiable assessment using specific metrics or indicators if that is possible for the result in question, i.e. better travel services, better office equipment, etc. (See below graph.)



Principles

1. The integrity of a mapped process should be maintained in both steps 1 and 2. Comparisons need to be made of processes that are equivalent in terms of their result, i.e. the former process of UNDAF rollout cannot be compared with the new process of UNDAF Rollout and Action plan combined. The comparison would then have to be at a higher level where the elements compared are leading to equivalent and comparable results.
 2. Each process should be broken down into its most clearly definable components. It is not necessary to map out a complete process if it is too long. Complex processes may be broken down into more specific processes but maintaining the principles mentioned above.
 3. Not all processes need to be mapped and hence measured. The objective is to provide evidence of a value-addition through the reform, which can be done through samples rather than a complete assessment from top to bottom. A complete assessment would be too expensive and time consuming, not to mention completely disruptive for the countries to be assessed. Countries would choose the specific processes to map and measure.
3. Measuring the change:
 - a) Basically repeating steps 'a' to 'f' above but with the newly defined process in view. The changes in timeframe and resources from the old to the new process, if any, need to be clearly articulated.
 - b) Assessing any changes in the quality of results, using the metric or indicators that were established in step 1.g.

4. It is critical that the process is mapped at the correct level. This is important as the right level of the mapping determines how far you can incorporate the requirements of all individual stakeholders and how exact you can be in the calculation of the relevant costs and/or potential savings. Obviously, processes such as UNDAF development must be mapped at a comparably high level, otherwise it becomes unrealistic and one cannot make the right assumptions. The level should be always as high as possible and yet as detailed as it is necessary to do both make a solid business decisions and calculate the approximate costs.

ANNEX 4

Guide for stakeholder perception survey

Key questions for understanding transaction costs within the context of the TCPR are

1. whether transaction costs in relation to UN development activities have increased, declined or remained unchanged in relation to different levels of development business volume; and
2. whether and how they have changed for the different stakeholders of the UN development cooperation at country level, including programme countries and donors.

Statistical information that could provide immediate responses to these two questions, and in particular to the second question, is currently not available. The only approach, at this stage, to obtain information of overall trends of transaction costs in any given country, and of shifts of transaction costs among the development partners as result of changes in business processes, would be to assess the subjective perceptions of these stakeholders about how changes in business processes have affected them in terms of workload, cost, effectiveness and quality of cooperation with the UN system.

This annex suggests to take a two-step approach assessing stakeholder perceptions in relation to transaction cost.

- The first step is to launch the dialogue with senior representatives of stakeholder institutions on the issue of transaction cost. The **interview guide** (Attachment A) provides guidance on the overall content of such a dialogue which should be conducted as open interview. This guide could be sent to potential interviewees or handed to them during the interview to facilitate the discussion. The result would be a descriptive report of the overall comments made by the interviewee according to the structure of the interview guide. The consolidated report covering all stakeholder reports would ensure that divergent views/comments are visible.

- The interview can further serve for launching a more elaborate stakeholder perception survey which would constitute the second step of the approach. The questions of the **stakeholder perception survey** (Attachment B) are more technical and require good knowledge of the entire period from 2006-2010 (covering pre-DaO and with DaO situations), and may best be responded by several persons from an institution. On the other hand, it is not recommended to perform full surveys of all persons in a stakeholder dealing with DaO or the UN, but rather request institutional responses that would be the result of internal consultation within the stakeholder institution. Different formats may be considered for this type of survey, from person-to-person interview with a knowledgeable and representative person from the stakeholder institution, group discussion or hard-copy or online questionnaires to be completed for the institution. The ultimate choice of format would depend on the capacity and experience of the UNCT to manage such surveys.

Depending on the circumstances the interview guide and the stakeholder perception survey can be combined into one survey. The format to be chosen depends on many variable, among others the willingness of partners to participate in such survey, the capacity to conduct the surveys and to analyse and exploit their results.

The more detailed perception survey would be suitable for outsourcing to external contractors with appropriate experience.

