


May 2012

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|  | منظمة الأغذية<br>والزراعة للأمم<br>المتحدة | 联合国<br>粮食及<br>农业组织 | Food and<br>Agriculture<br>Organization<br>of the<br>United Nations | Organisation des<br>Nations Unies<br>pour<br>l'alimentation<br>et l'agriculture | Продовольственная и<br>сельскохозяйственная<br>организация<br>Объединенных<br>Наций | Organización<br>de las<br>Naciones Unidas<br>para la<br>Alimentación y la<br>Agricultura |
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## COUNCIL

### Hundred and Forty-fourth Session

Rome, 11-15 June 2012

### Report of the 143<sup>rd</sup> Session of the Finance Committee (7 - 11 May 2012)

#### Executive Summary

At its first regular session in 2012, the Committee examined the financial position of the Organization and other matters under its mandate. In this report of its 143<sup>rd</sup> Session, the Committee:

- Makes specific recommendations to the Council (i) urging all Member Nations of FAO to make timely and full payment of their respective assessed contributions (para 11); (ii) on further efforts to encourage payment of contributions and arrears (para 11); and (iii) on its endorsement of the Director General's recommendations for appointment and extension of Audit Committee members (para 32);
- Informs Council of its decisions (i) approving the final budgetary Chapter transfers for the 2010-11 biennium (para 17), (ii) confirming the proposed arrangements for the selection and appointment of the External Auditor (para 25); and (iii) to maintain the current criteria and procedures for the selection of external candidates to the Ethics Committee (para 24);
- Brings to the attention of Council its guidance to the Secretariat on the Organization's financial position, investment policy, the IPA implementation plan for 2012-13,
- implementation of an enterprise risk-management framework, follow-up on recommendations of the Inspector General, action regarding Host Country Agreements, and implementation of the Global Resource Management System, including IPSAS Compliance; and
- Highlights to Council initiatives to improve its own methods of work.

#### Suggested action by Council

The Council is requested to endorse the recommendations of the Committee on timely payment of assessed contributions and arrears by Members, and on the appointment and extension of members of the Audit Committee;

The Council is requested to take note of the decisions of the Committee on budgetary Chapter transfers, proposed arrangements for the Selection and appointment of the External Auditor, and criteria and procedures for the selection of external candidates to the Ethics Committee;

The Council is requested to endorse the Committee's guidance provided to the Secretariat on all other matters within its mandate, as well as initiatives to improve its own methods of work.

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*Queries on this document may be addressed to:*

David McSherry

Secretary, Finance Committee

Tel: +3906 5705 3719

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## Introduction

1. The Committee submitted to the Council the following report of its Hundred and Forty-third Session.
2. In addition to the Chairperson, Mr MOUNGUI MÉDI, the following Members were present:
  - Mr Travis Power (Australia)
  - Mr Olyntho Vieira (Brazil)
  - Mr Laurent D. Couliadiati (Burkina Faso)
  - Mr Shobhana K. Pattanayak (India)
  - Mr Hideya Yamada (Japan)
  - Ms Manar Sabah Mohammad Al-Sabah (Kuwait)
  - H.E. Miguel Ruíz-Cabañas Izquierdo (Mexico)
  - Mr Ronald Elkhuizen (The Netherlands)
  - Mr Vladimir V. Kuznetsov (Russian Federation)
  - Mr Mohamed Eltayeb Elfaki Elnor (Sudan)
  - Ms Karen Johnson (USA)
3. The following representative of a Member was also present:
  - Mr Youssef Farhat who had been designated to replace Mr Fouzi Lekjaa as the representative of Morocco for this session.
4. The Chairperson informed the Committee that Mr Alan Romero Zavala had been designated to replace H.E. Miguel Ruíz-Cabañas Izquierdo for part of this session.
5. A summary of the qualifications of the substitute representatives can be downloaded from the Governing and Statutory Body Web site at:  
<http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/substitute-representatives/en/>
6. The Committee noted its concerns on the delayed submission of three documents. As a result, consideration of one item - *HR Strategic Framework and Action Plan 2012-13* - was deferred until the 145<sup>th</sup> Session of the Finance Committee, and one item - *Preparedness of United Nations System Organizations for the International Public Sector Accounting Standards (IPSAS) (JIU/REP/2010/6)* - to the 146<sup>th</sup> Session of the Finance Committee. Following the receipt of specific reasons for its delayed submission, the item on *FAO Audit Committee Membership* was considered on an exceptional basis. The Committee reiterated the importance of receiving documents in sufficient time to allow the Committee to review documents prior to the Session.
7. In adopting the agenda for its 143<sup>rd</sup> Session, the Committee decided to postpone discussion of item 8 – *HR Strategic Framework and Action Plan 2012-13*. Furthermore, the Committee decided to consider its “Approach to the Review of Reports of the Joint Inspection Unit” and an “Update on the Status of Review of Article XIV Bodies” under Item 21 - *Any Other Matters*.
8. In addition, silent observers from the following Member Nations attended the whole or part of the 143<sup>rd</sup> Session of the Committee:
  - Canada
  - Ecuador
  - European Union
  - Pakistan
  - Philippines
  - Tanzania

## Election of Vice-Chairperson for 2012

9. Mr Ronald Elkhuizen (The Netherlands) was elected unanimously Vice-Chairperson for 2012.

## Monitoring Financial Position

### Financial Position of the Organization

10. The Committee considered the financial position of the Organization as at 31 December 2011 including the cash flow forecast for 2012 which, based on Members' prior year payment patterns, indicated a potential requirement for external borrowing by the Organization to meet its cash obligations in the final month of the year unless there was an improvement in the timing of payments by Members. The Committee also reviewed the information requested at its previous session regarding Possible Measures to Expedite Liquidation of Arrears (see Annex 1).

