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ORGANIZATIONAL REVIEW

The replacement of the Organization's accounting, financial and budgeting systems by an Enterprise Resource Planning (ERP) system

Note by the Secretary-General

SUMMARY

Executive summary: This document responds to the mandate given to the Secretary-General by the Council, at its eighty-eighth session, concerning the proposed replacement of the Organization's accounting, financial and budgeting systems by an Enterprise Resource Planning (ERP) system.

Action to be taken: Paragraph 20

Related documents: C 89/11 and C 89/11/Add.1

Introduction

1 The Council will recall that at its eighty-eighth session, it took note of the options and recommendations from Deloitte & Touche concerning the requirements for the Organization's accounting, financial and budgetary control systems and the prospective range of investment required.

2 The Council authorized the Secretary-General to invite tenders from qualified international contractors for the supply and installation of a new accounting and information system on the understanding that the tender might not proceed. The Council also asked that the tender documentation be made available on the Organization's web site in order not to exclude other qualified contractors.

3 Against the background of these decisions, the Secretary-General is reporting on the Council's mandate and providing the supporting background material which establishes the very strong business case for an Enterprise Resource Planning (ERP) system.

Why ERP?

4 When Deloitte & Touche presented its recommendations to the Council, its conclusions were based on the benefits to be realised from the introduction of an ERP system, as summarised below:

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“IMO should embark on the procurement and implementation of an Enterprise Resource Planning (ERP) system. This offers IMO the opportunity to significantly improve efficiency and effectiveness by acting as a change-driver to help:

- eliminate multiple data-entry, and multiple data-storage/management;
- implement re-designed processes using modern technology such as work-flow and electronic authorisations;
- strengthen financial controls;
- improve the quality, flexibility and timeliness of reporting;
- delegate budgeting;
- develop real performance management”.

5 The key to the selection of the preferred ERP supplier is therefore its capability to use best practice in process design, and to unlock the significant ongoing benefits provided by an ERP system. In that connection, the Council at its 88th session, requested that a full cost benefit analysis be provided to the Council at its eighty-ninth session before any final decision was taken. Accordingly, Annex 1 summarises the benefits which the Organization can expect to realise through the implementation of the proposed ERP solution and the prospective costs.

Procurement Process

6 In response to the Council’s mandate set out in paragraphs 1 and 2 above, the following paragraphs summarise the procurement processes which have been followed. Procurement has involved an open, three-stage exercise, requiring bidders to submit an Expression of Interest (EOI) document, a detailed Proposal for the work, and, for the final three short-listed bidders, the preparation and presentation of a “scripted” demonstration.

7 As the Council requested, the initial request for EOIs was published on the Organization’s website, and additionally advertised in Lloyd’s List and the web site of the United Nations Inter-Agency Procurement Services Office (IAPSO) in order to generate the maximum amount of responses from suitable bidders.

8 On the basis of EOIs, a short-list of suitable bidders was drawn up and those short-listed were invited to respond to a Request for Proposal (RFP). An RFP response sets out in some detail how the Organization’s requirements would be met by a supplier, both in terms of the system functionality available and the implementation and ongoing support available from the bidders. Bidders were also asked for detailed pricing proposals at this stage. The responses by contractors to the RFP was used to select the short list of suppliers for the final stage of the procurement, namely, ‘scripted’ demonstrations.

9 The scripted demonstration required each of the bidders to explain how their solution would address the Organization’s requirements in three key functional areas – Regular Budget and Purchase to Pay, TC Programme management, and Publication sales.

10 One of the key elements in the success of the ERP solutions is in the involvement of all users to engender a sense of “ownership” and commitment to the new work flows and processes. Accordingly, IMO staff have been extensively involved in the procurement process, and in particular in the development and assessment of the scripted demonstrations. Some 25 staff members have formed a User Group and evaluated the demonstrations. In total over 50 staff have been involved in the evaluation process.

The selected contractor

11 The User Group concluded that Fast Track Consulting, offering a system provided by a major international e-commerce company - SAP, will best meet the Organization's needs in terms of the functionality of the system and the implementation approach. SAP is one of the leading ERP packages. This decision was subsequently endorsed by both the Secretary-General's Procurement Steering Group and the Contracts Committee and approved by the Secretary-General.

