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	منظمة الأغذية والزراعة للأمم المتحدة	联合国粮食及农业组织	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 Agricultura y la Alimentación

FINANCE COMMITTEE

Hundred and Fortieth Session
Rome, 10 - 14 October 2011
Financial Position of the Organization as at 30 June 2011

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

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EXECUTIVE SUMMARY

The Report on the Financial Position of the Organization presents an overview of the unaudited results for the eighteen months ended 30 June 2011. The main points highlighted in the report are:

- **Regular Programme Liquidity Position and Outstanding Contributions**. As at 30 June 2011, the balance of Regular Programme cash, cash equivalents and short term investments increased to USD 213.8 million (USD 155.7 million at 31 December 2010) as a result of the improved rate of payments of assessments (including arrears) from Member Nations in 2010 and 2011.
- **Unfunded Staff Related Liabilities**. The total liability of the four plans as at 30 June 2011 was USD 1,172.8 million of which USD 811.6 million was unfunded (After Service Medical Coverage accounted for USD 753.0 million of the unfunded liability, whilst the Terminal Payments Fund accounted for the remaining unfunded portion of USD 58.6 million). The under funding of the After Service Medical Coverage (ASMC) liability continues to be a cause of major structural deficit on the General Fund. In order to fully fund these plans, an additional USD 18.45 million per annum for 30 years would be required for the ASMC, and an additional USD 5.25 million per annum for 15 years would be required for the TPF.
- **Long Term Investments**. The value of long term investments at 30 June 2011 amounted to USD 351.4 million (USD 316.4 million at 31 December 2010) which represents both a recovery in value as well as additional funding of USD 4.5 million. Market volatility increased significantly in August 2011 following the continuing concerns about European peripheral bond markets and the downgrade of US sovereign debt by Standard and Poors. The Organization is monitoring the situation closely and will present an up to date review of investments during the Committee session.
- **General and Related Fund Deficit**. The General Fund deficit decreased from USD 566.5 million as at 31 December 2010 to USD 343.1 million as at 30 June 2011, following the full recognition of 2011 Assessments on Member Nations against only 6 months of expenditure in the same period. It is estimated that the General Fund deficit will be in the region of USD 700 million as at 31 December 2011.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the improvement in the rate of payment of assessed contributions by Members and the Organization’s improved liquidity position compared with prior periods.
- The Finance Committee is invited to take note of the projected increasing deficit of the Organization principally due to the lack of funding of the After Service Medical Coverage Scheme and the Terminal Payments Fund.

Draft Advice

- **The Finance Committee welcomes the improvement in payments of contributions by Members and the Organization’s improved liquidity position. Mindful of cash shortages in recent years due to non-payment of contributions, the Committee urges all Member Nations to make timely and full payment of assessed contributions to ensure that FAO continues to meet the operating cash requirements for the Programme of Work.**
- **The Committee noted with concern the magnitude and projected rising level of the General Fund deficit, expected to be in the region of USD 700 million as at 31 December 2011, due principally to charges for unbudgeted costs of staff-related after-service liabilities, and confirmed the need to identify and implement long-term funding strategies.**

Introduction and Contents

1. The Report on the Financial Position of the Organization presents an overview of the unaudited results as at and for the eighteen months ended 30 June 2011. The report is organized as follows:

- **Financial Results for the eighteen months ended 30 June 2011:**
  1) **Statement of Assets, Liabilities, Reserves and Fund Balances** as at 30 June 2011 presented by source of funds and including comparative balances as at 31 December 2010.
  2) **Statement of Income and Expenditure and Changes in Reserves and Fund Balances** for the eighteen months ended 30 June 2011 presented by source of funds and including comparative balances for the eighteen months ended 30 June 2009.
- **Summary Comment on Financial Results for the eighteen months ended 30 June 2011**
- **Cash Flow Forecast to 31 December 2011**

Financial Results for the eighteen months ended 30 June 2011

2. The unaudited financial results as at and for the eighteen months ended 30 June 2011 are presented in the following tables:

- **Table 1** shows the assets, liabilities and reserves and fund balances for both the General and Related Funds and Trust and UNDP Fund activities.
- **Table 2** shows the income and expenditure for both the General and Related Funds and for Trust and UNDP Fund activities for the reporting period.