#### 11. The Committee:

- **took note of the level of the General Fund deficit, due principally to the lack of funding of the After Service Medical Coverage scheme and the Terminal Payments Fund;**
- **urged 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;**
- **reviewed the measures and regulations currently in place to improve the timely payment of contributions and arrears as outlined in paragraph 4 of Annex 1 and urged the Secretariat to continue its efforts at Headquarters and in FAO offices worldwide to remind Member Nations of their financial obligations, through the distribution of timely statements and through soliciting payments of current contributions and arrears;**
- **proposed that even greater visibility be given to the status of contributions and arrears by making such information more accessible on the FAO public website, drawing it to the attention of Members attending major FAO meetings and making positive and public appreciation of Members paying contributions on a timely basis;**
- **conveyed its willingness to join efforts with the Secretariat in approaching Members with outstanding contributions to encourage settlement or seek repayment plans;**
- **confirmed that existing regulations regarding loss of voting rights in case of non-payment of assessments for more than two years should be vigorously applied; and**
- **recommended that further efforts to encourage payment of arrears should emphasise the moral obligation of Members to pay their contributions rather than punitive consequences for late or non-payment.**

### 2011 Actuarial Valuation of Staff Related Liabilities

12. The Committee took note of document FC 143/4 - *2011 Actuarial Valuation of Staff Related Liabilities* - and discussed the results of the 2011 actuarial valuation and the current financial situation, accounting and funding of the Organization's liability for staff-related plans at 31 December 2011. The Committee also reviewed the results of the study of Alternative Strategies and Options for funding of staff related liabilities. The Committee reaffirmed that International Public Sector Accounting Standards (IPSAS) requirements with regard to After Service Medical Coverage (ASMC) were related to the recording of the liability and not its funding.

13. **The Committee:**

- **noted that the growth in the value of the overall liability for after-service plans had stabilized owing to several refinements made to the actuarial calculation over the past few years;**
- **remarked that the ASMC liability remained seriously underfunded. In the case of the Termination Payments Fund (TPF), no funding sources of past service liability had ever been approved and, therefore, any TPF payments in excess of the budgetary provision for current service cost would increase the structural cash deficit of the Organization;**
- **noted that the results of the 2012 Actuarial Valuation would be presented to the March 2013 session of the Finance Committee for consideration of approaches to be reported to the Council for further consideration in the PWB 2014-15;**
- **stressed the importance of adopting a common approach to the settlement of ASMC liabilities by the Organizations of the Common System under the guidance of the General Assembly of the United Nations; and**
- **noted that the reductions in the ASMC liability identified with the performance of the Medical Insurance Plans reflected a clear strategy aimed at cost containment and urged the Secretariat to continue with these efforts.**

### **Report on Investments 2011**

14. The Committee reviewed document FC 143/5 - *Report on Investments 2011* - and took note of the positive performance during the year and the associated investment policy and governance arrangements. The Committee appreciated the prudent approach on short-term investments and suggested to review the risk policy on long-term investments at a future time when markets stabilized. The Committee also requested that steps be taken by the Secretariat on a timely basis to complete the recruitment of the P-4 Risk Management Officer post that had been approved by the Committee at its 140<sup>th</sup> Session in October 2011. The Committee cautioned about investment expenses being higher than investment returns for short-term investments.

### **Budgetary Matters**

#### **Immediate Plan of Action - IPA Annual Report for 2011 and direction for 2012**

15. The Committee reviewed the financial aspects of IPA implementation reported in section V of document CL 144/10 - *Immediate Plan of Action - IPA Annual Report for 2011 and direction for 2012* - and noted the progress in implementation across the different IPA projects.