12 Bidders at all stages had been evaluated against the following criteria:

- **System functionality** – the extent to which the systems on offer met the requirements of the Organization;
- **Implementation approach and risk management** – the effectiveness of the proposed implementation approach, consultancy skills and experience available, and the extent to which the bidder mitigates risks;
- **Deliverability to timescale and integration with broader change management** – the capability to deliver to timescale and effectively manage the cost of the implementation, and to understand its impact on the Secretary-General's broader Change Management Programme;
- **UN capability and experience** – the degree to which the systems offerings have been tailored to support the UN-specific requirements, and the experience of the team and the product in working with other UN organizations;
- **Price** – the overall price of the proposal, taking into account internal resource requirements to support implementation and risks of cost overruns.

13 With these criteria in mind, the case for the selection of Fast Track as the preferred supplier is that:

- Its methodology of implementing SAP provides a “best fit” to the Organization's requirements for both system functionality and implementation approach, as demonstrated at all three stages of the procurement;
- The implementation approach is based on that successfully used at UNICEF and World Food Programme (WFP). SAP is currently closer to the development of a UN-specific HR capability than the other systems (e.g. payroll; allowance management and personnel data records);
- The implementation approach and skills and experience of the implementation team most effectively manage the risk of overruns in terms of time and cost;
- The Fast Track team most clearly demonstrated their understanding of the overall Change Management Programme at the Organization and the capability of the team and system to enhance the Change Programme as a whole;
- The Fast Track offer provides the best opportunity to enable the Organization to realise the benefits available from an ERP system, and in particular the associated process improvements. The system selected also provides a platform for future change, offering functionality in areas which the Organization may take advantage of in future, including HR, Events Management, Customer Relationship Management and Document Management;

- Prices for all the proposals were within a similar range. The lowest-priced bidder was ruled out on the basis of its more limited functionality and the higher risks associated with both the system and the implementation approach.

14 Alongside the evident benefits of an ERP system, it is important to recognize the scale of investment needed:

- **External licence fees and implementation** - the final contract is expected to be in the range of £1.1m to £1.5m, based on the outcome of contract negotiations concerning the pace of implementation and the degree to which specific configuration is required. Without breaching commercial confidentiality, this cost may broadly be categorised as – licence fees 15%, implementation consultancy 60%, change management and training 15%, hardware 10%. It is planned that this capital cost would be financed from the Organization's accumulated reserves.
- **Internal commitment and costs for project team** – As noted, on the basis of the experience in both commercial and public sector bodies which have implemented ERP systems, there are two essential ingredients for success. The first is organizational commitment to the change processes. The second is the building up of in-house competencies and achieving a transfer of expertise to staff member users. Accordingly, ERP will require the commitment of approximately 6 staff/years of IMO resource to the implementation, with staff being released from current posts, which would be backfilled by temporary staff. This has an estimated internal cost of £252k, which would also need to be financed from accumulated reserves.
- **Independent monitoring and reporting** - the Secretary-General considers it important for the transparency and success of the project that there be an ongoing independent external reporting and monitoring of the process and of its key milestones, which could report to the Secretary-General and Council on the effectiveness of the implementation. The Secretariat anticipates using an external consultancy for this purpose, at an estimated cost of approximately 5% of the overall contract value, approximately £75,000-£100,000, to be financed from accumulated reserves.

The future costs

15 The Council will note that the prices above do not include the implementation of full HR functionality, including payroll. This capability would be introduced as Phase 2 of the project, perhaps in 2005, in order to focus the Organization's resources on providing in Phase 1 a firm grounding for further development, and to take advantage of the SAP UN-specific HR package which is due for release in January 2004. Preliminary discussions with the supplier suggest that the additional licence fee for HR will be in the region of £10k, in addition to which a certain amount of consultancy will be required to support the implementation.

16 The Secretary-General would recall that the ERP costs and benefits have also been evaluated alongside the generous offer from Brazil. At its eighty-eighth session, the Council noted that Brazil had offered to supply and implement not only a budgetary control system but an integrated accounting, financial and budgetary control system at a forecast cost of US \$1m, within a timeframe of delivery before 1 January 2004. The Council requested the Secretary-General to include a full analysis by Deloitte & Touche of the Brazilian proposal to the eighty-ninth session of the Council. Accordingly, Annex 2 compares the respective merits of

selecting a packaged ERP solution with a more custom-built approach such as that offered by the Brazilian Government.

Next Steps and Implementation

17 The Secretary-General now seeks the Council's agreement in principle for the investment in this important ERP implementation, taking into account the report of the Secretary-General on the position of accumulated reserves in document C 89/19(d)/Add.1. Subject to this agreement in principle, the Secretary-General would intend that final contract negotiations would start immediately with the preferred supplier, with a view to finalising a fixed price contract by the end of December 2002, within the price envelope set out above in paragraph 14.

