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Opening statement to the Fifth Committee on the JIU Report:  
“Review of contemporary practices in the external outsourcing of services to commercial service providers by United Nations system organizations” (JIU/REP/2019/9)

Inspector Gopinathan Achamkulangare

Mr. Chairman, I have the honour to introduce the JIU report entitled ‘Review of contemporary practices in the external outsourcing of services to commercial service providers by United Nations system organizations.’ The JIU had reviewed outsourcing in 1997 and 2002, and returned to the topic in 2019, in response to a proposal from the United Nations Secretariat.

The review looked comprehensively at the current status of external outsourcing in the United Nations entities, which is not insignificant, amounting to an average of more than three billion dollars annually across the system and growing, and suggested ways of improving the conduct and management of external outsourcing.

The relevance of this report derives from the fact that, despite a general awareness that external outsourcing of services and related goods to commercial service providers account for a significant financial outlay by organizations, there has been no specific consideration of, or regular reporting on, the subject matter, beyond standard reporting on procurement. Through our review, we were able to arrive at a first concrete estimation of such expenditures for the United Nations system, which amounted to 22.4 billion dollars for 23 JIU participating organizations from 2012 to 2018.

The objective of the review was to assess the strengths, weaknesses, opportunities and threats of utilizing the option of external outsourcing, and to outline the existing enabling legislation and policy. It purports to facilitate a clearer understanding by the legislative bodies, as well as the executive heads of the JIU participating organizations, of the current status of external outsourcing, suggests measures for organizations to improve how they conduct and manage such outsourcing.

The JIU reviewed external outsourcing-related mandates, policies, guidelines and oversight reports from the participating organizations, other international organizations, public and private sector entities, non-governmental organizations and academic institutions. We analysed questionnaire responses from 25 JIU participating organizations as well as 19 Peace-Keeping Operations and Special Political Missions. Additionally, we interviewed nearly 400 stakeholders, both virtually and in-person, through missions to eight locations in the headquarters and field. The report contains seven formal recommendations, one addressed to the legislative organs and six to the Executive Heads, as well as 43 informal recommendations.

The JIU reviewed the topic from an oversight perspective, in order to suggest measures for improving and strengthening the mechanisms, structures, policies, and procedures for the governance, accountability and oversight of outsourcing practices and processes.

One of the major challenges of the review was to distinguish outsourcing from procurement, as many of the entities seemed to conflate the two. Several new areas have been subjected to external outsourcing in recent years, from ICT services to conducting surveys to media coverage of the official visit of the executive heads, to mention only a few.

The report advocates the need for improved decision-making through undertaking systematic cost-benefit analysis and managing identified risks associated with outsourcing, improving vendor selection processes and post-award contract management through integrating specific measures, and strengthening internal coordination on outsourcing. It outlines steps for enhancing internal capacity of contract managers and business process owners and stresses the importance of providing them with the necessary skill-sets through dedicated training. It emphasizes the importance of strengthening inter-agency cooperation and coordination. The review underscores the importance of monitoring and reporting on a regular basis, effective legislative direction, and paying of greater attention by the oversight offices to the area of external outsourcing.

Mr. Chairman, distinguished delegates, allow me to briefly highlight the 14 key findings of this report:

**1. None of the organizations have a dedicated policy or guidelines on outsourcing and only two formal definitions of outsourcing exist.** Each organization conceives outsourcing differently, without distinguishing it from procurement in most instances. The United Nations Secretariat has been the only entity to have ever produced a dedicated report on outsourcing, however the last one was issued in 2004. The present review encourages organizations to focus on “right-sourcing”, which is the service that it is expected to deliver and the best way to deliver it.

**2. As a proportion of total procurement expenditure, outsourcing ranges between 20 and 60 percent in half of the 23 JIU participation organizations that provided data.** As a proportion of total organizational expenditure, outsourcing accounts for less than 10 percent in 19 organizations, and between 11 and 21 per cent in four organizations.

**3. 93 per cent of overall outsourcing expenditure from 2012 to 2018, totaling just under 21 billion dollars, is accounted for by just six organizations:** WFP, United Nations, UNDP, UNHCR, UNICEF and FAO. Overall, outsourcing expenditure has increased by nearly 26% in 15 organizations that reported data for all years from 2012 to 2018.