16. **The Committee:**

- **expressed concern about the difficulties in implementation encountered by individual IPA projects, such as result-based budgeting, result-based management and IT projects, as reported to the Committee under previous agenda items;**
- **endorsed, within the context of the 2012-13 approved PWB, the 2012-13 IPA budget totalling USD 40.2 million (net), which included an unspent balance of 2010-11 appropriations amounting to USD 1.0 million carried forward to 2012-13 in accordance with Conference Resolution 5/2011;**
- **noted that during 2012-13 all IPA projects would be implemented in accordance with the plans to accelerate the Reform process, as set forward by the Director-General under the new direction for 2012; and**
- **requested that implementation during 2012-13 be executed in a rigorous manner so as to ensure no request for carry-forward of IPA funds from 2012-13 to 2014-15.**

## Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2010-11 Biennium

17. The Committee reviewed the Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2010-11 Biennium and:

- **took note of the final 2010-11 budgetary outturn based on the unaudited accounts of the Organization, and that the unspent balance of USD 8.7 million to be carried forward as authorized by the Conference in July 2011 included USD 0.5 million of deferred 2010-11 one-time IPA investment costs and USD 8.2 million to contribute to further efficiency gains, one-time savings, and forecasted use of unspent 2010-11 balance;**
- **recalled that in line with current practice any unspent balances in the Technical Cooperation Programme (Chapter 15), Capital Expenditure (Chapter 17) and Security Expenditure (Chapter 18) would be transferred to the 2012-13 biennium; and**
- **approved the final budgetary transfers from Chapters 1, 2, 3, 4, 5, 7 and 13 in favour of Chapters 6 (USD 1.5 million), 8 (USD 1.65 million), 9 (USD 0.7 million), 10 (USD 1.3 million) and 11 (USD 4.55 million), as shown in Table 2 of the document (see Annex 2).**

## Administrative and Information Systems Framework

### Progress Report on Implementation of the Global Resource Management System

18. The Committee reviewed document FC143/9 - *Progress Report on Implementation of the Global Resource Management System* - which provided an update on progress made on the Global Resource Management System (GRMS, formerly known as Oracle R12/IPSAS) Project for the period October 2011 to April 2012 and plans for the period May to October 2012.

19. The Committee was informed that following a review by the Office of the Inspector General of the IPSAS component of GRMS, the implementation plan was changed. The Committee expressed concerns with the lack of progress since 2006 and the recurrent changes in scope of the project as well as the repeated extensions of deadlines for implementation. The Committee noted management's view that the revised implementation plan foresaw no change to the target date of November 2012 for implementation of the new systems and processes in headquarters and regional offices, and that the completion of training and rollout of the new systems and processes to sub-regional offices and country offices had now been accelerated with a revised target date for completion of this activity of June 2013. The Committee also noted management's view that the revised implementation plan reduced IPSAS implementation risks and avoided considerable manual effort associated with the preparation of opening balances for IPSAS compliant financial statements.

20. In response to the concerns expressed, the Secretariat noted that a key driver to the decision to change the implementation plan had been to address known risks concerning the capacity of decentralised offices to absorb the change brought about by the new GRMS processes and systems and wider change initiatives. The revised approach prioritized the benefits to be derived from new and improved systems and business processes while providing a more robust basis for the production of IPSAS compliant financial statements which was now planned for the financial year 2014.

21. **Based on its review of the information presented, the Committee:**

- **emphasized the importance of ensuring that core project objectives of IPSAS compliance and the R12 upgrade continued to be fully integrated and were delivered by the planned project target dates and within the reported budget estimates, and that the new 2014 deadline for IPSAS compliant statements was rigorously adhered to;**
- **noted the difficulties faced by the project and asked that any action required of the Committee and its members be included in the next report;**
- **requested the Secretariat to include in its report to the Finance Committee in October 2012 a comprehensive integrated implementation plan including planned, incurred and estimated costs of the GRMS with breakdowns by year and lines of expenditure and**

milestones to monitor progress; and to report on the benefit realization analysis as well as how these benefits contributed to the vision and strategic objectives of the Organization; and

- **requested** the Secretariat to continue to monitor project governance arrangements as also highlighted by the Office of the Inspector General review and report thereon at the October 2012 Session of the Finance Committee.

### **Progress Report on an Enterprise Risk Management Framework**

22. **The Committee appreciated the report and:**

- **noted** the progress made on developing the ERM framework and implementing institutional risk management integrated with other organizational strengthening initiatives on results-based management, performance management, and accountability and internal control;
- **requested** the Secretariat to accelerate progress in order to ensure complete implementation of ERM by end-2013 as scheduled; and
- **noted** the Secretariat's proposal for risk reporting in the next MTP/PWB in March 2013.

### **Membership of the Ethics Committee**

23. The Committee reviewed document FC 143/11 – *Criteria and Procedure for the Selection of External Members of the Ethics Committee* - prepared in response to a request by the Finance Committee, endorsed by the Council, that the criteria and procedure for selection of external candidates to the Ethics Committee be revisited, as part of a joint exercise with the Committee for Constitutional and Legal Matters (CCLM). The Committee noted that the CCLM had reiterated the appropriateness of the criteria and proposed an informal consultation procedure, through the Chairpersons of the two Committees, prior to their review of the list of candidates nominated by the Director-General.

24. **After an extensive debate, the Committee:**

- **concluded** that the current criteria and the procedure whereby the Finance Committee and the CCLM make their respective recommendations to the Council should be maintained.

## **Oversight**

### **Proposed Arrangements for the Selection and Appointment of the External Auditor**

25. The Committee reviewed the document and confirmed the proposed arrangements for the selection and appointment of the External Auditor. The Committee requested the Secretariat to proceed with inviting proposals from eligible Auditors-General of Members of FAO.

