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Food and Agriculture
Organization of the
United Nations

Organisation des Nations
Unies pour l'alimentation
et l'agriculture

Продовольственная и
сельскохозяйственная организация
Объединенных Наций

Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Sixty-first Session

Rome, 16 - 20 May 2016

Financial Position of the Organization

Queries on the substantive content of this document may be addressed to:

Mr Aiman Hija
Director and Treasurer, Finance Division
Tel: +3906 5705 4676

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EXECUTIVE SUMMARY

- This document presents an update to the Finance Committee on the financial position of the Organization as at 31 December 2015.
- Regular Programme Liquidity Position - As at 31 December 2015, the balance of Regular Programme cash, cash equivalents and short term deposits decreased to USD 113.3 million (USD 150.2 million at 31 December 2014).
- Staff Related Liabilities - The total liability of the four plans as at 31 December 2015 was USD 1,124.7 million of which USD 709.9 million was unfunded (After Service Medical Coverage accounted for USD 649.1 million of the unfunded liability, whilst the Terminal Payments Fund accounted for the remaining unfunded portion of USD 60.8 million). The underfunding of the After Service Medical Coverage (ASMC) liability continues to be a cause of major structural deficit on the General Fund.
- Available-for-sale Investments - The value of long term investments at 31 December 2015 amounted to USD 414.3 million (USD 438.2 million at 31 December 2014). The reduction was mainly driven by the EUR/USD rate and slight negative performance of the investment portfolios.
- General and Related Fund deficit - The General Fund deficit increased from USD 862.2 million as at 31 December 2014 to USD 922.2 million as at 31 December 2015 mainly due to unfunded Staff Related Liability charges.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note that while the liquidity position of the Organization is stable, its on-going cash flow health is dependent on the timely payment of assessed contributions, and to urge all Member Nations to make timely and full payment of assessed contributions;
- The Committee is also invited to take note that the increase in the deficit of the Organization to USD 922.2 million as at 31 December 2015 from USD 862.2 million as at 31 December 2014 was principally due to the lack of funding available to offset charges for the After Service Medical Coverage Scheme and the Terminal Payments Fund

Draft Advice

The Committee:

- **Urged all Member Nations to make timely and full payment of assessed contributions to ensure that FAO continued to meet the operating cash requirements for the Programme of Work; and**
- **took note of the increase of the General Fund deficit which was principally due to unfunded Staff Related Liability charges.**

Introduction and Contents

1. The update of the Report on the Financial Position of the Organization presents an overview of the unaudited results as at and for the biennium ended 31 December 2015. The report is organized as follows:

- Financial Results for the biennium ended 31 December 2015:
 - i) Statement of Assets, Liabilities, Reserves and Fund Balances as at 31 December 2015 presented by source of funds and including comparative balances as at 31 December 2013 - Table 1.
 - ii) Statement of Income and Expenditure and Changes in Reserves and Fund Balances for the biennium ended 31 December 2015 presented by source of funds and including comparative balances for the biennium ended 31 December 2013 - Table 2
- Summary Comment on Financial Results for the biennium ended 31 December 2015
- Cash Flow Forecast for 2016

Table 1

STATEMENT OF ASSETS, LIABILITIES, RESERVES and FUND BALANCES
As at 31 December 2015
(USD 000)

