

**USE OF CONTRACTUAL SERVICES TO SUPPORT
ESTABLISHED STAFF RESOURCES IN THE
INTERNATIONAL CIVIL AVIATION ORGANIZATION
(ICAO)**

Prepared by

Armando Duque González
Louis Dominique Ouedraogo

Joint Inspection Unit



**Geneva
1999**

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EXECUTIVE SUMMARY: OBJECTIVE, CONCLUSIONS AND RECOMMENDATIONS

Objective: To assist ICAO in the formulation of a management strategy for outsourcing; and
To propose appropriate mechanisms in order to identify areas of ICAO activities suitable for outsourcing.

CONCLUSIONS

A. While a wide range of activities are already being outsourced on an ad hoc basis, there is no clear and authoritative Organization-wide outsourcing policy in ICAO. (para. 7)

B. The lack of an approved Organization-wide policy results in a reactive management practice with disparate approaches for outsourcing, and in a lack of transparency in terms of the scope of outsourcing, the level of allocated resources, and in respect of the accountability of programme managers for the quality of service provided. (para. 8)

C. The use of outsourcing could be a viable management tool to instill a commitment to innovation and cost effectiveness in the Secretariat of ICAO and, consequently, to improve the efficiency of the Organization, provided that it is properly implemented within a well-defined policy framework. (para. 12)

D. In order to protect the international character of ICAO, there are a number of “core” activities and functions which simply must not and cannot be outsourced, no matter what other gains may be possible by doing so. (para. 15)

E. Once core functions and activities have been identified, there would still remain not only administrative and other support services, but also substantive programme activities which could effectively be outsourced, provided significant gains can be achieved by doing so, under proper control and management by accountable programme managers. (para. 16)

F. In order to provide Member States with the basis for reaching informed judgments on the effectiveness with which the outsourcing policy is being implemented, it is essential that comprehensive and transparent information be included in the programme budget submissions and performance reports. (para. 18)

RECOMMENDATIONS

Recommendation 1 - Defining an outsourcing policy for ICAO

Taking into consideration the current stage of outsourcing practice in ICAO, the Secretary-General of ICAO should elaborate, for approval by the Council, an outsourcing policy

with a view to its full implementation from the earliest possible date. The ICAO Procurement Code should also be reviewed in the light of such an outsourcing policy. (paras. 9, 13 and 27)

Recommendation 2 - Defining ICAO core functions

The Secretary-General should define areas, for approval by the Council, which, for strategic or policy reasons, should be considered as “core functions” and which should, consequently, not be subject to outsourcing. (paras. 15 and 16)

Recommendation 3 - Comprehensive and transparent information to legislative organs

- (a) The Secretary-General of ICAO should assure that information on the use of outsourcing is comprehensive and transparent in the regular programme budget submissions and performance reports of ICAO. (paras. 18 and 19)
- (b) Outsourcing performance reports should be submitted on a yearly basis to the Council so as to enhance transparency, facilitate monitoring by the ICAO Council, and improve outsourcing management by the Secretariat. (paras. 20 and 21)

Recommendation 4 - Designation of an “Outsourcing Facilitator” and an “Outsourcing Management Team”

An “Outsourcing Facilitator” should be designated within the ICAO Secretariat. With the assistance of an “Outsourcing Management Team”, the “Outsourcing Facilitator” would have responsibility for the proactive management of ICAO’s outsourcing policy, including encouraging those responsible for projects and activities to give serious consideration to the use of outsourcing, for identifying candidate areas, for carrying out cost-comparison exercises, for assessing quality and risk factors, for benchmarking, for evaluation of the outcome of outsourced activities and for reporting thereon to the Secretary-General of ICAO. (paras. 22, 23, 24, 28 and 29)

Recommendation 5 - Cost comparisons

A thorough cost-comparison exercise should be carried out by the Outsourcing Management Team, prior to any outsourcing decision-making, in order to identify direct and overhead costs of in-house and external provision of services, including the cost of in-house outsourcing management. (paras. 25 and 26)

Recommendation 6 - Training in contract management

Training in contract management should be provided to relevant officials to keep up with the high level management skills required for outsourcing. (paras. 33 and 34)

Recommendation 7 - Review of the implementation of the outsourcing policy by the Council.