18 Implementation will then begin from January 2003, with a target go-live date of October 2003. This would enable the new system to operate from 1.1.04 on the new basis, having been tried and tested. The details of the implementation plan and timescale are to be determined following final discussions with the supplier. In outline, however, the implementation will involve:

- **Project Preparation** – define the scope of the project, project planning, strategy for delivery of benefits, and finalising and training the IMO project team;
- **Business Blueprint** – identify, detail and document new business processes, and new roles and responsibilities;
- **Realisation** – use the Business Blueprint as the basis for configuring the Organization's SAP system, including data migration routines and interfaces;
- **Final Preparation** – end user training, final check of the system, data migration;
- **Go-Live and Support** – cut-over to the new system, and establishment of support centre, planning of follow-up training and ongoing improvements.

19 The implementation approach above would follow standard practice and be comparable with that used at both UNICEF and the WFP during their successful implementations of SAP. The Secretary-General will report the final outcome of the negotiations and the implementation progress reached at the Council's 90th session in June 2003.

Action requested of the Council

20 The Council is requested to take note of the information in this document and to approve the action to be taken in paragraph 17.

ANNEX 1

BUSINESS BENEFITS

Background and Overview

1 In March 2002, following the recommendations of the MANNET report, Deloitte & Touche (D&T) were commissioned to produce a report on ‘Strengthening the Organization and Systems for Finance and Budgeting in the IMO’. In June 2002, D&T submitted their report which was presented to Council at their June session. A key finding of this report was that the IMO should consider the selection and implementation of an Enterprise Resource Planning (ERP) system.

2 As requested by the Council at its 88th session, this document provides the business case for the investment in ERP, which may be summarised as:

- **Need for change** – the present systems at IMO cannot support the ongoing change programme and meet internal management reporting and financial control needs. The consequences of ZNG are that significant investment is now unavoidable;
- **Quantifiable benefits** – there are a number of process and system-based efficiencies and savings which may be made through the introduction of this system. In some cases, these benefits are realised by freeing staff time for more value-adding activities, in others through savings on temporary staff and other assistance required to operate the existing processes and systems;
- **Quality improvements** – the introduction of ERP has a number of less quantifiable, but equally important benefits, for improving the financial control environment to improved management of Technical Co-operation programme, which will improve the work of the IMO;
- **Platform for ongoing improvement** – the selected system provides a solid platform for ongoing financial and project management, and equally importantly the scope to realise further benefits through the introduction of relevant functionality such as Human Resources Management, Document Management and Events Management.

5 Each of these areas is set out in more detail below.

The present situation and the need for change

6 The D&T report presented to the Council in June summarised the present situation of information systems at the IMO as follows:

“...the existing information systems in their present state are inadequate to support the Organization’s reporting needs. Further, it will not be possible to effectively delegate responsibility for control of financial resource budgets without a significant improvement in the level of financial information available, and this is not possible within the existing system framework. The existing systems framework required a significant level of duplication of effort and increases working inefficiencies in the Organization as a whole.

...continued reliance on a number of small providers for systems increases the risk to the Organization as a whole that a key system will not be supported or properly developed in the future”.

7 It is therefore important to recognise that, over and above the benefits of an ERP system as set out in this document, the Organization does not have an alternative to significant investment in its information systems in the short to medium term. The existing systems do not meet the Organization's internal or external reporting needs, are far from user-friendly, and will not support the Change Management goal of increasing the delegation of budgets.

8 Further, there are risks associated with the Organization's reliance on a number of small suppliers for product support and development. Changes in the fortunes of these suppliers, or the departure of key staff, could leave the IMO unsupported for some of the key business-critical systems.

9 The procurement of the selected ERP system should be seen in this context, as the most appropriate of a range of necessary investments, rather than as an alternative to the *status quo*.

Quantifiable Benefits

10 Whilst the need for change is clear, it is anticipated that the IMO will be able to realise quantifiable benefits from the introduction of the selected ERP system. These may be categorised as:

- Ongoing process-based benefits;
- One-off and ongoing savings associated with alternatives to ERP implementation.

11 The figures set out below indicate that in quantifiable terms, the investment in ERP will, as a minimum, break even over the 5-10 year period of its use.

Process Benefits

12 The benefits provided by the introduction of the ERP system will be many. Template processes used by the ERP system are best practice ones, and the use of such templates will drive greater process efficiencies from the implementation. Further, the increased integration resulting from the implementation will produce its own efficiencies, with a reduction in the need to re-enter data in a number of different systems. Finally, the increased distribution and greater user-friendliness of the system will support distributed data entry by users, rather than requiring specialist data entry staff.