26. The Committee agreed that the following members of the Finance Committee would participate in the Working Group which would prepare a shortlist of candidates to be invited to deliver an oral presentation to the Finance Committee: USA, Australia, Mexico, Kuwait, Netherlands, Japan and Burkina Faso.

### **2011 Annual Activity Report of the Office of the Inspector General**

27. The Committee took note of document FC 143/13 - *2011 Annual Activity Report of the Office of the Inspector General* - that presented a summary of the results of audit and investigative work of the Office of the Inspector General in 2011 as well as its internal management. The Committee also took note of additional information provided by the Inspector General in response to questions of the Committee members, of management's comments on the annual report and on the status and reasons for long outstanding OIG recommendations, particularly those classified in past years as relating to high risks.



28. **The Committee:**

- **expressed its satisfaction with the quality of the report and the analysis of issues presented in the report, noting that the work of the Office of the Inspector General presented was very relevant and useful for the management and governance of the Organization;**
- **requested that, in the context of the review of implementation of the current audit report disclosure policy, FAO management examined the possibility of changing the access policy so that copies of the individual Office of the Inspector General reports could be made available to members upon request;**
- **requested that FAO management provided information on a regular basis during the year on audit reports that were available for access by the permanent representatives; and**
- **encouraged management to continue in its efforts to timely close all outstanding recommendations, particularly those prior years' recommendations relating to high risks which remained outstanding.**

**FAO Audit Committee - 2011 Annual Report to the Director-General**

29. The Committee took note of document FC 143/14 - *FAO Audit Committee - 2011 Annual Report to the Director-General* - and the actions management was taking to address the recommendations in the report.

30. **The Committee:**

- **welcomed the report, the positive conclusions regarding the work of the Office of the Inspector General, and the issues it raised for the Director General's consideration, which were very useful for the Committee in its deliberations;**
- **noted the Director General's comments on the report which indicated management's responses to the recommendations in the report; and**
- **agreed to consider at its next regular session whether any changes in the timing or frequency of reporting to the Committee on the conclusions and recommendations of the FAO Audit Committee, and on the status of action on the recommendations, would be appropriate.**

**FAO Audit Committee Membership**

31. The Committee took note of document FC 143/15 - *FAO Audit Committee Membership* - in which the Director-General recommended the extension of terms of two current FAO Audit Committee members and the appointment of one new member to fill the vacancy arising from the departure from the Committee of one member. The Committee conveyed its appreciation to the outgoing member and current Chair of the FAO Audit Committee, Mr. Ouko, for his service on the Committee.

32. **The Committee:**

- **endorsed the Director-General's recommendation to extend the term of Ms Ndiaye for two additional years, Mr. Zimmermann for one additional year, and to appoint Ms. Carolyn Dittmeier as a new member of the FAO Audit Committee for an initial period of two years; and**
- **agreed to submit to the Council its endorsement, with the extensions and appointment to be made by the Director-General to be effective from the date of approval by the Council.**

**Progress Report on Implementation of the External Auditor's Recommendations**

33. The Committee took note of document FC 143/16 - *Progress Report on Implementation of the External Auditor's Recommendations* - together with Addendum 1 on the Review and Assessment of

the Special Fund for Emergency and Rehabilitation Activities (SFERA) and Addendum 2 on the Host Country Agreements.

34. **The Committee:**

- **appreciated the progress report on the implementation of the External Auditor's recommendations and looked forward to receiving further information on the status of items pending validation in the Long Form Report on the 2010-11 financial statements;**
- **requested that an update on the status of implementation of recommendations included in the Review and Assessment of the SFERA, be included in the Progress Report to be presented at its October 2012 Session; and**
- **requested that action regarding Host Country Agreements be accelerated and that the existing template be implemented on a pilot basis, with reporting on the progress to be provided to the Committee's next regular session.**

### **Improved Methods of Work and Efficiency of the Finance Committee**

#### **The Multi-Year Programme of Work of the Finance Committee 2010-13**

35. **The Committee:**

- **welcomed the revised version of the Multi-Year Programme of Work (MYPOW) which incorporated the enhancements agreed by the Committee at its 140th Session in October 2011;**
- **noted that the MYPOW was a living document that was regularly updated; and**
- **requested that an updated version of the MYPOW be prepared for its next regular session and which should reflect the suggested edits to the narrative sections provided by the Committee during their review of the document.**

#### **Status of Outstanding Recommendations of the Finance Committee**

36. **The Committee:**

- **welcomed the updated paper on the status of its outstanding recommendations; and**
- **requested that an updated version of the document be prepared for its next regular session and that it be examined by the Committee at the start of that Session's proceedings.**

### **Working Methods of the Finance Committee**

37. The Chairperson presented the Committee with an overview of his participation as Chairperson of the Finance Committee at the 27<sup>th</sup> Regional Conference for Africa in April 2012 and reported that his participation was considered by Conference participants as beneficial to the proceedings.