	Funds		UNAUDITED Total	
	General and Related	Trust and UNDP	31 December 2015	31 December 2013
ASSETS				
Cash and Cash Equivalents	113,292	448,593	561,885	662,662
Investments - Held for Trading	-	519,974	519,974	357,326
Contributions Receivable from Member Nations and UNDP less: Provision for Delays of Contributions	112,171 (11,844)	15,866 (7,743)	128,037 (19,587)	115,081 (19,741)
Accounts Receivable	105,938	2,098	108,036	63,443
Investments - Available for Sale	414,263	-	414,263	431,585
TOTAL ASSETS	733,820	978,788	1,712,608	1,610,356
LIABILITIES				
Contributions Received in Advance	39,414	755,669	795,083	729,602
Unliquidated Obligations	76,900	184,515	261,415	237,708
Accounts Payable	55,086	-	55,086	68,766
Deferred Income	79,676	-	79,676	75,916
Staff Related Schemes	1,124,720	-	1,124,720	1,213,181
TOTAL LIABILITIES	1,375,796	940,184	2,315,980	2,325,173
RESERVES AND FUND BALANCES				
Working Capital Fund	25,745	-	25,745	25,745
Special Reserve Account	26,864	-	26,864	17,558
Capital Expenditure Account	27,188	-	27,188	11,132
Security Expenditure Account	19,403	-	19,403	8,543
Special Fund for Emergency and Rehabilitation Activities	-	38,604	38,604	38,598
Unrealised Gains / (Losses) on Investments	11,109	-	11,109	45,493
Actuarial (Gains)/ Losses	169,897	-	169,897	13,479
Fund Balances (deficit) , End of Period	(922,182)	-	(922,182)	(875,365)
TOTAL RESERVES AND FUND BALANCES	(641,976)	38,604	(603,372)	(714,817)
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	733,820	978,788	1,712,608	1,610,356

Table 2

INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
for the biennium ended 31 December 2015
(USD 000)

	Funds		UNAUDITED Total	
	General and Related	Trust and UNDP	31 December 2015	31 December 2013
INCOME:				
Assessment on Member Nations	1,014,517	-	1,014,517	995,189
Voluntary Contributions	131,103	1,383,022	1,514,125	1,470,325
Funds Received Under Inter-Oganizational Arrangements	553	4,495	5,048	6,595
Jointly Financed Activities	35,536	-	35,536	35,760
Miscellaneous	11,169	1,415	12,584	12,588
Return on Investments - Long-Term	4,853	-	4,853	52,868
Net Other Sundry Income	21,973	-	21,973	19,757
(Loss) / Gain on Exchange Differences	(23,314)	-	(23,314)	(1,977)
TOTAL INCOME	1,196,390	1,388,932	2,585,322	2,591,105
EXPENDITURE:				
Regular Programme	1,118,204	-	1,118,204	1,119,962
Projects	-	1,387,517	1,387,517	1,364,942
TOTAL EXPENDITURE	1,118,204	1,387,517	2,505,721	2,484,904
EXCESS OF INCOME OVER EXPENDITURE	78,186	1,415	79,601	106,201
Actuarial Gains or Losses	(812)	-	(812)	(1,097)
Interest Cost of Staff Related Liabilities	(88,546)	-	(88,546)	(94,637)
Prior service credit on Staff Related Liabilities	5,337	-	5,337	4,497
Provision for Contributions Receivable and Other Assets	(968)	-	(968)	(795)
Deferred Income	(3,793)	-	(3,793)	(2,641)
Net Movement in Capital Expenditure Account	(16,056)	-	(16,056)	3,343
Net Movement in Utilisation of Security Expenditure Account	(10,860)	-	(10,860)	(3,897)
NET EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE	(37,512)	1,415	(36,097)	10,974
Transfer of Interest to Donor Accounts	-	(1,415)	(1,415)	(1,531)
Net Transfers from/(to) Reserves				
Working Capital Fund	-	-	-	
Special Reserve Account	(9,305)	-	(9,305)	2,485
Fund Balances, Beginning of Period (as previously reported)	(875,365)	-	(875,365)	(641,276)
Change in Accounting Policy with respect to: Actuarial Gains/ losses of Staff related schemes				(246,017)
Fund Balances, Beginning of Period				(887,293)
FUND BALANCES, END OF PERIOD	(922,182)	-	(922,182)	(875,365)

Summary Comment on Preliminary Results of the biennium ended 31 December 2015

Liquidity position and outstanding contributions

2. The liquidity of the Organization under the General Fund as represented by cash and cash equivalents totalled USD 113.3 million at 31 December 2015 (USD 150.2 million as at 31 December 2014).