ANNEX 4

Attachment A: Interview guide for person-to-person high-level interviews

Concept of transactions costs

This interview guide would be used for interviews/meetings with key representatives of the different stakeholder institutions, and in particular the external partners (Government/Donors). Its purpose is to present the concept of transaction costs (TC), and to obtain basic feedback on key issues relating to TCs. The questions are open in order to ensure that all views, however divergent, can be captured and form a basis for agreement in the subsequent process.

The guide assumes

- *that each stakeholder has a general perception of what constitutes TC, and a relatively good understanding of their relevance for their own workload /business when dealing with the UN system at country level;*
- *that stakeholders able to remember and to judge qualitative changes of TC over time, and in particular comparing the periods prior to DaO and with DaO;*
- *that stakeholders can make a judgment whether DaO resulted in a change in the nature of their work and workload (shift from detail/operational to policy or strategic or any other?) when dealing with the UN activities;*
- *that stakeholders have a judgment on what went right or wrong, in their understanding, and in what direction the UN Country Team should move to further reduce TC for the stakeholder being interviewed; and*
- *that stakeholders can give specific suggestions on the specific areas where the UN should improve in order to lower transaction costs for the stakeholder concerned.*

The results of this survey would be summarized in narrated form, and depending on the results, diverging trends or view, these trends or divergences would be identified and be fed into the process of the perception survey. The specific suggestions (last bullet) should be collected and would constitute a provisional list of action to be prioritized etc.

The interview should be preceded by providing the interviewee with the interview guide and the definition of transaction costs as outline in the box below.

“Transaction costs for the purposes of this exercise, are the cost associated with the processes and activities that the UN development system engages in, to deliver its programmes at the country level, and which are **internal to the UN system**, as well as those that are **incurred by its national partners and donors** when **interacting with the UN development system**.

Transaction costs are defined as the resources utilised to perform processes/activities for programmes, within a defined timeframe, and incurred at the country level as well as by sub-regional/ regional/headquarters offices of the UN agencies for country level activities.

Such transaction costs consist of programme costs and management, /administration/support cost. These costs can also be classified as direct and indirect costs; would include both staff cost and non-staff.

Transaction costs are one of the variables through which the efficiency and effectiveness of UN country operations can be measured, which should be supplemented by an assessment of quality and, effectiveness of programmes and the sustainability of programme results.”



The following would be the areas for which the interview should seek clarification.

1. Seek agreement with the definition, with a question along the following lines:
 - a. *“Do you agree with the above definition and what would be your proposal for amendment, if any:*
 - b. *Within context of UN cooperation what constitutes in your understanding “transaction cost” for your office? (if not, how would you define this term?)”*
2. Seek judgement on whether these “transaction cost” are seen to have changed as result of UN Reform process (DaO) with following type of questions:
 - a. *Have these transaction costs (workload) for your Organization increased or decreased as result of the DaO process initiated in 2007? In what areas has this change been and why it has changed?*
 - b. *Has DaO changed the nature of the work with the UN and the Government on UN-related matters, and if so in what areas?*
3. Seek judgment on whether these “transaction cost” are seen to have changed as result of the UN Reform process (DaO) with the following type of questions:
 - a. *In terms of transaction costs as defined by you, what has gone right, and what has gone wrong, in your assessment?*
 - b. *What additional actions should the UN do in order to reduce transaction costs for your office?*
4. Seek suggestions on where the UN system could improve regarding transaction cost:
 - a. *In which area do you think is scope for lowering “recurrent” transaction costs for Government office and donors in their cooperation with the UN system (see below)? Please provide specific comments/suggestions if possible. In your personal judgment have related costs for Government offices and donors in the categories below increased, decreased or are they unchanged with the introduction of the “DaO” approach?*
 - i. *Harmonization of formats (project documents, revisions, progress reports, annual work plans, terminal reports, etc.)*
 - ii. *Harmonization of financial reports*
 - iii. *Harmonization of approaches to monitoring*
 - iv. *Meetings of steering committees, general and specific coordination, project/programme committees, ad hoc meetings, etc.*
 - v. *Identification, formulation and approval missions*
 - vi. *Oversight, supervision and monitoring missions*
 - vii. *Evaluation and audit missions*
 - viii. *Others*
 - b. *What would be your suggestions to lower transaction costs for Government offices, CSOs and donors?*
 - c. *Do you think there is scope for lowering the workload of your office relating to UN activities? What would be needed to achieve this, and by how much (in % compared to now)?*
5. Introduce an open-ended question to close the interview: *What other issues would you like to raise?*