- **Noting information provided by the Independent Chairperson of Council on the modalities for field visits by Members of Council, the Committee supported the principle of organizing thematic field visits for Members of the Committee which were relevant to its mandate and which would enhance and inform the Committee in the performance of its work; and**
- **the Committee noted the frequent scheduling of Special Sessions of the Committee and requested that the work of the Committee be programmed as far as possible within the calendar of its regular sessions.**

## Other Matters

### Date and Place of the Hundred and Forty-fourth Session

38. The Committee was informed that the 144th Session was scheduled to be held in Rome on 14 May 2012.

### Any Other Matters

#### Proposed amendments to Rules XXXVII and XL of the General Rules of the Organization

39. The Committee examined document FC 143/21(a) – *Proposed amendments to Rules XXXVII and XL of the General Rules of the Organization* - following a request by the CCLM that the financial implications of the proposals be examined by the Finance Committee. The Committee noted that the proposals made by the secretariat arose as a result of an undertaking of the Director-General Elect prior to assuming duties, involved self-limitation of his authority and benefitted primarily his successor and FAO. The Committee further noted that whether or not the proposed amendments should be approved, was a matter entirely for the membership.

40. **Recognizing that the Committee's role was to analyze the financial implications of this proposal, the Committee:**

- **decided that it could not adequately consider these proposed amendments in the absence of any financial information;**
- **requested that comprehensive information on the financial implications of these proposals be presented at the next regular session of the Finance Committee; and**
- **noted that the proposals would be reconsidered by the Finance Committee at its session in Autumn 2012.**

#### Approach to the Review of Reports of the Joint Inspection Unit

41. The Committee recognized the importance and value of reports issued by the Joint Inspection Unit (JIU) and **resolved** to consider the status of implementation of recommendations arising from these reports at its future sessions.

42. In order to support the work of the Committee in this area, the Committee **requested** the Secretariat to prepare a summary report on the status of implementation of JIU recommendations on matters of relevance to the mandate of the Committee and that this should be included as a standing item on the Finance Committee agenda.

43. The Committee **noted** the information provided by the Secretariat on the number of oversight bodies to which the Secretariat must provide information, responses and follow-up, and where there might be opportunities for streamlining improvements. The Committee **agreed** to review this matter at a future session.

#### Update on the Status of Review of Article XIV Bodies

44. The Committee was provided an oral report on the status of the review of bodies under Article XIV of the Constitution. The report underlined that these bodies were established by treaty adopted by the Conference or Council, that they were administratively within the framework of FAO but sought to enjoy a measure of functional autonomy, and that it was not always easy to reconcile these requirements. In addition, functional autonomy had to be exercised subject to FAO's general accountability for the operation of those bodies.

45. **The Committee:**

- **noted that the consultation process was under way and, in that context, there was a need to differentiate among statutory bodies under Article XIV depending on their specific characteristics and operational needs;**
- **noted that a detailed document reviewing administrative and financial areas where a relaxation of a number of operational procedures and practices could be considered, would be presented to the Autumn Sessions of the Finance Committee and of the CCLM.**

## **Annex 1 - Possible Measures to Expedite Liquidation of Arrears**

1. In reviewing the Incentive Scheme for Prompt Payment of Contributions at its 140th Session in October 2011, the Committee requested the Secretariat to review possible measures to expedite liquidation of arrears and report thereon to its Spring session in 2012. To assist the Members in discussing this issue, this annex provides further information on the measures currently in place as well as measures considered in the past but for which decisions on implementation have been deferred.
2. The level of outstanding arrears has fluctuated significantly in recent biennia, primarily due to the timing of receipt of contributions from the largest contributors. Whilst arrears at 1 January 2012 were USD 102 million, receipts during the first quarter of 2012 have reduced this balance to USD 21 million at 31 March 2012, of which 8.4 million is due from ex-Yugoslavia.
3. Given their significant impact on the liquidity position of the Organization, the Committee has discussed ways to improve the timely payment of contributions and arrears in many of its past sessions:
  - 128th session of FC: 27-31 July 2009 (Measures to Encourage Timely Payment of Contributions)
  - 126th session of FC: 11-15 May 2009 (Measures to Encourage Timely Payment of Contributions)
  - 123rd Session of FC: 6-10 October 2008 (Measures to Encourage Timely Payment of Contributions)
  - 118th Session of the FC: 17-25 May 2007 (Measures to Improve the Organization's Cash Shortage Situation)
  - 115th Session of the FC: 25-29 September 2006 (Measures to Improve the Organization's Cash Shortage Situation)
  - 113th Session of the FC: 8-12 May 2006 (Measures to Improve the Organization's Cash Shortage Situation)
  - 110th Session of the FC: 19-23 September 2005 (Acceptance of Local Currency from Developing Countries in Payment of Assessed Contributions)
  - 109th Session of FC: 9-13 May 2005 (Incentive Scheme to encourage Prompt Payment of Contributions - Analysis of Impact of Zero Discount Rate)
  - 108th Session of FC: 27 September - 1 October 2004 (Analysis of Contributions Received and proposals for Improvement).
4. The measures currently in place to encourage timely payment of contributions and arrears are listed below:
  - A Circular State Letter is sent to all Member Nations each December in accordance with Financial Regulation 5.4 informing of their obligation to the Budget for the following calendar year and of arrears of contributions outstanding.
  - Statements of contributions outstanding are sent by the Finance Division to Member Nations on a quarterly basis.
  - Specific action is taken to notify those Council Members who are considered to have resigned their seat due to non-payment of contributions in accordance with General Rule XXII.7 of the General Rules of the Organization (GRO), to encourage them to regularize their positions well before the Council session.
  - Similarly, specific action is taken at the highest level to ensure that those Member Nations with potential voting rights problems are notified well in advance of the Conference session and have ample time to regularize their contributions position or clarify the reasons for the non-payment of assessed contributions.
  - The Finance Division writes directly to each FAO Representative office of Member Nations with outstanding amounts on a quarterly basis, with the request for follow-up with local authorities to ensure payment is made.