**4. Of the 22 broad categories of outsourced services for which expenditure data is provided in the report, four categories constitute nearly 60% of total outsourcing volumes.** These are logistics (air, sea and land transport and storage), facilities construction, engineering services, and real estate and utilities. **These categories generally have no in-house alternatives due to the costs associated with having the infrastructure in place to deliver them.** All other categories include services that are either produced entirely in-house or are partially or largely outsourced.

**5. The review identifies challenges and risks that affect outsourcing relationships in general, irrespective of location, including:** national laws and regulations; interests of member States; specificities of inter-governmental organizations arising from their multilateral character; financial rules and regulations and procurement policies; specialized and customized services; volumes and costs of outsourcing; internal capacity, control and communication constraints; physical and information security considerations; poor vendor performance and inappropriate vendor conduct and practices; and other factors. Other challenges and risks are specific to outsourcing to vendors in developing countries, to humanitarian emergency and crisis contexts, and to outsourcing by peace-keeping operations.

**6. Organizations have realized a range of tangible and non-tangible benefits through outsourcing.** Non-tangible benefits realized include: greater flexibility and speed in meeting surges in demand and the changing needs of organizations; options to ensure business continuity; access to latest financial market knowledge and technological tools and skills; and more impartial implementation of rules. Tangible benefits have been realized through cost-saving means, including more favorable contractual terms and rates on services, lower contract administration burdens and volume discounts through joint

tendering and greater usage and sharing off Long-Term Agreements; organizational status discounts; lower personnel costs through access to on-demand and part-time personnel; absorption of losses by vendors; flat fee for services; elimination of equipment acquisition and maintenance costs; and higher returns on investments through outsourcing their management.

**7. Need to exploit advances in ICT to increase efficiencies in outsourcing arrangements.** As most outsourced contracts have some ICT components, organizations noted that efficiencies can be increased through a number of clear steps that are detailed in the report.

**8. Need to improve decision-making on outsourcing through more systematic conduct of cost-benefit analysis and risk assessments.** The review found that decisions to outsource were clearly better-informed when a cost-benefit analysis was conducted by organizations. However, such assessments are more the exception than the norm in most organizations, with no common template or methodology in place for the conduct of such analysis. The review further found that through engaging in outsourcing, organizations have been exposed to a range of risks. The report identifies a number of useful measures that can be taken to assess and mitigate such risks.

**9. Need to improve vendor selection processes.** The vendor selection process is key to ensuring that the right party with the necessary capacity has been selected to engage in a contractual arrangement where the deliverables, quality standards and timelines are clearly laid out. The review outlines relevant measures for integration into vendor selection processes.

**10. Need to improve post-award contract management processes.** Post-award contract administration and management is critical to ensure that the parties to an outsourced contract fulfil their obligations and that the end-user is supplied with goods or services of the requisite standard by the required time and within budget. To this end, the report outlines useful measures for integration into such processes.

**11. Need to strengthen internal coordination on outsourcing.** The review found that while procurement and requisitioning offices are the two functions primarily engaged in all stages of outsourcing, specific roles are also performed by other actors such as committees on contracts, legal and human resources offices, senior management and staff representative bodies. At present, only two organizations have designated offices to undertake organization-wide coordination among the relevant functions on outsourcing. To address this deficit, the review calls upon organizations with considerable outsourcing volumes to consider establishing a focal point function for external outsourcing, who would assist requisitioning offices to identify and objectively assess sourcing options, with a focus on technological innovations, and share lessons learned and good practices organization-wide among outsourcing practitioners.

**12. Need to enhance internal capacity of contract managers.** During the review, interviewees revealed a range of deficiencies in the capacities of contract managers for outsourced services. To address these deficits, contract managers and procurement officials highlighted the need for training in a number of areas. Presently, only seven organizations require that personnel engaged in managing outsourced contracts be professionally certified. However, all existing trainings are related to procurement actions and none are specific to outsourcing.