ANNEX 4

Attachment B: Outline for stakeholder perception survey (SPS)

The perception survey is to be used by the UNCT (using own staff, local consultants or contractor) to obtain more specific information on the perceptions of different stakeholders at country level on how the DaO process impacted on their own transaction costs when dealing with UN system development. It supplements the interview guide for person-to-person interviews and would be used with all relevant partners (stakeholders) of the UN system, including the UN agencies, at country level. The criteria of which partner is relevant may have to be decided by the UNCT, but should include the past/current/future business volume with the UN system, the strategic importance as decision or opinion maker in relation to the UN development activities in that country.

When deciding for this survey, the UNCT will have to make a decision on its modalities, namely the target group (representatives of institutions vs groups of staff or all staff in institutions dealing with UN activities), the nature of the survey (full coverage of the target group or representative sample survey), the nature of questions (open vs closed questions), the type of survey (person-to-person interviews, mailing of questionnaires or online survey), and whether to contract expertise for running such a survey, etc. The decision on the design of the SPS will take into account the overall number of respondents which depends on the number of Government and donor agencies the UNCT is usually interacting with as well as the capacities and resources available to the UNCT.

It is recommended to focus the interviews on representatives nominated by institutions for this purpose, who would arrange for a collective view/response of the institutions to the questionnaire, and to use a combination of closed and open questions to arrive at the results. As the topic is quite complex, person-to-person interviews are preferable unless the UNCT wants to invest into the developing substantial questionnaires.

It is assumed that the following groups represent, for the purposes of the survey, homogenous groups:

Internal stakeholders - RC and RCO, UNCT, external partners (Coordinating authority or ministry, line ministry, CSO and NGO, National Implementing Partners, etc.), but other groupings are possible, depending on the specific situation in the country. Normally, the UNCT will adapt the following guidance to the specific situation and partner landscape of the country concerned.

It is necessary that the questionnaires be tailored to reflect the concern of the specific stakeholder group; this is needed to ensure that their responses are not generic but given from the specific perspective of the respondent institution when interacting with the UN system. The issues listed in the guide below reflect the fact that some questions need to be asked to all stakeholders, while others are specific to UN agencies or to the UN system's external partners. It is recommended to design, on this basis, stakeholder specific questionnaires which will facilitate the survey and the use of its results.

The timeframe to be covered by the questions should ideally cover each year of the period 2006 up to 2010, but using only 2006 to represent pre-DaO, and 2009/2010 to represent with-DaO would simplify the survey and probably also give good results. The decision on what timeframe to use will depend on the institutional memory present in the UNCT and among its partners and would need to be agreed upon by the UNCT, as individual years in the 2006-2010 period may have been significantly different from others, in terms of start-up (= investment cost) and running (= recurrent cost).

In view of the absence of reliable documented statistical information, it is strongly recommended to request only qualitative responses (e.g. strong/weak, high/low etc.) and to avoid numeric responses as indicators for change (e.g. change in %). Moreover, ideally the entire survey should be conducted by persons familiar with the UN development assistance (F&P and SA) but if that is not feasible, at least conduct the process of preparation of findings, conclusions and recommendations overseen

very close scrutiny and guidance of the RC and the UNCT to prevent misinterpretations arising from lack of knowledge of the different business models of the various agencies concerned.

Issues: One of the biggest challenge for the perception survey is that only few of the potential interview partners have full factual knowledge of the events relating to the period 2006-2010 (pre-DaO and with DaO) in view of high staff mobility among UN Country Teams and their partners in Government and Donor community. Interviews should take account of the duration of the interviewees in post, and the number of predecessors since pre-DaO period, i.e. pre 2007.