13 The process improvements and associated efficiency gains are likely to be widely spread throughout the Organization, and many may be realised only some time after the system has been introduced, once users become more familiar with the concepts involved. As a result, the benefits shown in Table 1 below are indicative and likely to be only a part of those available. **They serve to illustrate the business case for implementation, rather than being an exhaustive list of all expected benefits.** The first phase of the implementation 'Project Preparation' with the contractor will involve a detailed consideration of expected benefits, the development of a Benefits Realisation Strategy, and setting of metrics by which improvement can be monitored.

14 The translation of these benefits into purely financial measures will not be straightforward. In many cases, the gains will result in staff being freed for more value-adding tasks, for example in the case of Management Reporting for more thorough analysis of the information, increasing the quality of the work done. Where potential to free staff resource emerges, staff will be re-deployed.

Table 1
Quantifiable Annual Benefits of ERP Introduction

Anticipated Benefits	Anticipated Annual Savings, £k	Note
Data Capture and Processing	150,000	1
Data entry duplication and reconciliation	35,000	2
Management reporting	100,000	3
TOTAL	285,000	

Note 1: Based on 36 temporary staff months in Finance. Saving produced as Finance and other staff in the Organization can enter own data.

Note 2: Based on 12 GS work months in Finance. Saving produced as no requirement to re-enter data from Sweetens into Masterpiece.

Note 3: Based on 12 Professional work months in Management Accounts. Saving produced no requirement to re-enter data from Masterpiece into monthly reports.

One-off (Capital) savings

15 In the short- to medium-term, significant development work would be required to maintain and improve the IMO's existing systems. The introduction of ERP will supersede these requirements, and as such, the ERP investment should be considered in the light of the additional investment required above this amount.

16 Table 2 sets out those projects which would be required in the medium term without ERP, and provides an indication of the cost of each.

Table 2
Existing Investment Needs Superseded by ERP

Anticipated Benefits	Anticipated One-Off Savings, £k
TC PROMIS 2 – fully functional programme management	50
Interface Sweetens to Masterpiece	50
Develop and implement pre-commitment recording system for temporary assistance	75
Upgrade of Masterpiece	150
Develop Management Information System and budgeting tool	100
Develop financial workflow capability	50
TOTAL	£475k

17 **It should be noted that the investment listed above would be the bare minimum required for the Organization to continue functioning at its existing level.** It would far from meet the Organization's requirements, and would not be sufficient to support the properly controlled delegation of responsibility to line managers. It would also not deliver the goal of an integrated financial and management information system, nor deliver process improvements and the benefits noted in the previous section.

Quality Improvements and Unquantifiable Benefits

18 However, the business case for the introduction of an ERP system also lies in the intangible benefits it provides – that is, in the quality of the information provided to senior management, strengthening of internal financial controls and the consequent improvements in the discharging of the Secretariat's duties.

19 These benefits represent a wide-ranging quality improvement in the data management and presentation by the Organization, for both internal and external reporting purposes. The accuracy of the data and the overall financial control environment may be more easily assured through built-in system controls, and a comprehensive audit trail to identify unusual items. The quality improvements expected include:

- Improved control and reporting of donor funds – integrated TC and financial systems, and flexible management reporting allowing provision of donor information in the required format;
- Project management functionality to support improved management of delivery of TC projects – tools available in the ERP project management functionality will provide the link between financial and non-financial (delivery) information, and allow real-time tracking of progress;
- 'Smarter' procurement through capture of feedback on suppliers – the ERP supplier database will allow the IMO to track the performance of each supplier, from security staff to TC consultants, and take more informed decisions in future procurements;
- Tighter control on transactions – the ERP system's system-based controls provide a strong, integrated financial control environment, and clear audit trails for all changes made.

20 Perhaps most importantly, the introduction of ERP will support the Organization's policy to delegate responsibility for budget and delivery further down the hierarchy. In the longer term, this will increase the financial awareness throughout the Organization, and improve the control, reporting and performance of the Secretariat.

Platform for Ongoing Improvement

21 The selected SAP system supports ongoing development and continuous improvement in two ways:

- Ongoing R&D investment within SAP – SAP have an ongoing R&D programme in excess of £700m per year. As a result, the system is constantly being updated and refined, allowing existing users to take advantage of the improvements made.
- The SAP system is capable of providing significantly more functionality than has been asked for by the IMO. Other relevant functionality can be added on in later

phases if required. For example, major improvements may be made in IMO through the implementation of:

- (i) Human Resources functionality, including management of payroll, leave, allowances, performance and training – SAP is expected to complete a UN-specific offering by January 2004;
- (ii) Events Management, supporting greater control over the use of the IMO's conference facilities, and linking to resource and budget estimates;
- (iii) Document Management, for both internal and external documents, delivering reduction in required storage space and faster and simpler referencing and retrieval.

