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# FINANCE COMMITTEE

**Hundred and Sixtieth Session**

**Rome, 2 - 6 November 2015**

**Programme and Budgetary Transfers in the 2014-15 Biennium**

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### EXECUTIVE SUMMARY

- The Finance Committee in March 2015 reviewed the Annual Report on Budgetary Performance and Programme and Budgetary Transfers for the 2014-15 biennium. It took note of the forecasted biennial performance against the Conference-approved net appropriation of USD 1,005.6 million, authorized the forecasted budgetary Chapter transfers in favour of Chapters 2, 5, 8 and 10, and looked forward to an updated report at its November 2015 session.
- This report presents the updated forecasted budgetary performance against the 2014-15 net appropriation. In accordance with Financial Regulation 4.5 (b), the report presents for approval by the Finance Committee the forecasted budgetary chapter transfer in favour of Chapter 3 in addition to the previously-approved transfers to Chapters 2, 5, 8, and 10 arising from the implementation of the 2014-15 Programme of Work. The report also provides an update on actual expenditure by Chapter as at end-August 2015, and the use of the 2012-13 unspent balance.
- In June 2015, the Conference authorized the Director-General, through the Budgetary Appropriations Resolution for 2016-17, "to use any unspent balance of the 2014-15 appropriations for any additional expenditures of a one-time nature associated with the consolidation of transformational change". A balance of USD 5 million is currently forecast in Chapters 1-6 and 8-12 at the end of 2015. Furthermore, any unspent balances in the Technical Cooperation Programme (Chapter 7), Capital Expenditure (Chapter 13) and Security Expenditure (Chapter 14) will be transferred to the forthcoming biennium as per the Financial Regulations. The final 2014-15 budgetary performance, including Chapter transfers and unspent balance, will be reported to the Committee at its session in May 2016.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to take note of the forecasted balance of USD 5 million and to approve the forecasted budgetary chapter transfers arising from the implementation of the 2014-15 programme of work as shown in column (g) of Table 1.

#### Draft Advice

##### **The Committee:**

- **took note of the forecasted unspent balance of USD 5 million against the 2014-15 biennial appropriation and that the final level, which will be used in 2016-17 to cover additional expenditures of a one-time nature associated with consolidation of transformational change as authorized by the Conference Resolution 6/2015, will be known after the closure of the 2014-15 accounts and reported in May 2016;**
- **recalled that any unspent balances in the Technical Cooperation Programme (Chapter 7), Capital Expenditure (Chapter 13) and Security Expenditure (Chapter 14) would be transferred to the forthcoming biennium as per the Financial Regulations;**
- **approved the forecasted budgetary chapter transfer in favour of Chapter 3 in addition to the previously-endorsed transfers to Chapters 2, 5, 8, and 10 arising from implementation of the Programme of Work;**
- **took note of the use of the 2012-13 unspent balance in 2014-15; and**
- **looked forward to receiving the final 2014-15 budgetary performance report at its May 2016 session.**

## Introduction

1. Conference Resolution 7/2013 approved the 2014-15 budgetary appropriation of USD 1,005.6 million and the Programme of Work, subject to adjustments based on guidance provided by the Conference. The Conference also authorised the Director-General, notwithstanding Financial Regulation 4.2, to use any unspent balance of the 2012-13 appropriations for any additional expenditures of a one-time nature associated with transformational change.<sup>1</sup>
2. At its 148<sup>th</sup> session in December 2013, the Council endorsed the Adjustments to the Programme of Work and Budget (PWB) 2014-15,<sup>2</sup> noted that further budgetary transfers could arise as a result of work planning, as well as from using the most efficient and effective modalities of implementation during the biennium, which would be handled in accordance with Financial Regulation 4.5.
3. Financial Regulation (FR) 4.1 authorizes the Director-General to incur obligations up to the budgetary appropriation voted by the Conference. In accordance with FR 4.6, the Director-General manages the appropriations so as to ensure that adequate funds are available to meet expenditures during the biennium. The FR 4.5 (a) calls for the Finance Committee to be notified of certain transfers between divisions and FR 4.5 (b) requires transfers from one chapter to another to be approved by the Finance Committee.
4. The Council at its 149<sup>th</sup> session noted that the Finance Committee in May 2014 had endorsed the forecasted chapter distributions of the 2014-15 budgetary appropriation of USD 1,005.6 million arising from preparation of biennial work plans with budgetary transfers in favour of Chapters 5, 6, 8, and 10.<sup>3</sup> Subsequently, the Council at its 151<sup>st</sup> session noted that the Finance Committee in March 2015 had authorized forecasted budgetary transfers arising from implementation of the Programme of Work with modified budgetary transfers in favour of Chapters 2, 5, 8, and 10.<sup>4</sup>
5. This report presents the updated forecasted budgetary performance against the 2014-15 net appropriation, seeks Committee's approval for the forecasted budgetary chapter transfers arising from the implementation of the Programme of Work, and provides an update on the use of the 2012-13 unspent balance in 2014-15.<sup>5</sup>