**13. Need to further inter-agency coordination on outsourcing.** Joint tenders and “piggy-backing” on long-term agreements concluded by other agencies have led to considerable savings in time and cost. Additionally, common platforms like the HLCM Procurement Network and duty-station specific procurement groups have allowed for sharing of innovations in outsourcing approaches and common guidance on managing coordinated tenders. However, organizations have highlighted a number of limitations to inter-agency coordination, as well as remedial actions that can be taken to address them. These are detailed in the report.

**14. Need to improve reporting and oversight on outsourcing practices.** Presently, there is no requirement in any organization to separately report on outsourcing when reporting on procurement. In terms of oversight, while all procurement activities are subject to regular audits, no dedicated evaluations or audits have been conducted on the topic of outsourcing. Given the volume, scope and diversity of outsourcing activities in United Nations system organizations, and the risk that the lack of adequate oversight can result in inefficiencies and opportunities going undetected, the report calls upon oversight offices to periodically review organizational-level risks associated with outsourcing.

## **Recommendations**

Distinguished delegates,

To address the aforementioned challenges, the report outlines a number of concrete measures, in the form of one formal recommendation to the legislative organs and governing bodies, and six formal recommendations to the executive heads, as well as 43 informal recommendations, to improve the process of conducting and managing external outsourcing to commercial service providers. Specifically, the report recommends that the legislative bodies should request the executive heads to ensure that, by the end of 2022, annual reports on procurement include a sub-section on expenditures on services sourced from commercial service providers.

Furthermore, six formal recommendations are addressed to the executive heads of organizations that include:

- One: Develop a common organization-wide definition on outsourcing as well as corresponding approaches and procedural guidelines;
- Two: Assess the use of sources of supply from vendors in developing countries and economies in transition, and increase it as applicable, without contravening organizational policies for effective competition;
- Three: Ensure that the sourcing of any strategic, sensitive or high-value service from a commercial service provider is preceded by the conduct of a clearly documented strategic analysis, that includes short and long-term considerations and costs. This analysis should be reviewed and approved by the appropriate authority, prior to a formal decision on the sourcing option;
- Four: Ensure that strategic, sensitive and high-value commercially outsourced services are subject to periodic review, including risk assessments, and that appropriate risk management measures are developed;
- Five: Develop criteria for the consideration of extension of outsourced service contracts beyond standard timeframes and present them for adoption and incorporation into policy documents; and,
- Six: For strategic, sensitive or high-value commercially outsourced services, ensure that clearly detailed guidelines for managing vendor transition, including corresponding back-up arrangements, are developed. Additionally, ensure that solicitation documents outline vendor responsibility regarding transitional assistance and knowledge transfer to the organization and incoming vendor.

Distinguished delegates, the timely consideration of these recommendations can be greatly facilitated if the legislative bodies impress upon the executive heads to take prompt and effective action.

## **Management response / CEB comments**

Mr. Chairman,

We have taken note of the comments of the United Nations System Chief Executives Board for Coordination on the review, contained in document A/75/551/Add.1 of 27 October 2020, and appreciate that the organizations welcome the report and find that it offers a useful overview of the current status of external outsourcing. We also welcome the CEB's support, either in part or in full, to all six recommendations addressed to them as executive heads.

We also take note of the CEB's preference that, in light of the current engagement of organizations in responding to the COVID-19 pandemic, that the implementation date of certain recommendations be readjusted from 2021 to 2023. Considering that the report was uploaded and disseminated in the second quarter of 2020, the JIU believes that this affords ample time for entities to implement the recommendations by 2021. Furthermore, a more elastic time-frame would act as a disincentive for the entities that are keen to implement the recommendations without any delay.

As organizations continue to externally outsource on a regular basis, and as the potential and possibilities to do so open up further with increased use of technologies and working remotely, particularly in the context of the pandemic, organizations must utilize every opportunity, at every step, to take actions on both the formal and the informal recommendations contained in this report. Such actions can, and will, contribute to a more agile United Nations system that delivers on its mandates with enhanced efficacy.

Mr. Chairman, distinguished delegates,

Thank you for your kind attention. I welcome any comments or questions you may have.

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