Table 1

STATEMENT OF ASSETS, LIABILITIES, RESERVES and FUND BALANCES
As at 30 June 2011
(USD 000)

UNAUDITED

	Funds		Total	
	General and Related	**Trust and UNDP**	**30 June 2011**	**31 December 2010**
ASSETS				
Cash and Short-Term Deposits	190,417	-	190,417	115,659
Investments - Short Term	23,338	836,660	859,998	972,052
Contributions Receivable from Member Nations and UNDP	232,329	5,983	238,312	64,043
less: Provision for Delays of Contributions	(13,180)	(5,961)	(19,141)	(18,667)
Accounts Receivable	46,853	-	46,853	44,691
Investments - Long Term	351,422	-	351,422	316,400
TOTAL ASSETS	**831,179**	**836,682**	**1,667,861**	**1,494,178**
LIABILITIES				
Contributions Received in Advance	37	739,333	739,370	828,972
Unliquidated Obligations	33,053	70,642	103,695	157,529
Accounts Payable	49,585	-	49,585	37,733
Deferred Income	100,958	-	100,958	68,353
Staff Related Schemes	875,938	-	875,938	843,568
TOTAL LIABILITIES	**1,059,571**	**809,975**	**1,869,546**	**1,936,155**
RESERVES AND FUND BALANCES				
Working Capital Fund	25,654	-	25,654	25,654
Special Reserve Account	18,974	-	18,974	19,840
Capital Expenditure Account	19,995	-	19,995	13,681
Security Expenditure Account	12,944	-	12,944	5,390
Special Fund for Emergency and Rehabilitation Activities	-	26,707	26,707	34,599
Unrealised Gains / (Losses) on Investments	35,412	-	35,412	27,499
Fund Balances (deficit) , End of Period	(341,372)	-	(341,372)	(566,474)
TOTAL RESERVES AND FUND BALANCES	**(228,392)**	**26,707**	**(201,685)**	**(439,553)**
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	**831,179**	**836,682**	**1,667,860**	**1,494,178**

Table 2

INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
for the eighteen months ended 30 June 2011
(USD 000)

UNAUDITED

	Funds		Total	
	General and Related	**Trust and UNDP**	**30 June 2011**	**30 June 2009**
INCOME:				
Assessment on Member Nations	1,004,339	-	1,004,339	970,192
Voluntary Contributions	83,590	1,150,723	1,234,313	794,268
Funds Received Under Inter-Oganizational Arrangements	1,060	11,250	12,310	6,836
Jointly Financed Activities	26,971	-	26,971	25,084
Miscellaneous	8,305	1,794	10,099	10,330
Return on Investments - Long-Term	36,223		36,223	(22,907)
Information Products Revolving Fund	240	-	240	487
Government Counterpart Cash Contributions	1,549	-	1,549	1,634
Net Other Sundry Income	10,674	-	10,674	12,609
(Loss) / Gain on Exchange Differences	(11,365)	-	(11,365)	(9,207)
TOTAL INCOME	**1,161,586**	**1,163,767**	**2,325,353**	**1,789,326**
EXPENDITURE:				
Regular Programme	762,506	-	762,506	744,088
Projects	-	1,161,973	1,161,973	747,876
TOTAL EXPENDITURE	**762,506**	**1,161,973**	**1,924,479**	**1,491,964**
EXCESS OF INCOME OVER EXPENDITURE	**399,080**	**1,794**	**400,874**	**297,362**
Actuarial Gains or Losses	(29,466)	-	(29,466)	(14,267)
Interest Cost of Staff Related Liabilities	(86,812)	-	(86,812)	(66,555)
Provision for Contributions Receivable and Other Assets	783	-	783	(216)
Deferred Income	(46,859)	-	(46,859)	(23,452)
Net Movement in Capital Expenditure Account	(9,803)	-	(9,803)	(11,253)
Net Movement in Utilisation of Security Expenditure Account	(9,289)	-	(9,289)	(9,387)
NET EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE	**217,634**	**1,794**	**219,428**	**172,232**
Transfer of Interest to Donor Accounts	-	(1,794)	(1,794)	(3,101)
Net Transfers from/(to) Reserves				
Working Capital Fund	-	-	-	-
Special Reserve Account	(14)	-	(14)	9,207
Fund Balances, Beginning of Period (as previously reported)	(558,992)	-	(558,992)	(465,281)
FUND BALANCES, END OF PERIOD	**(341,372)**	**-**	**(341,372)**	**(286,943)**