- Country briefs are provided to the Director-General on an ongoing basis to assist him in his high level talks with Heads of State and Ministries where he stresses the importance of timely payment of contributions.
- Letters are sent periodically by the Assistant Director-General, CS to Ministries reminding of their country's obligations to pay outstanding contributions and providing explanations of the Organization's rules and regulations regarding loss of voting rights.
- Ongoing contacts with Permanent Representations and Representatives to FAO.
- Month-end arrears reports are regularly posted and available to all Permanent Representatives on the Permanent Representatives' Website.
- Several reports on Regular Programme contributions by country are posted on FAO's public website.
- The Incentive Scheme to Encourage Prompt Payment of Contributions whereby Member Nations receive a discount if the full assessment is paid prior to 31 March of the contribution year.
- Loss of voting rights in the Conference under Article III-4 of the Constitution (for Members with arrears equal to or in excess of the contributions due for the two preceding calendar years).
- Ineligibility for election to the Council under Rule XXII-5 of the General Rules of the Organization (for Members with arrears equal to or in excess of the contributions due for the two preceding calendar years).
- Loss of seat in the Council under Rule XXII-7 of the General Rules of the Organization (for Members with arrears equal to or in excess of the contributions due for the two preceding calendar years).
- To facilitate the payment of contributions by those Member Nations with limited availability of convertible currency, the Conference approved a derogation from Financial Regulation 5.6 to allow the Director-General to accept contributions in non-freely convertible local currencies under certain conditions (Resolution 14/2007).

5. The Governing Bodies have also considered other alternative measures during past discussions but for which implementation has been deferred, with some Members cautioning that the application of these measures would mainly impact developing countries in difficulty. These proposals included:

- Extension of the restriction under General Rules of the Organization (GRO) XXII-5 & XXII-7 to include loss of seat in the Finance and Programme Committees, and in Council Committees;
- That the sanctions provided under Article III.4 (loss of voting rights) and GRO XXII-5 and XXII-7 (Council election or seat) should be amended so that only one year of arrears (instead of two) would result in the sanctions;
- Interest should be charged on late payments or external borrowing costs should be borne by countries with outstanding contributions;
- Member Nations in arrears of more than the total of contributions due for the two preceding calendar years should be required to submit an instalment plan to the Finance Committee for review, and subsequent approval by the Conference, while Member Nations in arrears for amounts less than that should be required to provide written explanation on the reason for such arrears to the Finance Committee for review;
- Existing regulations on loss of voting rights should be rigorously applied;
- TCP assistance and recruitment of nationals should not be available for countries in arrears; and
- A set of guidelines should be developed setting out conditions for accepting voluntary contributions from Member Nations in arrears;

6. The Committee is requested to review the various alternative measures aimed at ensuring payment in full and on time by all Member Nations of their assessed contributions and arrears and provide guidance as necessary.

## **Annex 2 - Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2010-11 Biennium**

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

**Mr Boyd Haight**

**Director, Office of Strategy, Planning and Resources Management**

**Tel. +3906 5705 5324**

### EXECUTIVE SUMMARY

- The Finance Committee in October 2011 reviewed the report on Programme and Budgetary Transfers in the 2010-11 Biennium.<sup>1</sup> It took note of the forecasted underspending which, along with any deferred one-time IPA investment costs, would be carried over to 2012-13, as authorized by the Conference in July 2011.<sup>2</sup> The Committee recalled that in line with current practice any unspent balances in the Technical Cooperation Programme (Chapter 15), Capital Expenditure (Chapter 17) and Security Expenditure (Chapter 18) would be transferred to the forthcoming biennium and authorized the forecasted budgetary transfers from budgetary Chapters 1, 2, 3, 4, 5, 7, 13 and 14 in favour of Chapters 6, 8, 9, 10, 11 and 12.
- This report presents the final 2010-11 budgetary outturn based on the unaudited accounts of the Organization. Final 2010-11 spending represents 99.1% of the USD 1,000.5 million biennial appropriation. The surplus balance of USD 8.7 million will be carried forward, as authorized by the Conference in July 2011, and includes USD 0.5 million of deferred 2010-11 one-time IPA investment costs and USD 8.2 million to contribute to further efficiency gains, one-time savings, and forecasted use of unspent 2010-11 balance amounting in aggregate to USD 34.5 million.
- The Chapter transfers are in line with those previously approved, with the transfer into Chapter 12 no longer required.