(Generic questions to all internal and external stakeholders)

Concept of transactions costs

“Transaction costs for the purposes of this exercise, are the cost associated with the processes and activities that the UN development system engages in, to deliver its programmes at the country level, and which are internal to the UN system, as well as those that are incurred by its national partners and donors when interacting with the UN development system.

Transaction costs are defined as the resources utilised to perform processes/activities for programmes, within a defined timeframe, and incurred at the country level as well as by sub-regional/ regional/headquarters offices of the UN agencies for country level activities.

Such transaction costs consist of programme costs and management, /administration/support cost. These costs can also be classified as direct and indirect costs; would include both staff cost and non-staff.

Transaction costs are one of the variables through which the efficiency and effectiveness of UN country operations can be measured, which should be supplemented by an assessment of quality and, effectiveness of programmes and the sustainability of programme results.”

The following would be the areas for which the survey should seek clarification:

1. Cooperation of different partners results in transaction cost. For assessing these transaction costs it is necessary to understand how the different partners of the UN system at country level interact with the UNCT (and UN agencies headquarters, if at all), on what issues they interact and whether there has been a change in the nature and intensity of interaction between 2006 (pre-DaO) and the situation today (2009-2010). This requires to identify the key partners of the UN system at country level, to describe them as a network and to assess the intensity (workload) of their interaction with the UNCT over time with a timeframe that would cover 2006 (pre-DaO) and 2009/2010 (with DaO). This information also provides the basis for assessing shifts of workload/transaction costs from one partner to another. Typical questions could be:
 - a. *Please list in terms of workload the 3-5 most important partners (national partners, donors, UN agencies and others) with which your office worked and interacted?*
 - b. *Who are your usual counterparts when dealing with UN coordination, programmes and projects?*
 - c. *Would you be able to quantify/estimate resources (staff and non-staff) your Office has dedicated to coordination with the UNCT and donors in relation to programmes of the UN in the country?*
 - d. *How have the “recurrent” transaction costs for your office , when dealing with UN coordination, programmes and projects, evolved?*
2. Most of the interview partners may have some concrete and practical examples of what has improved or what could be improved. They could thus all be requested identifying those actions that have already been taken to improve business processes and their impact on the transaction cost, and those that could be taken for the future. Responses would provide concrete information on where changes have impacted on the level of transaction cost.

A possible approach to cover this issue would be:

Please list the actions within framework of DaO related reform processes that have resulted in reduced transaction cost, improved effectiveness or improved programme quality for your partner. It would be supported by a simple table as follows:

List the specific actions	Reduced transaction costs for (name the office)

(Specific questions only to RC and UNCT agencies)

- Part of the transaction costs issue has to do with the fact that UN system development partners are confronted with the processes, procedures and formats of different UN agencies, which creates cost for these partners as they need to train staff to be able to interact with the various UN agencies. An indicator for progress in harmonization etc. and whether UN partners have already taken steps to reduce workload for their partners is the degree to which UN system agencies are already using UNCT agreed processes, procedures and formats, and to what extent they are relying on agency specific processes, procedures and formats. Typical questions would be:

e. With which partners (national and donor) are you using agency-specific processes, procedures and formats and with which partners UNCT-agreed processes, procedures and formats?

- In those cases where it is possible to assess the workload relating to DaO between 2006 and

subsequent years, it is worthwhile to assess whether interviewees can make a distinction between “investment cost” for setting up the ‘Delivering as One’ process and framework, and “recurrent cost” for operating in the ‘Delivering as One’ framework once set up. To the extent possible, the share of workload that was dedicated over time to “investment cost” and “recurrent cost”, and the subcomponent of “recurrent cost” such as Programming, Resource mobilization, Reporting and Management and Operations. Typical questions to cover this issue would be