Summary Comment on Financial Results of the eighteen months ended 30 June 2011

The main points arising from the financial results include:

Liquidity position and outstanding contributions

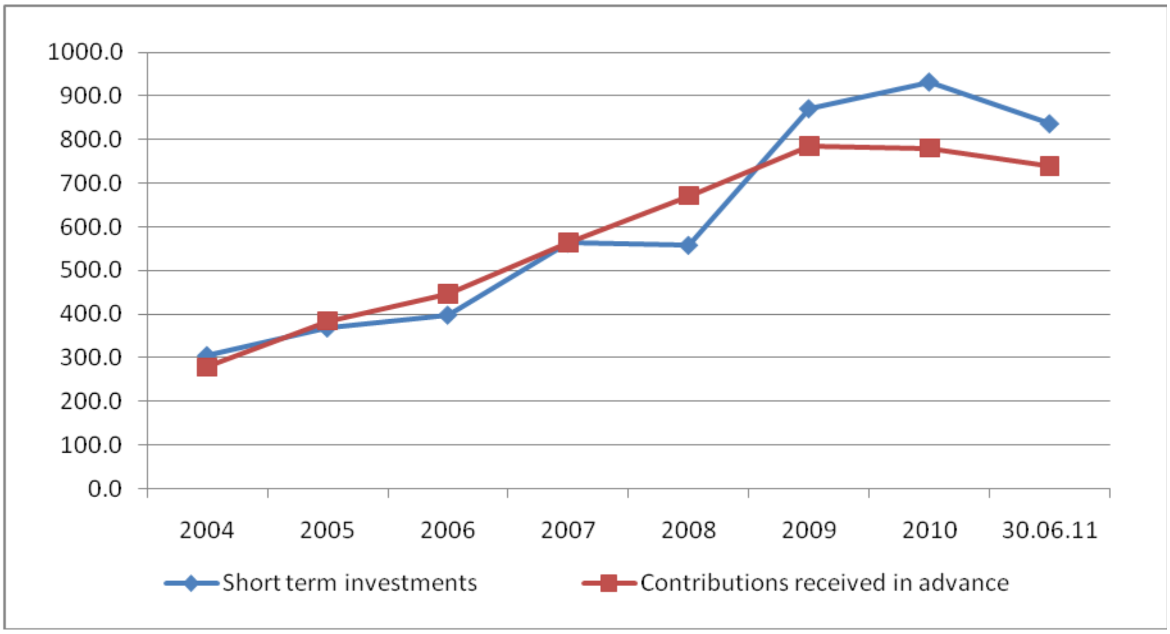
3. The liquidity of the Organization under the General Fund as represented by cash, short term deposits and short term investments totalled USD 213.8 million at 30 June 2011 which had increased from the 31 December 2010 amount of USD 155.7 million. This was the result of a high level of receipts of 2011 Member Nations assessments (60.2% of assessments had been collected as at 30 June 2011 as compared to 45.2 % as of 30 June 2010). If the spending rate remains constant during the second half of 2011, the current short term liquidity position of the Organization provides for approximately 5 months of expenditure.