Investments - held for trading

3. The value of Investments - held for trading as at 31 December 2015 amounted to USD 660.1 million (of which USD 140.1 million was reported within cash and cash equivalents as their duration was less than 3 months) and together with term deposits of USD 365.9 million (also disclosed within cash and cash equivalents), for a total of USD 1,026.0¹ million represented mainly unspent Trust Fund balances held pending disbursements on project implementation (USD 1,048.2 as at 31 December 2014).

4. FAO's prudent, low risk investment style and the continuing near zero interest rate environment in 2015 kept the returns on the held for trading investment portfolio very low, with a return of 0.21% in 2015. This however, exceeded the benchmark return by 0.19%. In 2014 the full year return figures were at 0.15% compared to a benchmark return of 0.02%.

Investments - available-for-sale

5. Available-for-sale investment portfolios, which represent those investments set aside to fund the Organization's Staff Related Schemes, decreased in value from USD 438.2 million at 31 December 2014 to USD 414.3² million as at 31 December 2015. The decrease was due to several factors including:

- The EUR/USD foreign exchange rate unfavourably impacted the investment performance over the year 2015. The EUR lost approximately 10.2% of its value to the USD over the year;
- Unfavourable market conditions in the fixed income and equity markets resulted in the overall performance of -6.61%;
- Additional funding of USD 2.076 million and EUR 3.611 million were injected into the portfolio towards the ASMC liability.

¹ USD 1,026.0 million reported in FC 161/2 differs from USD 1,030.8 million reported in FC 161/3 due to the differences in accounting classifications of: i) accrued interest income being reported within Accounts Receivable, and ii) NT Government Select Fund being reported within Cash and Cash equivalents.

² USD 414.3 million reported in FC 161/2 differs from USD 416.8 million reported in FC 161/3 due to the differences in accounting valuation standards and also accounting classifications of accrued interest income being reported within Accounts Receivable.

Staff Related Schemes

6. FAO has four staff-related plans (the “Plans”) that provide benefits to staff members either upon completion of service or as a result of work related illness or injury. The Plans are as follows:

- After-service Medical Coverage (ASMC)
- Separation Payments Scheme (SPS)
- Compensation Plan Reserve Fund (CPRF)
- Termination Payments Fund (TPF)

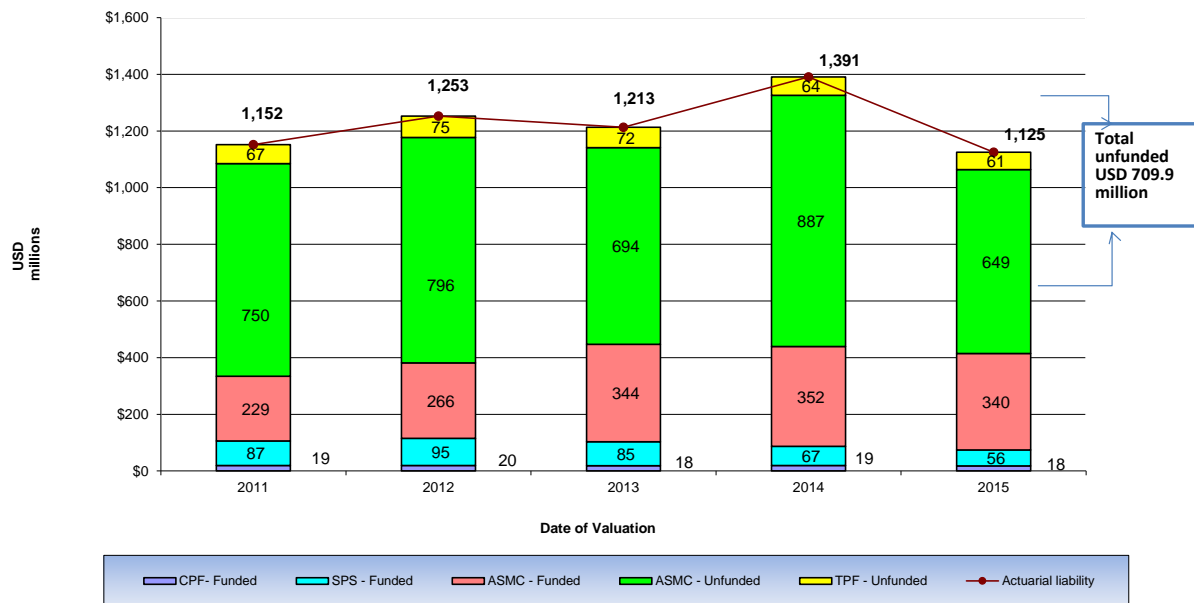
7. The results of the latest actuarial valuation as at 31 December 2015 and related funding requirements and issues are presented to the 161st Session of the Finance Committee in document FC 161/4, 2015 Actuarial Valuation of Staff-Related Liabilities.