- Can you distinguish between recurrent and start-up/investment cost for setting up the DaO process? Could you define in particular how start-up/investment cost would be composed?*
and
- If yes, would it be possible to compare the “recurrent” transaction costs for your office (workload for coordination, oversight of programmes and projects etc.), i.e. exclusive of start-up or investment, during 2007-2010 with the situation in 2006, and more specifically, have they increased or decreased or remained unchanged compared to the pre-DaO period? (To the extent that the term “transaction costs” is perceived as too abstract, it could be replaced by “workload”).²¹*

(Specific questions to national partners only)

- In addition to the fact of interacting with the UN agencies as will be known after section 1, it is important to understand whether this interaction was for coordination/management of aid programmes/projects or on management of normal relationship of the government with UN agencies on norm and standard setting functions including advocacy. The workload dedicated to these functions may have changed with the introduction of

²¹ The question can be worded even more specific by listing specific business processes: Administrative issues; UNDAF preparation/monitoring including reporting; One Programme preparation/monitoring including reporting; Resource allocation; Setting up and managing the Coherence Fund; Arbitration; Setting up and overseeing Joint Programmes; Setting up, participating and coordinating of Programme Coordination Groups (or similar); Operational issues related to Programmes/Projects; Interaction with DGO/DOCO ; Policy, strategic and upstream issues related to national programmes; Other activities.

DaO pilots. Typical questions that could be asked in this context would be the following:

- h. Do you have a dedicated unit or capacity to deal with UN issues, and with which UN organizations/agencies does your office interact on a regular basis, do you have to establish additional capacities to deal with the 'Delivering as One' modality? And, do you foresee that these new capacities are of recurrent nature?*
- i. Indicate the change in terms of change of workload (decrease, increase, no change) for your staff that goes into working with the UN system at country level on planning/review, programme monitoring/reporting/evaluation, financial management/reporting and other issues.*

(Questions to Government agencies and donors)

- 6. One of the assumptions of the DaO pilot process is that work will shift from operational to more programmatic and strategic functions, not only in the UN agencies but also for their partners. This shift of workload or focus needs to be captured as it impacts on the overall level of transaction costs as well as the level of transaction costs for each individual partners of the UN system in Government and donors.

- j. In your assessment, do you consider that the time that your office dedicates to UN coordination and related activities including programme and project coordination has increased/decreased/remained unchanged since 2006 in relation to strategic discussion in all sectors and specific sectors, managing joint programmes, financial management and reporting and management of CSO/INGOs in UN supported programmes/projects?*

(Questions only to donor agencies)

- 7. The DaO pilot process envisages a shift in roles between the RC and individual agencies of the UNCT. This shift is expected to be particularly relevant for the relations with the donors. This shift can be captured by surveying the level of interaction of donors with UN agencies in particular in the fields of coordination/management of aid programmes and projects and of resource mobilization. Typical question could be:
 - k. With which UN organization/agency does your office interact on a regular basis and in which fields (coordination/management of projects/programmes, resource mobilization, other)?*

ANNEX 5

Terms of Reference for external resources (consultants or contractor)

Perception survey

Expected competencies

- experience in designing and implementing perception surveys and related analytical tools.
- experience in working with public institutions, and preferably with International development institutions.
- background in working on socio-economic analysis and/or development institutions.

Expected tasks

- review interview guides and guidance for perception survey in consultation with UNCT.
- design survey strategy for interviews and perception survey.
- prepare detailed operational survey plan (timing of surveys, target group, survey team, preparation of report, presentation of results, costing) with options.
- implementation of surveys.
- compile and analyse feedback, consolidate findings, identify gaps and inconsistencies.
- resolve gap and inconsistency issues.
- prepare consolidated report.
- provide a debrief to all surveyed stakeholders on results.

Operational environment

Contractor will be embedded into a working group to be established by RC/UNCT that will review all outputs of contractor, quality assurance function and clear findings, conclusions and recommendations by contractor.