Short term investments

4. The value of short term investments as at 30 June 2011 of USD 860.0 million reflects the high level of Trust Funds donor contributions. Although the interest rate environment for short term investments in USD remained very tight, the Organization, with its risk averse investment guidelines, managed to obtain an annualized return of 0.201% during the first 6 months of 2011 as compared to a one-month Treasury Bill reference of 0.069 %.

5. Table 3 presents information on balances of the Trust Fund portion of short term investments and the correlation with contributions received in advance at the end of each year for 2005-2010 and as at 30 June 2011.

Table 3



Long Term Investments

6. Long Term investments increased in value from USD 316.4 million at 31 December 2010 to USD 351.4 million at 30 June 2011. The increase was due to several factors including:

- additional funding totalling USD 4.5 million was injected into the portfolio in the months of March 2011 and June 2011. This is in line with the receipt of contributions which included additional funding towards the ASMC liability; and
- improved market conditions, including the appreciation of the EUR versus the USD from 1.3141 to 1.4306, which allowed the Organization to generate USD 20.1 million of net realized income and record USD 10.5 million of unrealised gains from long term investments during the six months of 2011;

Market volatility increased substantially in August 2011 following the continuing concerns about European peripheral bond markets and the downgrade of US sovereign debt by Standard and Poors. Finance Division has been following market developments closely and is involved in ongoing discussions with both its fund managers and the World Bank. An up to date review of the investment situation will be presented to the Finance Committee in October 2011.

Staff Related Schemes

7. 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)

8. The total liability of the Plans at 30 June 2011 amounted to USD 1,172.8 million (USD 1,149.8 million as at December 2010). The balance of USD 875.9 million in the Statement of Assets, Liabilities, Reserves and Fund Balances at 30 June 2011 represents the **recorded** liability of the Plans as per the 2010 actuarial valuation plus the net movements (namely the service cost[1], payments, active staff subsidy, interest cost[2] and actuarial losses[3]) during the six months to 30 June 2011. **Unrecorded** liabilities as at 30 June 2011 amounting to USD 296.9 million reflect the adoption of the corridor method[4] for recognizing actuarial gains and losses available under IPSAS.

9. During the eighteen months to 30 June 2011, the Organization has recorded for all the Plans in the Income and Expenditure statement a current service cost (included in Regular Programme Expenditure) of USD 35.8 million, amortization of actuarial losses of USD 29.5 million and interest cost of USD 86.8 million. Returns on the Long Term investment portfolios are intended to be used to address the interest cost associated with the accretion in present value of the staff liabilities. As the liability is not fully funded, the Returns on the Long Term portfolio fall short of the interest costs by some USD 50 million.