The Council may wish to review and evaluate the implementation of the approved outsourcing policy three years after it has been initiated and, for this purpose, request the Secretary-General to submit a report on the implementation of the approved outsourcing policy which would indicate, inter alia, savings and/or benefits achieved, special problems encountered, solutions attempted and proposals for appropriate improvements. (para. 36)

I. Introduction

Mandate

1. The present report is submitted to the International Civil Aviation Organization (ICAO) pursuant to its request for a study by JIU on the use of contractual services to support established staff resources and outsourcing of specific activities, as formulated by the Secretary-General (C-WP/10662 of 3 July 1997) and agreed upon by the ICAO Council. (Council Decision 152/9 of 2 December 1997).

Objectives of the report

2. The objectives of the report are:
- ▶ To assist ICAO in the formulation of a management strategy for outsourcing; and
 - ▶ To propose appropriate mechanisms in order to identify areas of ICAO activities suitable for outsourcing.

Methodology

3. The methodology used for the report includes comprehensive desk reviews of ICAO documents and those of other organizations within and outside the United Nations system for benchmarking purposes, and structured interviews with 15 senior officials of ICAO. The President of the ICAO Council and the Secretary-General provided the Inspectors with useful insight into substantive issues of ICAO's activities with particular emphasis on the new ICAO Strategic Action Plan. The Inspectors express their appreciation for the courtesy and cooperation received from all concerned.

Basic considerations

4. The Joint Inspection Unit report on "The challenge of outsourcing for the United Nations System" (JIU/REP/97/5) has been used as the point of departure in the preparation of the present report since in it, the Unit has carefully analysed the basic issues involved and formulated specific recommendations for implementation by organizations of the United Nations system either individually or collectively.

5. In the first instance, it is necessary that there be an agreed definition of the term "outsourcing". In its earlier report, the Joint Inspection Unit recommended that the organizations of the system endeavour to develop a common definition of the term. Pending any further progress that the organizations may achieve in this regard, the present report uses the definition earlier recommended, which is as follows:

"Outsourcing is contracting with a third party (e.g., independent individuals, private companies, governmental agencies, non-governmental organizations) to perform specific tasks, and/or provide services and their related goods, based on specified terms and conditions. Consequently, outsourcing does not include the simple procurement of goods, such as office supplies or commodities; outsourcing also excludes the replacement or supplementation for general purposes of staff by non-regular staff (e.g., short-term, temporary, free-lance staff)."

6. Other recommendations of the Joint Inspection Unit, addressed to organizations of the system generally, and which are applicable to ICAO in the current exercise, deal with:

- (a) The need for approval, at the appropriate level, of a policy statement committing the Organization to the use of outsourcing as a means for achieving improved cost-effectiveness. Such a policy statement should include, *inter alia*, the criteria for determining what current and planned non-core activities should be considered for outsourcing and measures to assure that outsourcing will not compromise the international character and mandate of the Organization.¹
- (b) The need to promulgate administrative rules and/or procedures for implementation of the planned policy on the use of outsourcing for the organization that would, *inter alia* guide implementation of the criteria approved for determining whether or not an activity or service should be outsourced; assure the maintenance of appropriate control and management over outsourced activities; and improve cost-accounting methodologies in order to provide a better basis for deciding on the merits of outsourcing in each instance.²
- (c) The need to introduce changes in the structure and/or operating procedures of the Secretariat to facilitate and encourage the best use of outsourcing, including the possible designation of an official to

serve as “Facilitator” for this purpose.³

- (d) The need for the Secretary-General to assure that information on the use of outsourcing is comprehensive and transparent in the regular programme budget submissions and performance reports.⁴
- (e) The need for the Secretary-General to make every effort to avoid negative impact on staff affected by decisions to outsource specific activities or services and, when negative impact is unavoidable, for the application of measures to assure appropriate protection for affected staff members.⁵
- (f) The need for the ICAO Council to decide to review and evaluate the implementation of the approved policy on outsourcing three years after it has been initiated, and for this purpose, request the Secretary-General to submit the report on the implementation of the approved outsourcing policy which will include, *inter alia*, savings and/or benefits achieved, special problems encountered, solutions attempted and proposals for appropriate improvements.⁶