Deliverables

- inception Report comprising a Concept note outlining the understanding of contractor of issues to be addressed including problems requiring clarification and a Survey strategy including overall time table with key milestones, definition of 'survey' deliverables;
- detailed operational survey plan (detailed timetable, identification of resources, description of survey approach and methodology, identification of interviewees and survey techniques etc., outline of report structure);
- weekly progress report and final report on implementation of surveys, including identification of identification of gaps/issues/inconsistencies that require guidance by RCO/UNCT;
- first consolidated outline of findings and conclusions including identification of gaps/issues/inconsistencies requiring guidance from RCO/UNCT;
- draft report on survey for presentation to RCO/UNCT;
- final report for submission to RCO/UNCT.

Business process mapping

Expected competencies

- experience with business process mapping in large institutional contexts.
- experience in working with public institutions, and preferably with International development institutions.
- background in economics, social sciences, business management, management consulting.

Expected tasks

- facilitate meeting with the UNCT and selected stakeholders to present proposed methodology and ensure buy-in.

- facilitate meetings of OMT to identify and agree on business process for mapping and to formulate business case for business process mapping.
- prepare simple interview guides/checklists for defining steps for process mapping.
- based on results from interviews and meetings with OMT and stakeholders design first flowcharts for current (roles and responsibilities, key steps and activities, estimate of time required for each step, costing of each step).
- facilitate meetings of OMT to review issues emerging from flowcharts and identification of new alternative processes design new business processes (roles and responsibilities, key steps and activities, estimate of time required for each step, costing of each step), with options as appropriate.
- based on selected options, estimate time and cost required to redesign business processes including training requirements etc., identify whether agency HQ agreement/approval required, estimate cost under expected business volume, calculate difference between current and proposed processes for same business volume, identify savings in comparison with change-management cost, identify expected benefits to different stakeholders.
- prepare costed comparative analysis of cost and benefits of business process change for selected processes.
- facilitate meeting of the OMT, UNCT and stakeholders to present and validate proposals.

Operational environment

Contractor will be embedded into a working group to be established by RC/UNCT that will review all outputs of contractor, quality assurance function and clear findings, conclusions and recommendations by contractor.

Deliverables

- inception report comprising a concept note on the methodology to be used by the contractor for business process mapping.
- reports on meetings of the OMT and stakeholders.
- report on the rationale for selecting specific business processes for revision, including identification of issues (stakeholder involvement, agency headquarters approvals, changes of workload and roles, expected benefits and likely upfront cost, training requirements, constraints).
- detailed business process mapping for processes identified by UNCT, including start-up cost (setting up, training etc.), recurrent cost, expected benefits, expected shifts in workload and cost between stakeholders, proposals for performance indicators, identification of headquarters involvement, constraints and risks.
- inventory of agency rules and regulations requiring amendment to implement changed business processes.
- Draft Memorandum of Understanding governing change from one process to another.
- final report for submission to RCO/UNCT.

ANNEX 6

Draft Mission Terms of Reference: Identification, measurement and operationalizing transaction costs in 'Delivering as One' Pilots

Introduction

The 'Delivering as One' country pilots have been working to identify ways to ensure more coherent, efficient and effective operations at the country level. This pilot initiative was built on the reform agenda set earlier by the Triennial Comprehensive Policy Review 2004, which asked the UN to accelerate efforts to increase coherence and effectiveness of its operations in the field. Consistent with the on-going work under the TCPR, the UN Secretary-General requested the Chair of the UN Development Group (UNDG) to lead an effort with the Executive Heads of the UNDG Agencies to move forward with the implementation of the 'Delivering as One' pilots in January 2007. These pilots were to develop and demonstrate innovative methods for operating at the country level which would result in the UN's development assistance being more relevant to national needs, effective in terms of impact, and delivered more efficiently. In order to show what 'changes' may have resulted as a result of the pilot initiative, there is a need to identify and measure changes in transaction costs at the country level as a result of the 'Delivering as One' initiative.

The appended note "Definition, identification and measurement of transaction costs in the context of 'Delivering as One' pilot countries" analyses the issues related to transaction costs in the country-level context of UN development assistance, with particular focus on selected 'Delivering as One' Pilot countries.