Whilst recognising that these developments are not necessary for a successful implementation of ERP in the IMO, and that it is prudent to take a cautious approach to changes of this magnitude, the track record of SAP and its evident investment in UN systems development provides the option to continue the process of system integration and process improvement when the time is right.

Delivery of Benefits

22 Delivering the benefits of an ERP will not be without some risks. It is important that these risks are properly understood, assessed and managed over the course of the implementation. To this end, the Secretariat has clearly defined the benefits expected to the preferred supplier, will establish clear targets for delivering each benefit, and will monitor delivery throughout the course of the implementation. A Benefits Realisation Strategy will be developed to manage risks throughout the course of delivery and to maintain focus on delivering practical benefits rather than merely the technical aspects of system implementation.

ANNEX 2

Background

1 The Council will be aware that the Organization has received an offer from the Brazilian Government to provide, at a cost of approximately \$1m, a budgeting and financial system built to the Organization's specifications.

2 In accordance with the Council's request, the Secretary-General has ensured that this offer was thoroughly analysed during the process of selecting a system to determine whether such an offer meets the Organization's requirements. A full response has been provided to the Brazilian Government setting out the Deloitte & Touche view of the risks associated with the proposal. The Secretary-General is grateful for the Brazilian offer.

Analysis of Alternative Means of Delivering ERP Functionality

3 In general terms, the generous offer of Brazil has to be evaluated as the alternative of a bespoke, custom-built system alongside the standard, tried and tested packaged ERP functionality.

4 This document summarises the basic requirements of the Organization, and the capability of a custom-built system (such as that offered by Brazil) and that of the preferred supplier to meet those needs.

IMO requirement	Custom-built system	Fast Track/SAP response
Present requirements for system functionality – budgeting, financials, programme management and publishing sales.	The Organization's requirements are complex and such a system would require development from scratch. There is therefore no means of demonstrating in advance whether such an ad hoc system can meet the Organization's requirements, and the risks associated with such an approach are great.	Standard, packaged solution requiring a degree of configuration meets the Organization's requirements in all areas. This has been demonstrated during the procurement process.
Capability to support future requirements for system functionality, in particular HR functionality	Such needs would require additional development work at a later date. Due to the complexities of the requirements and the overall integration of systems sought by the Organization, such a project would carry significant risk. Equally, development costs are likely to be significantly higher than those associated with configuring an existing system.	The SAP system has modules available for HR, Events Management and Document Management in particular, offering the Organization the capacity to include additional functionality at a later date. We understand that a UN-specific HR capability is currently being developed in partnership with UNICEF, and will be on general release from January 2004.
Risk management - Tried and tested system	Such an approach would provide no track record in developing integrated ERP solutions, in that the system does not presently exist. Clearly this carries with it a significant level of risk.	SAP has been a leading ERP system for over 20 years, and is presently the clear market leader for such systems. Successful implementations have been made in other UN organizations, and more widely in the non-profit sector.

IMO requirement	Custom-built system	Fast Track/SAP response
Risk management - Ability to implement within timescale and budget	Such an approach, without a track record and previous experience in a comparable environment would carry with it the risk of cost and time overruns.	The approach offered by Fast Track offers a thorough understanding of the risks associated with such an implementation, and demonstrates a proven methodology to manage such risks. The implementation approach is based on that successfully used at UNICEF and WFP.
UN-specific experience	The development of a bespoke system could not rely on previous experience in other UN organizations.	SAP has been implemented successfully at UNICEF and WFP.
Ongoing update of system and maintenance	<p>The provision of support would be problematic. The Organization would either be required to develop its own in-house capability, which would be prohibitively expensive, or rely on ongoing support from the development team, competing for resource with other commitments.</p> <p>Ongoing system development would also require either an expensive in-house team or an ongoing reliance on support from the development team.</p>	<p>Support and maintenance options are built in to the offer.</p> <p>SAP as an organisation spends in excess of £700m each year on ongoing system development, with updated rolled out at low cost to existing customers.</p>

Conclusion

5 It is in the nature of a packaged solution that it provides a tried and tested approach, with a demonstrable track record of delivery and successful implementation, and consequently that the risk is considerably lower and the costs more controllable than those for a custom-built solution. Similarly, the issue of providing ongoing support and system development are significantly less problematic for a packaged solution.

6 Accordingly, the Council is invited to conclude that the most appropriate means of delivering a cost-effective ERP solution to meet the Organization's needs both now and in the future is through a packaged solution rather than a custom-built approach.