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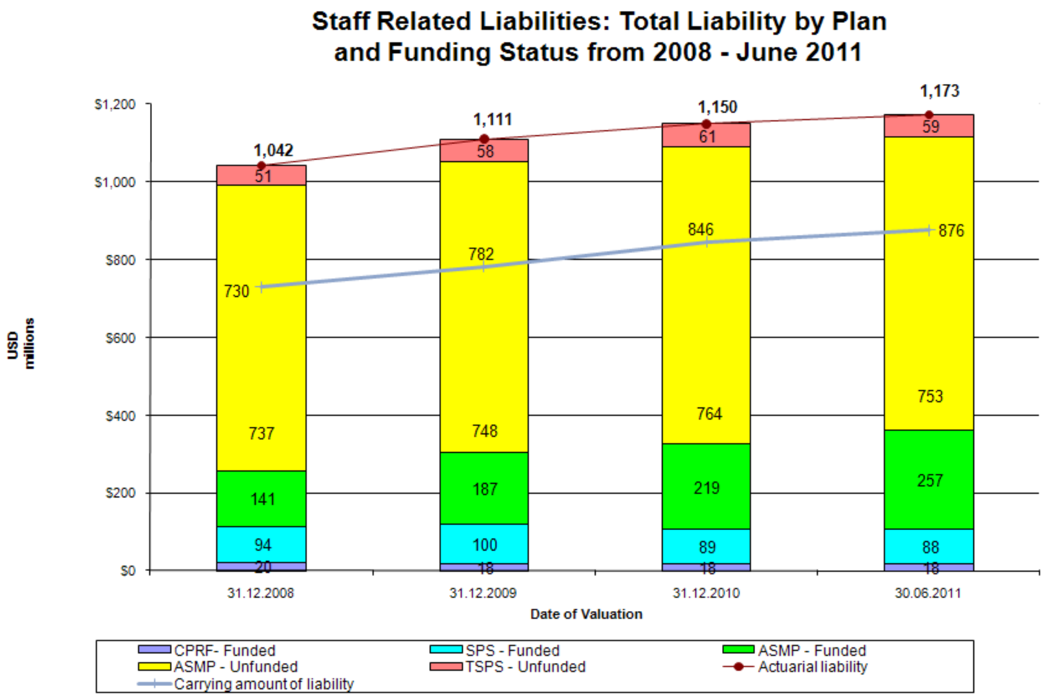
[1] The current service cost is a standard component of staff costs and arises each year as active staff members provide their services in exchange for these benefits to be paid in the future. In 1997 the Governing Bodies recognized that current service cost be funded each biennium from the Regular Programme budgetary appropriation and expensed in the official accounts among costs to deliver the current programme of work of FAO.
[2] The interest cost represents the increase in the present value of the staff liabilities due to the passage of one year.
[3] The actuarial losses represents the amortization of the unrecognised liability recognized over the expected average remaining working lives of the employees participating in the plan.
[4] Under the corridor method, actuarial gains and losses that exceed 10 per cent of the value of the actuarial liability are deferred and recognized over the expected average remaining working lives of the employees participating in the plan.

10. As at 30 June 2011 unfunded staff related liabilities amounted to USD 811.6 million of which After Service Medical Coverage (ASMC) accounts for USD 753.0 million and the Terminal Payments Fund (TPF) accounts for USD 58.6 million. Table 4 presents analysis of the total actuarial liability by plan by funding status.

Table 4



General and Related Fund Balance

11. The General Fund deficit decreased from USD 566.5 million as at 31 December 2010 to USD 343.1 million as at 30 June 2011 following the recognition of full 2011 Member Nations Assessments against only 6 months of expenditure in the same period. This decrease can also be partially attributed to the significant improvement in the returns being generated on the Organization's long term investment portfolio (see above for more details). However, it is still estimated that the General Fund deficit will be in the region of USD 700 million as at 31 December 2011.

TCP Expenditure and Available Appropriation

12. During the eighteen months ended 30 June 2011, TCP expenditure charged against the 2010-2011 appropriation amounted to USD 19.0 million whilst that against the 2008-09 appropriation amounted to USD 40.7 million. The average monthly TCP expenditure during the eighteen month period was USD 3.3 million, which represents a decrease from the average expenditure during the comparative period ended 30 June 2009 of USD 4.5 million, and it is lower than the average spending reached across the full 2008-09 biennium of USD 4.9 million. As at 30 June 2011, the total TCP deferred income (i.e. the available appropriation) amounted to USD 101.0 million.