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<sup>1</sup> FC 140/9

<sup>2</sup> C 2011/REP - Resolution 5/2011 Budgetary Appropriations 2012-13, paragraph 2

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is requested to take note of the overall budgetary outturn for 2010-11, including the carry-over of USD 8.7 million for full implementation of the IPA as authorized by Conference Resolution 5/2011. The Committee is also requested to approve the transfers between budgetary chapters; and recall that, in line with current practice, any unspent balances in the Technical Cooperation Programme (Chapter 15), Capital Expenditure (Chapter 17) and Security Expenditure (Chapter 18) are transferred to the 2012-13 biennium.

Draft Advice

**The Committee:**

- a) **took note of the final 2010-11 budgetary outturn based on the unaudited accounts of the Organization, and that the surplus balance of USD 8.7 million which would be carried forward as authorized by the Conference in July 2011, included USD 0.5 million of deferred 2010-11 one-time IPA investment costs and USD 8.2 million to contribute to further efficiency gains, one-time savings, and forecasted use of unspent 2010-11 balance;**
- b) **recalled that in line with current practice any unspent balances in the Technical Cooperation Programme (Chapter 15), Capital Expenditure (Chapter 17) and Security Expenditure (Chapter 18) would be transferred to the 2012-13 biennium;**
- c) **approved the final budgetary transfers from Chapters 1, 2, 3, 4, 5, 7 and 13 in favour of Chapters 6 (USD 1.5 million), 8 (USD 1.65 million), 9 (USD 0.7 million), 10 (USD 1.3 million) and 11 (USD 4.55 million), as shown in Table 2.**



### Introduction

1. 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. 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.
2. In July 2011, the Conference authorized the Director-General, notwithstanding Financial Regulation 4.2, to use any unspent balance of the 2010-11 appropriations for full implementation of the IPA, including one-time IPA investment costs to be incurred during the 2012-13 financial period. The Conference also requested the Director-General to propose adjustments to the 2012-13 Programme of Work for further efficiency gains, one-time savings, and forecasted use of unspent 2010-11 balance for 2012-13 IPA activities amounting in aggregate to USD 34.5 million.<sup>3</sup>
3. In November 2011, the Council endorsed the report of the Finance Committee which took note of the forecasted underspending of USD 6.0 million in Chapters 1 through 14 (the Strategic and Functional Objectives and FAORs) against the 2010-11 biennial appropriation, that, along with any deferred one-time IPA investment costs, would be carried over to 2012-13 as authorized by the Conference. The Committee also authorized the budgetary transfers from Chapters 1, 2, 3, 4, 5, 7, 13 and 14 in favour of Chapters 6, 8, 9, 10, 11 and 12.<sup>4</sup>
4. This document summarizes, for information and discussion, the budgetary aspects of the final budgetary performance against the 2010-11 biennial appropriation, including details of the final budgetary transfers between chapters.

### Overall Biennial Performance

5. Table 1 summarizes overall budgetary performance versus the 2010-11 appropriation. The performance is based on the actual expenditure in the unaudited accounts of the Organization, adjusted for the budget US dollar/euro exchange rate of 1.385 established in the PWB 2010-11. Any unspent balances in the Technical Cooperation Programme (Chapter 15), Capital Expenditure (Chapter 17) and Security Expenditure (Chapter 18) are transferred for use in the subsequent financial period in line with the financial regulations, and are therefore shown as fully spent.

**Table 1: Overview of 2010-11 Regular Programme Performance (USD millions)**

|  | 2010-11    |
|--|------------|
| 2010-11 Net Appropriation (CR 3/2009)  | 1,000.5    |
| Net Expenditure at Budget Rate   | 991.8      |
| <b>Net Expenditure vs. Net Appropriation</b>   | <b>8.7</b> |
| Deferred one-time IPA investment costs   | 0.5        |
| Transfer of the unspent 2010-11 balance for full Implementation of the IPA (CR 5/2011) | 8.2        |
| <b>Final Variance</b>  | <b>-</b>   |

<sup>3</sup> Conference Resolution 5/2011, operative paragraphs 2 and 3

<sup>4</sup> CL 143/8 paragraphs 18 and 19

6. As shown above, a surplus balance of USD 8.7 million is recorded against the 2010-11 biennial appropriation of USD 1,000.5 million (99.1% spent). The surplus balance will be carried over to 2012-13 as authorized by Conference Resolution 5/2011. Of this amount, USD 0.5 million is for deferred 2010-11 one-time IPA investment costs. The remainder of USD 8.2 million, previously estimated at USD 6.0 million, will offset 2012-13 IPA investment costs and will contribute to further efficiency gains, one-time savings, and forecasted use of unspent 2010-11 balance amounting in aggregate to USD 34.5 million.

7. As previously reported to the Committee<sup>5</sup>, actual expenditure in 2010-11 is mainly affected by higher than budgeted reimbursements for support costs, particularly in the decentralized offices.