Though the TCPR elaborates quite clearly what is meant by the reduction of administrative/operational costs, i.e. business practices, ICT, common premises, etc, it does not elaborate at all on the 'procedural burden' that UN organizations and national partners face. Nor does it specifically mention these in relation to the UN's partnerships with donors or other international agencies at the country and global levels. In the context of the pilot countries, the reduction of costs and time

associated with working with these partners have been as important, if not more so in some cases, as reductions in the costs for the UN agencies for their administration/operations at the country level.

As we are now in the fourth year of the DaO experience, there is a growing demand from the various partners in demonstrating what effect, if any, the DaO experience has had on the issue of transactions costs and the efficiency of the UN at the country level.

The ongoing High-level UNDG-HLCM mission will provide further insight into bottlenecks in specific business practices, while the forthcoming country-led evaluations as well as the independent evaluation which may begin at the end of 2010 will both focus on the impact of the DaO experience on the efficiency of the UN at the country level.

The issue that we are now faced with is the need to move ahead from the mixture of broad concepts of efficiency and transactions cost in the TCPR, to an operational concept that can be used for measuring their importance and direction at the country level for all partners of the UN for the purposes of demonstrating effect and attributing cause.

The purpose of this inter-agency and multi-disciplinary mission is to agree on a common concept of transactions costs and a methodology for the measurement of changes in transactions costs that could be operationalized in the pilot countries. Through interaction at the country level with key actors that have made some progress in the analysis of transactions costs at the country level, the mission will attempt to elaborate a more general concept and methodology that could be useful for the pilot countries.

It must be noted that these will be some preliminary attempts to identify and measure transaction costs. A



response to the TCPRs call for examining the transaction costs would require a more broadly based study which is not the purpose of this exercise limited to the pilot countries.

Objective of the Mission

To develop a common understanding of the concept of transactions costs and to develop a methodology for the measurement of changes in transactions costs at the country level.

Deliverables of the Mission

With regard to transaction costs relating to the UN system's activities at the country level in selected 'Delivering as One' pilot countries, the mission will with the UN Country Team and its partners

Deliverable 1: Agree on a **common concept of transactions costs** and the **main cost clusters relating to work processes relevant for the UN system development work**;

Deliverable 2: Elaborate a **methodology for identifying and tracking transaction costs** and for **assessing their changes resulting from the DaO process** that can be adopted by the UNCTs with the least possible cost and in the shortest timeframe;

Deliverable 3: Agree with the UN Country Teams on a **roadmap and operational approach** that would guide them in selected pilot countries in **performing transaction costs analysis** and that could be carried out by them with their local resources.

Participation & Timing

Participation:

- Key UN Agencies Directors of Budget/Finance, particularly to help articulate what could be meaningfully quantifiable and measureable
- Key members of the Working Group on COBO, particularly those dealing with procurement, common services and/ or information, communication technology

- Key members of the Working Group on Programming Issues, particularly to address issues of identification and measurement in all aspects of programmes – formulation, implementation, monitoring and evaluation.

The following disciplines will be covered by the members of the mission:

- Budgetary/Finance issues²²
- Programme issues

Other disciplines will be covered by the local teams, provided by the UN Country Teams and as available:

- ICT
- Procurement
- Human resources
- Cost accounting

The role of these specialists will be to guide the UNCT in the identification of cost clusters, the design for business process mapping and review of other issues that may arise, in their respective field of expertise.

Proposed **timing** would be May 2010.

For reasons of expediency, the mission will focus initially on 2-3 'One UN Pilots' – Uruguay, Tanzania and Mozambique with visits to other countries if required.

Reference Materials

1. Discussion Paper on transaction costs
2. TCPR 2007: Section IV
3. GA Resolution 63/133
4. 'Delivering as One' 2008 Stocktaking Synthesis Report
5. Country Level Stocktaking 2008 Reports from Uruguay and Mozambique
6. Terms of Reference for High Level UNDG-HLCM mission on "addressing country-level bottlenecks in business practices"

²² Issues related to cost accounting will be covered by the budget/finance specialists, as needed.



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