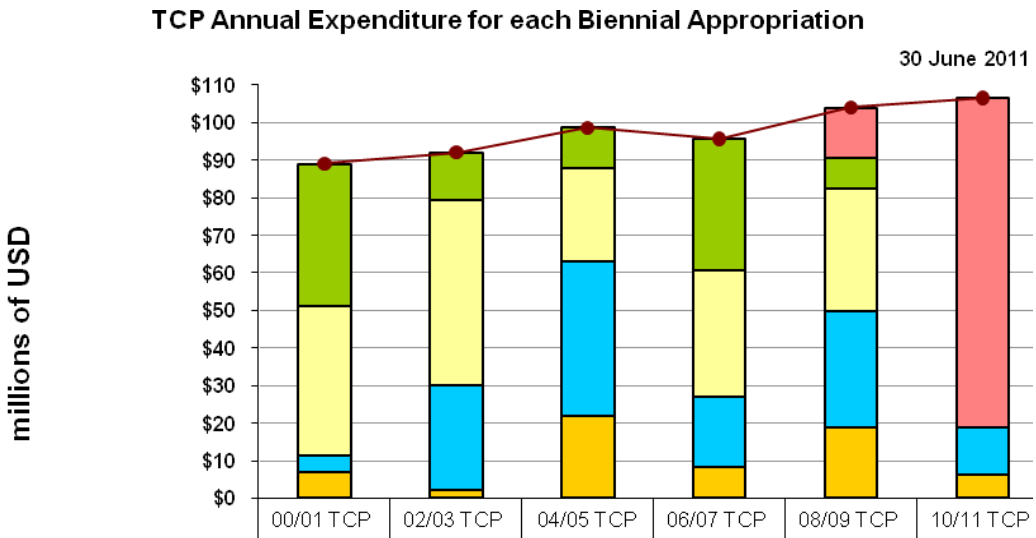
13. The average monthly TCP expenditure of all appropriations is shown in Table 5 below:

Table 5

	18 months to	Biennium		
	30/06/2011	*2008-09*	*2006-07*	*2004-05*
Average monthly expenditure	3.3	4.9	2.5	5.2

14. Table 6 presents the TCP expenditure (including accruals) for all appropriation periods and TCP available appropriation (i.e. deferred income) for each year from 1 January 2000 to 31 December 2010 and 6 months ended 30 June 2011.

Table 6



	00/01 TCP	02/03 TCP	04/05 TCP	06/07 TCP	08/09 TCP	10/11 TCP
Available appropriation	0.0	0.0	0.0	0.0	13.4	87.6
Yr 4 Expenditure	37.9	12.8	10.6	35.0	8.3	0.0
Yr 3 Expenditure	39.8	49.2	25.0	33.6	32.4	0.0
Yr 2 Expenditure	4.3	27.7	41.2	18.8	31.1	12.6
Yr 1 Expenditure	7.0	2.3	21.9	8.3	18.8	6.4
Biennial appropriation	89.1	92.0	98.6	95.7	104.0	106.6

Losses on Exchange Differences

15. During the eighteen months ended 30 June 2011 the Organization recorded a loss of USD 11.4 million. These amounts were generated principally on the Euro portion of the Assessments on Member Nations[5]. As the Organization has implemented Split Assessments[6] to mitigate this foreign exchange exposure, Regular Programme Euro denominated exchange losses (or gains), are offset by an equal and opposite reduction (or increase) in the associated Euro denominated expenditure.