#### **Budgetary Transfers between Chapters**

8. The final budgetary chapter transfers against the 2010-11 biennial appropriation are tabulated in Table 2 below. The final transfers follow largely the same pattern and reasoning as in March and October 2011, arising from adjustments to biennial work plans based on actual performance.

9. The forecasted transfers by Chapter are in line with those authorized by the Finance Committee in October 2011, with some variations in the final amounts. The previously authorized transfer into Chapter 12 (Functional Objective X) is no longer required.

10. Additional spending in Chapter 8 (Strategic Objective H) mainly arises from the reform process of the Committee on World Food Security (CFS), and establishment of the Agricultural Market Information System (AMIS) in June 2011.

11. The higher transfer into Chapter 10 (Strategic Objective K) arises from activities of the Gender, Equity and Rural Employment Division (ESW) in follow-up to recommendations from the Gender Audit and the Evaluation of FAO's role and work related to gender and development.

12. The underspending in Chapter 12 (FO X) is mainly due to the unspent balances generated by IPA actions in this chapter and some additional savings by the decentralized offices.

13. Chapter 17 (Capital Expenditure) generated a balance of USD 6.13 million to be carried forward to 2012-13 under the Capital Expenditure Facility and includes USD 0.5 million of deferred one-time 2010-11 IPA investment costs.

14. Chapter 18 (Security) generated a balance of USD 0.8 million to be carried forward to 2012-13 under the Security Expenditure Facility.<sup>6</sup> The surplus mainly represents the lower than budgeted expenditure by the United Nations Department of Safety and Security (UN-DSS) against FAO's budgeted cost share.

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<sup>5</sup> FC 140/9 paragraph 10

<sup>6</sup> The resulting 2012-13 balances in Capital Expenditure and Security Expenditure Facilities were partially reprogrammed in the relevant Chapters in the PWB 2012-13 (C 2011/3, tables above paragraphs 287 and 295)

**Table 2 - 2010-11 Budgetary Performance by Chapter (USD 000)**

| Ch | Strategic and Functional Objective   | 2010-11 Net Appropriation (after Adjustments) FC 140/9 | Net Expenditure (at Budget Rate) | Balance vs. Appropriation | Budgetary Chapter Transfers |
|----|--|--|----------------------------------|---------------------------|-----------------------------|
| 1  | A - Sustainable Intensification of Crop Production   | 49,181   | 46,543                           | 2,638                     | (2,600)                     |
| 2  | B - Increased sustainable livestock production   | 31,637   | 28,578                           | 3,059                     | (3,050)                     |
| 3  | C - Sustainable management and use of fisheries and aquaculture resources  | 55,626   | 54,164                           | 1,462                     | (1,450)                     |
| 4  | D - Improved quality and safety of food at all stages of the food chain  | 24,445   | 23,883                           | 562                       | (550)                       |
| 5  | E - Sustainable management of forests and trees  | 42,054   | 41,304                           | 750                       | (700)                       |
| 6  | F - Sustainable management of land, water and genetic resources and improved responses to global environmental challenges affecting food and agriculture | 53,192   | 54,650                           | (1,458)                   | 1,500                       |
| 7  | G - Enabling environment for markets to improve livelihoods and rural development  | 40,878   | 37,659                           | 3,219                     | (100)                       |
| 8  | H - Improved food security and better nutrition  | 58,454   | 60,056                           | (1,602)                   | 1,650                       |
| 9  | I - Improved preparedness for, and effective response to, food and agricultural threats and emergencies  | 7,311  | 7,987                            | (676)                     | 700                         |
| 10 | K - Gender equity in access to resources, goods, services and decision-making in the rural areas   | 9,838  | 11,105                           | (1,267)                   | 1,300                       |
| 11 | L - Increased and more effective public and private investment in agriculture and rural development  | 36,571   | 41,110                           | (4,539)                   | 4,550                       |
| 12 | X - Effective collaboration with member states and stakeholders  | 220,680  | 217,228                          | 3,452                     | -                           |
| 13 | Y - Efficient and effective administration   | 118,582  | 117,328                          | 1,254                     | (1,250)                     |
| 14 | FAOR   | 88,294   | 87,013                           | 1,281                     |                             |
| 15 | TCP  | 111,694  | 111,694                          |                           |                             |
| 16 | CNT  | 600  | -                                | 600                       |                             |
| 17 | CapEx  | 26,803   | 26,803                           |                           |                             |
| 18 | Security   | 24,686   | 24,686                           |                           |                             |
|    | <b>Total</b>   | <b>1,000,526</b>                                       | <b>991,791</b>                   | <b>8,735</b>              | <b>-</b>                    |

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### **Annex 3 - Documents for information**

- Status of Current Assessments and Arrears (doc. FC 143/INF/2)
- Reports of the UN Joint Inspection Unit
  - The Audit Function in the United Nations System (JIU/REP/2010/5) (doc. FC 143/INF/3)
  - Policies and Procedures for the Administration of Trust Funds in the United Nations System Organizations (JIU/REP/2010/7) (doc. FC 143/INF/5)
  - Inter-Agency Staff Mobility and Work/Life Balance in the Organizations of the United Nations System (JIU/REP/2010/8) (doc. FC 143/INF/6)