II. Current outsourcing practice in ICAO: lack of an organization-wide outsourcing policy

7. The Inspectors observed that a wide range of activities are already being outsourced on an ad hoc basis, encompassing activities such as the production of an air transport manual in CD-ROM format, implementation of activities in aviation security, preparation of procurement specifications, processing of health insurance claims, staff counselling, medical services, training, cafeteria services, mail forwarding, hardware maintenance, software support, video conferencing, Web development, maintenance of printing equipment and special binding jobs. Nonetheless, currently, **there is no clear and authoritative Organization-wide outsourcing policy in ICAO.**

8. The lack of an approved Organization-wide policy results in a reactive management practice with disparate approaches for outsourcing, and in a lack of transparency in terms of the scope of outsourcing, the level of allocated resources, and in respect of the accountability of programme managers for the quality of service provided.

9. A proactive and positive approach for outsourcing within the framework of an Organization-wide policy has undeniable benefits, assuring the basis for continuing improvement, cost reduction, better quality of service and readiness for changes.

Taking into consideration the current stage of outsourcing practice in ICAO, the Secretary-General of ICAO should elaborate, for approval by the Council, an outsourcing policy with a view to its full

implementation from the earliest possible date. The ICAO Procurement Code should also be reviewed in the light of such an outsourcing policy. (Recommendation 1)

III. Framework for an ICAO outsourcing management strategy

3.1 External and internal environment of ICAO pertaining to outsourcing

External environment

10. Currently, ICAO is operating in a rapidly changing environment owing to globalization, deregulation and emerging new technologies in the civil aviation arena. Facing this situation, the ICAO Council adopted the Strategic Action Plan in 1997, by which ICAO thoroughly re-evaluated its mission in order to reposition itself, in the words of the Secretary-General on the occasion of the launch of the Plan (22 May 1997), as a “most efficient and effective intergovernmental organization, for the benefit of the civil aviation community and its clients world-wide.” The President of the Council indicated on the same occasion that a central strategic objective cutting across the other objectives of the Plan was “to become the recognized world-wide auditor of safety and security standards for international civil aviation.”

Internal environment

11. Changes in ICAO’s internal environment that should support this ambitious target are already spelled out in ICAO Assembly resolutions A31-2 (*Increasing the effectiveness of ICAO*) and A32-1 (*Increasing the effectiveness of ICAO - measures for continuing improvement in the 1999-2001 triennium and beyond*) which set forth a broad policy framework for required changes in such areas as management of the Secretariat, programme planning, programme budgeting and oversight mechanisms. In line with these resolutions, the Strategic Action Plan identified areas which should be brought up

to international standards in order to meet the new challenges in both programmes and management.

12. In order to take up these external and internal challenges, the use of outsourcing could be a viable management tool to instill a commitment to innovation and cost effectiveness in the Secretariat of ICAO and, consequently, to improve the efficiency of the Organization, provided that it is properly implemented within a well-defined policy framework.

3.2 Basis of the outsourcing policy framework

Purposes of outsourcing

13. The purposes of outsourcing include:
- ▶ To acquire technical expertise not available within the Organization;
 - ▶ To achieve cost savings; and
 - ▶ To provide services more efficiently.

14. These purposes are particularly relevant to ICAO’s current external and internal environments, which require the search for new and more effective modalities to perform its mandate in the rapidly-evolving areas of civil aviation.

Core function criteria

15. In the formulation of the Organization’s policy on outsourcing, extreme care must be exercised in defining which are ICAO’s “core” functions. One of the real concerns expressed by Member States is that the use of outsourcing could

compromise the international character of United Nations system organizations. By definition, outsourcing involves vesting some degree of responsibility for the performance of particular organization activities and functions in “outsiders” who have no inherent loyalty or accountability to the organization and who may not have the international outlook and independence of international civil servants. Clearly, therefore, there are a number of “core” activities and functions which simply must not and cannot be outsourced, no matter what other gains may be possible by doing so.