2011 Cash Flow Forecast (Regular Programme)

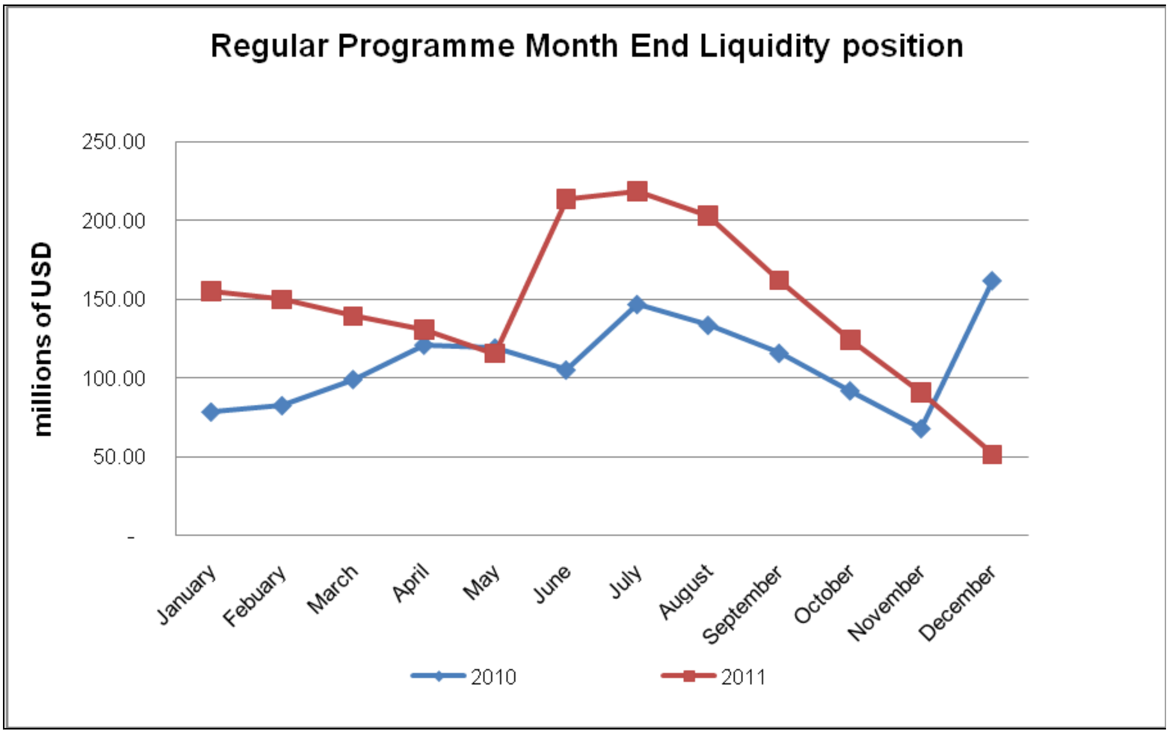
16. Table 7 below presents the Organization's consolidated Regular Programme month end short term liquidity position (which includes cash and cash equivalents and short term investments) from 31 January 2010 through 30 June 2011 and a forecast through 31 December 2011. All figures are expressed in millions of USD. The main points arising are as follows:

- As at 30 June 2011 the Organization had collected 64.4% of the 2011 USD assessments and 57.0% of the 2011 EUR assessments (compared to 50.7% and 41.0% respectively as at 30 June 2010).
- The Organization ended the six months to 30 June 2011 with a relatively low level of arrears in the amount of USD 15.8 million and EUR 2.5 million. Following the settlement of significant arrears in 2010, and large advances on 2011 contributions received in December 2010, the Organization started the year with a high cash balance, which, if previous contributions patterns are confirmed, should allow the Organization to avoid external borrowing in 2011.
- The accuracy of the forecast in Table 7 below, is dependent on the actual timing of the receipts of the most significant contributions in 2011. Finance Division monitors receipts and reports to management on any significant delays which affect the Organization's liquidity and continually updates the forecast.

17. It should be noted that the average spending rate of the Organization's Regular Programme is approximately USD 45 million per month, and so the cash position at the end of June 2011 is equivalent to approximately 5 months of expenditure. At 31 December 2011, it is expected that this balance will diminish to 1 month of expenditure.

[5] 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.
[6] The implementation of the Split Assessments starting in 2004 provides that activities in Euros are funded by Euros, therefore no cash foreign exchange difference occurs from receiving assessments in Euro and paying expenditures in Euro as the Euro cash is maintained in the currency and is utilised to settle same currency expenditures.

Table 7


Regular Programme Month End Liquidity position
millions of USD
250.00
200.00
150.00
100.00
50.00
-
January
Febuary
March
April
May
June
July
August
September
October
November
December
2010
2011