8. The total liability of the Plans at 31 December 2015 amounted to USD 1,125 million, representing a decrease of USD 265.7 million compared to the balance of USD 1,390.4 million as at December 2014. There are a number of reasons for the decrease including an increase in discount rates, the movement in the Euro-USD exchange rate and a decrease in assumed medical trend rates.

9. As at 31 December 2015 unfunded staff related liabilities amounted to USD 709.9 million, of which After Service Medical Coverage accounted for USD 649.1 million and the Terminal Payments Fund accounted for USD 60.8 million. Table 3 presents the analysis of the total actuarial liability by plan by funding status.

Table 3

Staff Related Liabilities: Total Liability by Plan and Funding Status for last 6 Years



General and Related Fund Balance

10. The General Fund deficit increased by USD 60 million from USD 862.2 million as at 31 December 2014 to USD 922.2 million as at 31 December 2015 which was mainly due to unfunded Staff Related Liability charges.

TCP Expenditure and Deferred Income

11. During the biennium ended 31 December 2015, TCP expenditure charged against the 2014-15 appropriation amounted to USD 50.0 million whilst that against the 2012-13 appropriation amounted to USD 75.9 million. The average monthly TCP expenditure increased significantly during the period to USD 5.2 million as at 31 December 2015 compared to an average of USD 4.1 million during the biennium ended 31 December 2013. As at 31 December 2015, the TCP deferred income (i.e. the available appropriation) of the 2014-15 appropriation amounted to USD 79.6 million i.e. 61.4% of the appropriation, a reduction of 7.0% compared to a deferred income of USD 75.9 million as at 31 December 2013 which represented 68.4 % of the 2012-13 appropriation.

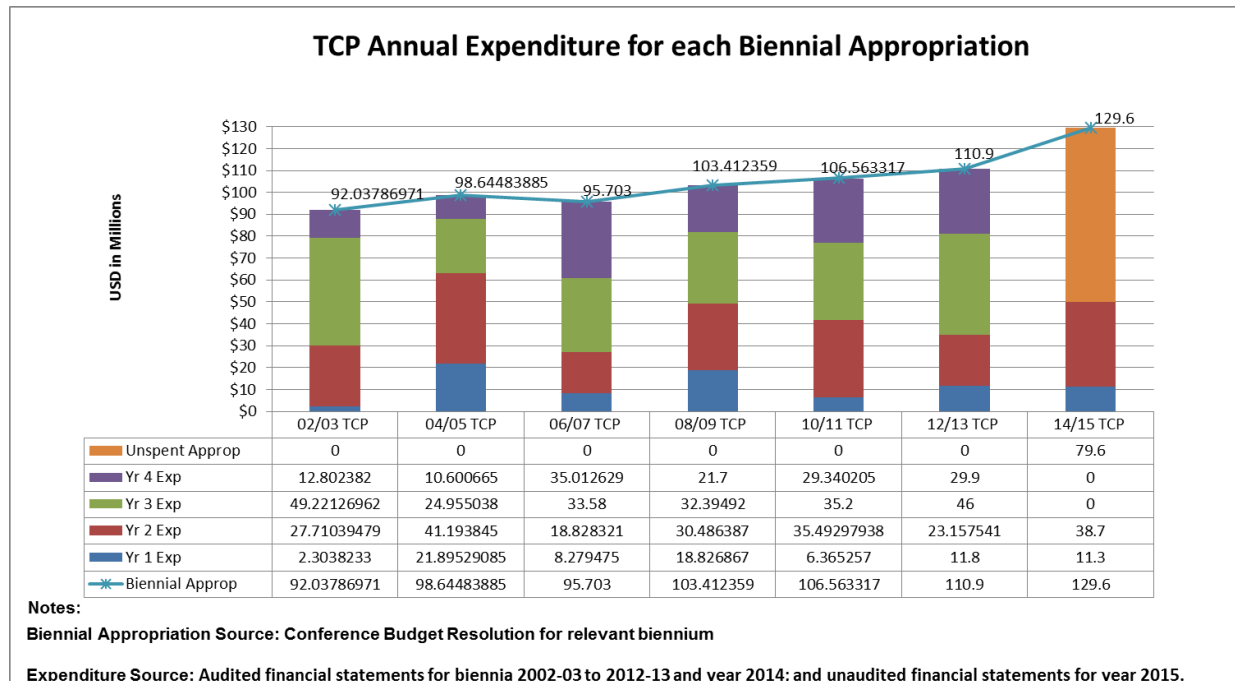
12. The average monthly TCP expenditure of all appropriations is shown in Table 4 below:

Table 4

Average monthly expenditure	Average monthly TCP expenditure					
	Time period					
	2014-15 24 months	2012-13 24 months	2010-11 24 months	2008-09 24 months	2006-07 24 months	2004-05 24 months
	5.2	4.1	4.0	4.9	2.5	5.2

13. Table 5 presents the TCP expenditure (including accruals) for all appropriation periods and TCP available appropriation (i.e. deferred income) for each year from 1 January 2002 to 31 December 2015. The 2012-13 appropriation was fully spent at 31 December 2015. The expenditure incurred in the biennium against the 2014-15 appropriation represented 38.6% of the available appropriation. The balance is available for expenditure through 31 December 2017, together with the new appropriation for each calendar year.

Table 5



Losses on Exchange Differences

14. During the biennium ended 31 December 2015 the Organization recorded a net loss on exchange of USD 23.3 million. This comprised:

- Actual cash backed foreign exchange gains incurred by the Organization of USD 9.3 million during the period. These gains were transferred to the Special Reserve Account.
- Losses of USD 32.6 million incurred principally against the Euro portion of the Assessments on Member Nations³. These losses were not transferred to the SRA in line with the previous agreement by the Finance Committee at its 135th Session to discontinue the transfer of Euro-to-Dollar translation differences (non-cash) to the SRA.

Voluntary Contributions

15. “Trust Funds and UNDP” comprise activities funded from voluntary contributions through projects, including those funded by the United Nations Development Programme.

16. Contributions Received in Advance for Trust and UNDP Funds amounted to USD 755.7 million at 31 December 2015 compared to USD 754.5 million at 31 December 2014. These amounts represent the balance of voluntary contributions received from donors which have not yet been expended on the implementation of projects.

17. Table 6 presents an analysis of the Trust Fund contributions received⁴ from donors during the biennium ended 31 December 2015. This table includes details of the top 25 contributors during the period together with comparative rankings for the equivalent period to 31 December 2013.

18. In accordance with FAO's accounting policy, income from voluntary contributions is recognized proportionately with the degree of project activity completed as measured in terms of expenditure.

19. Income reported on Trust Fund and UNDP projects for the biennium to 31 December 2015 amounted to USD 1,387.5 million (Trust Funds - USD 1,383.0 million ; UNDP - USD 4.5 million). This compared with combined USD 1,364.9 million reported for the biennium to 31 December 2013.

³ The exchange differences are generated both as Assessments are received and also on the translation of the outstanding balance of Assessments at the period end.