The Secretary-General should define areas, for approval by the Council, which, for strategic or policy reasons, should be considered as “core functions” and which should, consequently, not be subject to outsourcing. (Recommendation 2)

16. Once core functions and activities have been identified -- a process which requires periodic review --, there would still remain a wide range of not only administrative and other support services, but also substantive programme activities which could effectively be outsourced, provided significant gains can be achieved by doing so, under proper control and management by accountable programme managers.

Comprehensive and transparent information to legislative organs

17. The Inspectors note that no clear information on outsourced activities is provided in the budget document for the triennium 1999-2000-2001, although fragmented information on outsourced activities were available in the Annual

Report of the ICAO Council.

18. As indicated in para. 6 (d) above, one of the recommendations that the Joint Inspection Unit made in its report on outsourcing for the United Nations system⁷ is that the Executive Heads of participating organizations assure that information on the use of outsourcing is comprehensive and transparent in the regular programme budget submissions and performance reports for their organizations. This is critically important for providing the Member States with the basis for reaching informed judgments on the effectiveness with which the outsourcing policy is being implemented.

The Secretary-General of ICAO should assure that information on the use of outsourcing is comprehensive and transparent in the regular programme budget submissions and performance reports of ICAO. (Recommendation 3 a)

19. Such information on the use of outsourcing should be activity-based and might include:

- ▶ legislative mandates for programme activities, including outputs to be delivered to end-users by the Secretariat (final outputs);
- ▶ outputs to be delivered to the Secretariat by providers (intermediate outputs);
- ▶ qualitative rationale for outsourcing; and
- ▶ zero-based justification of resources needed, including estimates of

savings to be achieved by the use of outsourcing.

20. The Inspectors were provided with reports on equipment procurement and subcontracts financed from extrabudgetary funds which indicate recipient countries/areas, number of awards, value in US dollars, countries/areas of suppliers, funding sources and brief description of goods and services procured. Reports disclosing similar outsourcing information under the regular budget would be useful for the Member States, the governing bodies of ICAO and its Secretariat.

Outsourcing performance reports should be submitted on a yearly basis to the Council so as to enhance transparency, facilitate monitoring by the ICAO Council, and improve outsourcing management by the Secretariat. (Recommendation 3 b)

21. The outsourcing performance reports might include the following information:

- ▶ legislative mandates of outsourced activities;
- ▶ brief description of services provided;
- ▶ cost of services procured, in US dollars;
- ▶ names and location/nationalities of providers; and
- ▶ savings and efficiency achieved through outsourcing.

3.3 Framework for outsourcing management

22. The JIU review of the best practices of other organizations within and outside the United Nations system have led it to conclude that the successful use of an outsourcing policy - once clearly enunciated - would best be achieved by assigning, to a senior official of the Organization, the functions of overseeing its implementation. Consequently, the Inspectors believe that there is a need for a "Facilitator" whose functions would include that of encouraging and persuading responsible programme managers to give the use of outsourcing in their areas serious consideration, but avoiding the creation of another layer of bureaucracy which might interfere with the work of operating units. To be effective, the service provided by the Outsourcing Facilitator should be perceived by programme managers as giving added value to their role and responsibilities. The Unit also believes that it is important for all concerned to remember that **outsourcing is a means to an end and not an end in itself for the Organization.**

23. The Outsourcing Facilitator should be a senior official, strategically placed in the structure of the Secretariat, reporting directly to the Secretary General, and vested with sufficient authority - beyond persuading and encouraging - to decide the type of work to be outsourced, to establish the desirability and form of a contract for services and to define selection criteria for firms. In the performance of his functions he should be assisted by an **outsourcing management team** which should include programme managers technically responsible for outsourced activities, and representatives of the legal, procurement and finance services.