### 2014-15 Forecasted Budgetary performance

6. The 2014-15 net appropriation figures presented in Table 1, column (c), show the chapter distributions endorsed by the Council in December 2013 as presented in the Adjustments to the PWB 2014-15. Columns (d) and (e) show the forecasted expenditure and chapter transfers approved by the Finance Committee in March 2015. Columns (f) and (g) show the updated forecasted budgetary performance and the resulting modified chapter transfers from implementing the Programme of Work for approval by the Finance Committee. Column (h) shows the actual biennial expenditure as at 31 August 2015 (i.e. 20 months of expenditure).

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<sup>1</sup> Conference Resolution 7/2013 paragraph 2)

<sup>2</sup> CL 148/3, CL 148/REP paragraphs 7-8

<sup>3</sup> FC 154/9, CL 149/4 paragraph 21c), CL 149/REP paragraph 18d)

<sup>4</sup> FC 157/8, CL 151/3 paragraph 18, CL 151/REP paragraph 11 d)

<sup>5</sup> CL 151/3 paragraph 18 d)

**Table 1: Forecasted 2014-15 Budgetary Performance by Chapter (USD 000)**

Ch	Strategic/Functional Objective	Adjusted PWB 2014-15 (CL 148/3)	March 2015		November 2015		Actual expenditure as at end-August 2015
			FC 157/8		FC 160/7		
			Forecasted expenditure	Forecasted transfer	Forecasted expenditure	Forecasted transfer	
(a)	(b)	(c)	(d)	(e=d-c)	(f)	(g=f-c)	(h)
1	Contribute to the eradication of hunger, food insecurity and malnutrition	94,617	80,160	(14,457)	80,628	(13,989)	60,449
2	Increase and improve provision of goods and services from agriculture, forestry and fisheries in a sustainable manner	198,681	199,328	647	201,029	2,348	152,047
3	Reduce rural poverty	62,142	61,736	(406)	63,136	994	46,787
4	Enable more inclusive and efficient agricultural and food systems	115,217	108,421	(6,796)	109,060	(6,157)	83,355
5	Increase the resilience of livelihoods to threats and crises	37,905	47,233	9,328	47,526	9,621	34,532
6	Technical quality, knowledge and services	54,746	53,780	(966)	47,636	(7,110)	36,483
7	Technical Cooperation Programme	134,721	134,721	0	134,721	0	
8	Outreach	64,712	75,396	10,684	75,625	10,913	56,310
9	Information Technology	35,501	34,465	(1,036)	33,081	(2,420)	22,075
10	FAO governance, oversight and direction	80,213	88,132	7,919	86,642	6,429	74,291
11	Efficient and effective administration	81,691	77,373	(4,318)	76,661	(5,030)	58,909
12	Contingencies	600	0	(600)	0	(600)	0
13	Capital Expenditure	21,886	21,886	0	21,886	0	
14	Security Expenditure	23,017	23,017	0	23,017	0	
<b>Total</b>		<b>1,005,649</b>	<b>1,005,649</b>	<b>0</b>	<b>1,000,649</b>	<b>(5,000)</b>	

7. The main change in forecasted Chapter expenditure results from the transfer of USD 5 million of Multidisciplinary Fund resources budgeted in Chapter 6 to Chapters 1 to 5 for strengthening work on the 15 Regional Initiatives contributing to the Strategic Objectives. As reported in detail in the Mid-term Review Synthesis Report 2014<sup>6</sup> considered by the Finance Committee in March 2015, the Regional Initiatives, approved by the Regional Conferences in 2014, serve as a mechanism to ensure effective delivery and impact through common themes across country priorities.