⁴ For operational purposes FAO also maintains a comprehensive tracking of the approval of voluntary contributions, counted at the time when trust funds are both approved by the resource partner and have become operationally active. At that time, part but frequently not all of the funds have been received by FAO. The phased model of funds receipt for trust funds explains the difference between the figures reported in this document for “Contributions Received” and the figures for “Contributions Approved” published elsewhere.

Table 6 - Analysis of Voluntary Contributions Received

Biennium to 31 December 2015	USD 000's	Biennium to 31 December 2013	USD 000's
(1) European Union	242,877	(1) European Union	224,404
(2) United States	139,407	(2) United States	107,832
(3) United Kingdom	128,852	(3) UN Office for the Coordination of Humanitarian Affairs (OCHA)	81,897
(4) Global Environment Fund (GEF)	97,221	(4) United Kingdom	78,200
(5) UN Office for the Coordination of Humanitarian Affairs (OCHA)	73,116	(5) Japan	60,399
(6) UNDP Administered Donor Joint Trust Fund	60,322	(6) UNDP Administered Donor Joint Trust Fund	54,694
(7) Norway	45,171	(7) Belgium	39,160
(8) Japan	44,110	(8) Global Environment Fund (GEF)	35,406
(9) Germany	42,044	(9) Canada	32,307
(10) Switzerland	23,140	(10) Brazil	30,653
(11) Canada	27,015	(11) Saudi Arabia	30,267
(12) Saudi Arabia	26,667	(12) Norway	26,861
(13) Italy	25,304	(13) Sweden	26,243
(14) Brazil	21,277	(14) Germany	25,662
(15) Sweden	21,075	(15) Spain	22,496
(16) Belgium	20,693	(16) Italy	18,442
(17) The Common Fund for Humanitarian Action in Sudan (CHF)	20,462	(17) Bangladesh	18,019
(18) The World Bank	19,525	(18) Mexico	17,234
(19) Netherlands	18,402	(19) The Common Fund for Humanitarian Action in Sudan (CHF)	16,572
(20) Afghanistan	15,798	(20) Netherlands	15,977
(21) Ldc - Least Developed Countries Fund For Climate Change (Ldcf)	12,123	(21) Afghanistan	15,644
(22) Colombia	12,105	(22) Libyan Arab Jamahiriya	13,459
(23) Mexico	11,140	(23) Finland	12,650
(24) Unicef	11,074	(24) The World Bank	12,343
(25) China	10,250	(25) Switzerland	12,040
Top 25	1,169,170	Top 25	1,028,861
<u>Multi-donor:</u>		<u>Multi-donor:</u>	
Contributions to African Solidarity Fund	111	Contributions to African Solidarity Fund	40,000
Other Multi-donor	139,500	Other Multi - Donor	216,244
Other donors	226,197	Other donors	179,891
Total	1,534,978	Total	1,464,996

2016 Cash Flow Forecast (Regular Programme)

20. Table 7 below presents the Organization's consolidated Regular Programme month end short term liquidity position (which includes cash and cash equivalents) from 1 January 2016 through 29 February 2016 and a forecast through 31 December 2016. All figures are expressed in millions of USD. The opening cash flow position of USD 113.3 million as at 31 December 2015 is lower than in the previous year. This is due to the timing of payments by the U.S.A. which had paid 50% of its 2015 Assessments by December 2015 compared to 70% of its 2014 assessments by December 2014. The main elements and assumptions included in the 2016 forecast data are as follows:

21. The percentage of 2016 assessed contributions paid to the Organization by Member Nations as at 29 February 2016 was 22 %, a lower rate of receipts than the equivalent figure of 24 % for the previous year.

22. Based on Members' past payment patterns and the Regular Programme cash level as at 29 February 2016, the Organization's liquidity is expected to be sufficient to cover operational needs though the end of 2016. The current forecast reflects the 2015 payment patterns of the largest contributors and is subject to change upon receipt of confirmation from the Members of their expected payment dates. Consequently, the accuracy of the forecast in Table 7 below is dependent on the actual timing of the receipts of the most significant contributions in 2016.

Table 7