24. The functions of the "Outsourcing Facilitator", assisted by the "Outsourcing Management Team", should range from

developing new ideas and ways to consider outsourcing, developing new ways to think about ICAO functions and activities that outsourcing might make possible, to the provision of methodological support for cost/benefit analyses, assessment of quality and risk factors, effective market research, benchmarking to industry standards, advertizing and provision of expertise for contract management. The Outsourcing Facilitator should also evaluate the overall outcome and impact of outsourcing decisions, reporting thereon directly to the Secretary-General.

An “Outsourcing Facilitator” should be designated within the ICAO Secretariat. With the assistance of an “Outsourcing Management Team”, the “Outsourcing Facilitator” would have responsibility for the proactive management of ICAO’s outsourcing policy, including encouraging those responsible for projects and activities to give serious consideration to the use of outsourcing, for identifying candidate areas, for carrying out cost-comparison exercises, for assessing quality and risk factors, for benchmarking, for evaluation of the outcome of outsourced activities and for reporting thereon to the Secretary-General of ICAO. (Recommendation 4)

Cost-comparison exercise

25. **A thorough cost-comparison exercise should be carried out by the Outsourcing Management Team, prior to any outsourcing decision-making, in order to identify direct and overhead costs of in-house and external provision**

of services, including the cost of in-house outsourcing management. (Recommendation 5)

26. In this connection, it should be recalled that the Secretary-General “expressed his intention to improve the accounting system of the Organization and establish the cost accounting system so that costs could be allocated to each task in order to aid evaluation of programme delivery.”⁸ Furthermore, the External Auditor of ICAO pointed out that “precise and reliable information on the full cost of specific activities, functions and tasks is not available” and recommended that “the Secretariat should consider implementing a cost recording system properly designed to provide such management information in addition to the present information on programme costs.”⁹ The Inspectors share the views of the External Auditor in this regard, and are of the opinion that such a cost-accounting system would also facilitate the cost-comparison exercise and provide a basis for better informed decision-making for outsourcing.

Outsourcing through wide international competition

27. The Unit has noted in its previous review of this question that one of the concerns expressed in respect of outsourcing is that it might undermine the international character of an organization by significantly distorting in favour of host countries the geographical sharing of contracts. The ICAO Procurement Code requires “international competition with the purpose of securing the best possible geographic distribution of the firms to be solicited”, although it also stipulates that “the principal area of solicitation will be the local Canadian market provided the requirement

can be satisfied at fair and reasonable price” in respect of procurement for the Regular Budget, where the equipment and supplies are essentially to be furnished to ICAO Headquarters.¹⁰ The Inspectors believe that this is an issue to be addressed by the Outsourcing Facilitator and the Outsourcing Management Team. However, it should be recalled that, thanks to development of information and communication technology (such as the Internet), a great deal of work that previously had to be done locally now can be done by contractors around the world in a cost-effective way. Effective market research and advertizing involved in creating conditions for wider international competition can also be done cost-effectively through information and communication technology.

Responsibilities and accountability of programme managers

28. Within the framework of the Outsourcing Management Team proposed in the present report, the responsibilities and accountability of programme managers would be addressed systematically. Their responsibilities should encompass the design of activities to be outsourced, specification of technical requirements, provision of technical information to the Outsourcing Management Team, implementation of outsourcing activities, monitoring of contractors’s performance, and quantitative and qualitative performance measurement of the outsourced activities. In this manner, Programme managers exercise appropriate control and management over the contractors’ provision of services, and be held accountable for the delivery of final outputs to intended end-users and overall results achieved.

29. In this connection, the Inspectors believe that, establishing “procedures for

setting objectives, expected results, priorities and targets, together with the application of performance indicators” (ICAO Assembly resolution A31-2 *Increasing the effectiveness of ICAO*), would facilitate the measurement of the performance of outsourced activities and enhance the accountability of programme managers.

Institutionalized learning process: lessons learned and knowledge management

30. The measurement of the performance of providers as well as that of programme managers based on outputs delivered by external providers, including any lessons learned, should be institutionalized, through appropriate guidelines and procedures, within the framework of Outsourcing Management Team.