8. Actual expenditure as at 31 August (i.e. for 20 months) is shown in column (h) for Chapters 1 to 6 (Strategic Objectives and Objective 6) and 9-11 (Functional Objectives). The forecasted unspent balance is currently estimated at USD 5 million mainly as a result of higher than previously anticipated reimbursements of support costs (technical, administrative and operational), and the continuing favourable variance in staff costs.

9. The staff cost variance is the difference between budgeted and actual staff costs incurred in a biennium. For the 2014-15 biennium, a USD 21.9 million favourable staff cost variance is forecasted. Comparing to the previous forecast of USD 16.7 million,<sup>7</sup> the higher favourable variance is mainly due to the continued freeze on salaries and the impact of the strengthened US dollar on staff costs in decentralized locations.

10. As authorized by the Conference in June 2015, any unspent balance will be carried over to 2016-17 “for any additional expenditures of a one-time nature associated with consolidation of transformational change.” Furthermore, the Technical Cooperation Programme (Chapter 7), Capital Expenditure (Chapter 13) and Security Expenditure (Chapter 14) are shown as fully spent, as any unspent balances will be transferred to the forthcoming biennium as per the Financial Regulations.<sup>8</sup>

11. It is recalled that the reporting is taking place against 14 Chapters and while this level of disaggregation provides a clear and comprehensive view of budgets and expenditures against the results framework, it increases the likelihood of final Chapter transfers being at variance with those currently forecasted.

12. Furthermore, it is recalled that budgetary reporting at the end of the biennium is based on the US Dollar/Euro exchange rate established in the PWB 2014-15 of Euro 1 = USD 1.30 (the budget rate). Management is monitoring the situation carefully, but some variations by Chapter may occur if the final average percentage of expenditure in Euro differs significantly from the assumptions in the forecasts.

13. The final 2014-15 budgetary performance, including Chapter transfers and unspent balance, will be reported to the Committee at its session in May 2016.

### **Use of the 2012-13 unspent balance**

14. As authorized by the Conference in 2013,<sup>9</sup> the unspent 2012-13 balance of USD 9.4 million, including USD 0.3 million for the IPA, is being used in 2014-15 to fund any additional expenditures of a one-time nature associated with the transformational change. The entire amount has been utilized to fund three areas of such one-time expenditure:

- 1) USD 6.9 million to fund separation and redeployment costs arising in 2014-15 from the 2012-13 and ongoing transformational change measures;
- 2) USD 2.3 million to fund on a one-time basis the portion of FAO’s cost share of the UN Resident Coordinator system that will be funded in the future from efficiency savings

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<sup>6</sup> FC 157/7 paragraphs 23-26 and 153-252

<sup>7</sup> FC 157/8 paragraphs 7 through 9

<sup>8</sup> Basic Texts, FR 4.3, 6.11, 6.12

<sup>9</sup> CR 7/2013 paragraph 3

- measures and resource reallocations.<sup>10</sup> The enhanced collaboration with the UN Resident Coordinators is closely associated with new ways of working in the decentralized offices; and
- 3) USD 269,000 for the one-time cost of the Independent Review of Governance Reforms related to IPA action 2.74.

15. Since the last report in March 2015,<sup>11</sup> the amount utilized for separation and redeployment costs has increased from USD 3.5 million to USD 6.9 million due to ongoing transformational change measures, particularly by offering agreed terminations to staff members to provide flexibility in the implementation of the Programme of Work in the interests of the Organization.

16. Furthermore, the final one-time cost of the Independent Review of Governance Reforms, previously estimated at USD 162,000, increased to USD 269,000 due to additional meetings convened on this matter by the Independent Chairperson of the Council in 2015 prior to the 39<sup>th</sup> session of the FAO Conference.

17. As a result of these two developments, the one-time cost of building capacity in decentralized offices for preparing and monitoring Country Programming Frameworks and projects, for which USD 1.5 million had been previously earmarked from the 2012-13 balance, has been reduced and is being funded from the 2014-15 net appropriation. This work will be completed in the next biennium.

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<sup>10</sup> C 2015/3 PWB 2016-17 paragraphs 72-74

<sup>11</sup> FC 157/8 paragraph 12