31. The purpose of this learning process in outsourcing management is to build up ICAO’s capabilities to meet its challenge over the longer term. In the case of acquisition of external technical and technological expertise in rapidly evolving programme areas, this learning process is particularly important to update the internal technical expertise and competencies, including working methods, for keeping up with the external technological developments. This longer-term knowledge management is a factor required for the success of ICAO for its future activities.

3.4 Impact of outsourcing on staff

Minimizing negative impact on staff

32. In addition to the need to acquire through outsourcing expertise not available in the Secretariat, the concern for cost reductions is another factor which motivates

outsourcing policies. The Inspectors believe that it is important to make every effort to minimize negative impact on staff who may be affected through outsourcing decisions. In this connection, the Inspectors have noted that the Secretary-General is aware of the possibility of some negative impact on staff of the repositioning of ICAO under its Strategic Action Plan. He stated that the transition would be achieved “in an evolutionary manner and full consultation, in general terms with the Staff Association and in specific terms with the individuals who might be affected”.¹¹ Such a management approach would also be required in respect of the impact of outsourcing on staff.

Acquisition of technical knowledge and development of outsourcing management skills

33. A policy on outsourcing would encourage management and staff to update their technical expertise and competencies, including their working methods, through knowledge acquired by outsourcing. This would help the Organization to maintain its technical competencies at the highest standards.

34. Programme managers will need to manage and supervise the outsourcing contracts and, consequently, require a higher level of training regarding those specific services or activities. Because they would be required to “row less and steer more”, there is a need to provide adequate training in contract administration.

**Training in contract management should be provided to relevant officials to keep up with the high level management skills required for outsourcing.
(Recommendation 6)**

IV. Concluding remarks

35. Two strategic driving factors for consideration of candidate areas for outsourcing are: (a) technological pressure and (b) cost pressure. In order to fulfill its mandate and build its capabilities in a rapidly evolving technological, economic, social and legal environment, ICAO will have to resort to external technical, in particular technological, expertise to be acquired through outsourcing (technological factor). On the other hand, the acquisition of external technical expertise would need to be done within a resource limit, which would necessitate reallocation of available resources (cost factor).

36. Proper use of outsourcing could result in making use of state-of-the-art expertise and cost savings which are determining factors for the success of ICAO in meeting its future challenges. The formulation of a management strategy for outsourcing does not automatically guarantee such a success. In fact, only through full commitment and continuous efforts of the Secretary-General and the Secretariat staff for their compliance with the outsourcing policy and mechanisms, as well as through the oversight by the ICAO Council, could ICAO effectively benefit from the advantages of outsourcing.

problems encountered, solutions attempted and proposals for appropriate improvements. (Recommendation 7)

The Council may wish to review and evaluate the implementation of the approved outsourcing policy three years after it has been initiated and, for this purpose, request the Secretary-General to submit a report on the implementation of the approved outsourcing policy which would indicate, inter alia, savings and/or benefits achieved, special

NOTES

1. Recommendation 1 in: JIU report *The challenge of outsourcing for the United Nations system*, JIU/REP/97/5
2. Recommendation 2 in: Ibidem.
3. Recommendation 3 in: Ibidem
4. Recommendation 4 in: Ibidem
5. Recommendation 5 in: Ibidem
6. Recommendation 7 in: Ibidem
7. Recommendation 4 in: Ibidem
8. *Report of the Administrative Commission on the Programme Budget - 1999, 2000, 2001*, para. 36.1:10, in: *Programme Budget of the Organization 1999 - 2000 - 2001 approved by the Thirty-Second Session of the Assembly of ICAO*, Montreal, September - October 1998, Doc 9699
9. *Report of the External Auditor to the Assembly on the Audit of the Financial Statements of ICAO for the Year Ended 31 December 1998*, paras. 33-36, C-WP/11134 , Addendum No. 1 of 28 May 1999
10. *Procurement Code*, 3. Roster of Equipment Suppliers and Consultants Firms, 3.1 General
11. Address by the Secretary-General of ICAO on the occasion of the launch of the ICAO Strategic Action Plan, 22 May 1997