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para la
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FINANCE COMMITTEE

Hundred and Forty-eighth Session

Rome, 18-22 March 2013

Financial Position of the Organization as at 31 December 2012

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

Mr Aiman Hija

Director, Finance Division and Treasurer

Tel: +3906 5705 4676

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EXECUTIVE SUMMARY

The Report on the Financial Position of the Organization presents an overview of the unaudited results for the year ended 31 December 2012. The main points highlighted in the report are:

- **Regular Programme Liquidity Position.** As at 31 December 2012, the balance of Regular Programme cash, cash equivalents and short term deposits increased to USD 105.0 million (USD 61.3 million at 31 December 2011), mainly due to an improved rate of collection of current year assessments, as well as the settlement of arrears and a higher value of contributions received in advance for 2013, versus 2012.
- **Staff Related Liabilities.** During the year 2012, the Organization changed the accounting treatment of actuarial gains and losses from the corridor method to the reserves recognition approach. This resulted in the full recognition of all unrecognised actuarial losses (USD 296.0 million) within the Organization's retained earnings. The total liability of the four plans as at 31 December 2012 was USD 1,252.5 million.

Of the total liability of the four plans as at 31 December 2012; USD 871.2 million was unfunded (After Service Medical Coverage accounted for USD 795.8 million of the unfunded liability, whilst the Terminal Payments Fund accounted for the remaining unfunded portion of USD 75.4 million). The underfunding of the After Service Medical Coverage (ASMC) liability continues to be a cause of major structural deficit on the General Fund. Based on the Actuarial Valuation performed as at 31 December 2012, in order to fully fund these plans, a funding source of USD 26.8 million per annum for 30 years would be required for the ASMC, and a funding source of USD 6.5 million per annum for 15 years would be required for the TPF.

- **Available-for-sale Investments.** The value of available-for-sale investments at 31 December 2012 amounted to USD 372.0 million (USD 326.9 million at 31 December 2011) which represents both a recovery in market value as well as additional Conference-approved funding of USD 4.0 million. At the year end, there was a further Euro 1.6 million and USD 1.0 million of Member Nation contributions pending investment in to a new asset class, Emerging Market Debt, expected in early 2013. Market volatility continues to be a concern of the Organization and the situation is being closely monitored.
- **General and Related Fund Deficit.** The General Fund deficit increased from USD 641.3 million as at 31 December 2011 to USD 945.5 million. The increase has been driven predominantly by the full recognition as at 31 December 2012 of the Organization's defined benefit liability for its Staff related schemes, resulting in an additional USD 296.0 million deficit.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to note that while the liquidity position of the Organization at 31 December 2012 had improved compared to 31 December 2011 due to the payment of 2011 arrears; the improved collection of current year assessed contributions in 2012 of 89.2 percent compared to 82.5 percent in 2011; and additional advances received on 2013 assessments, the financial situation of the Organization during the latter part of 2012 was extremely precarious. Any potential cash flow concerns are exacerbated by the limited working capital reserves of the Organization, and consequently, the Organization's cash flow health continues to be dependent on the timing of payments by major contributors.
- The Finance Committee is also invited to take note that the increase in the deficit of the Organization to USD 945.5 million from USD 641.3 million as at 31 December 2011 reflected the fact that the Organization had implemented a change in accounting policy at the year end to fully recognize all actuarial losses on the defined benefit obligation of its staff related schemes.

Draft Advice

- **The Finance Committee noted that while the liquidity position of the Organization at 31 December 2012 had improved compared to December 2011, its on-going cash flow health was dependent on the timely payment of 2013 assessed contributions. 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.**
- **The Finance Committee noted the significant increase in the General Fund deficit due to the full recognition of the Staff Related Liabilities, and acknowledged the need to identify a funding source or alternative solution to mitigate the Organization's financial exposure.**

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 year ended 31 December 2012. The report is organized as follows:

- **Financial Results for the year ended 31 December 2012:**
 - i) **Statement of Assets, Liabilities, Reserves and Fund Balances** as at 31 December 2012 presented by source of funds and including comparative balances as at 31 December 2011- Table 1.
 - ii) **Statement of Income and Expenditure and Changes in Reserves and Fund Balances** for the year ended 31 December 2012 presented by source of funds and including comparative balances for the year ended 31 December 2010 - Table 2.
- **Summary Comment on Financial Results for the year ended 31 December 2012**
- **Cash Flow Forecast for 2013 to 31 December 2013**

Table 1

STATEMENT OF ASSETS, LIABILITIES, RESERVES and FUND BALANCES				
As at 31 December 2012				
(USD 000)				
	Funds		UNAUDITED	AUDITED
	General and Related	Trust and UNDP	31 December 2012	31 December 2011
ASSETS				
Cash and cash equivalents	105,031	479,337	584,368	568,490
Investments - held for trading	-	336,903	336,903	367,168
Contributions Receivable from Member Nations and UNDP	77,018	15,803	92,821	117,668
less: Provision for Delays of Contributions	(12,583)	(8,055)	(20,638)	(18,919)
Accounts Receivable	49,454	1,097	50,551	51,101
Investments - available-for-sale	371,972	-	371,972	326,873
TOTAL ASSETS	590,892	825,085	1,415,977	1,412,381
LIABILITIES				
Contributions Received in Advance	21,628	642,228	663,856	723,483
Unliquidated Obligations	46,487	139,025	185,512	196,171
Accounts Payable	44,521	-	44,521	39,069
Deferred Income	78,258	-	78,258	73,440
Staff Related Schemes	1,252,455	-	1,252,455	906,080
TOTAL LIABILITIES	1,443,349	781,253	2,224,602	1,938,223
RESERVES AND FUND BALANCES				
Working Capital Fund	25,654	-	25,654	25,654
Special Reserve Account	19,824	-	19,824	20,043
Capital Expenditure Account	4,727	-	4,727	14,474
Security Expenditure Account	2,831	-	2,831	4,646
Special Fund for Emergency and Rehabilitation Activities	-	43,832	43,832	43,329
Unrealised Gains / (Losses) on Investments	40,031	-	40,031	7,288
Fund Balances (deficit) , End of Period	(945,524)	-	(945,524)	(641,276)
TOTAL RESERVES AND FUND BALANCES	(852,457)	43,832	(808,625)	(525,841)
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	590,892	825,085	1,415,977	1,412,381

Table 2

INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES				
for the year ended 31 December 2012				
(USD 000)				
	Funds		UNAUDITED	
	General and Related	Trust and UNDP	31 December 2012	31 December 2010 Restated
INCOME:				
Assessment on Member Nations	494,304	-	494,304	515,636
Voluntary Contributions	56,585	693,780	750,365	881,107
Funds Received Under Inter-Organizational Arrangements	306	3,239	3,545	10,176
Jointly Financed Activities	18,486	-	18,486	18,075
Miscellaneous	10,935	856	11,791	11,723
Return on Investments - available-for-sale	8,450	-	8,450	16,171
Net Other Sundry Income	9,054	-	9,054	9,123
(Loss) / Gain on Exchange Differences	(4,184)	-	(4,184)	(35,318)
TOTAL INCOME	593,936	697,875	1,291,811	1,406,693
EXPENDITURE:				
Regular Programme	544,973	-	544,973	498,561
Projects	-	697,019	697,019	813,631
TOTAL EXPENDITURE	544,973	697,019	1,241,992	1,312,192
EXCESS OF INCOME OVER EXPENDITURE	48,963	856	49,819	94,501
Actuarial Gains or Losses	(14,537)	-	(14,537)	(20,022)
Interest Cost of Staff Related Liabilities	(48,629)	-	(48,629)	(58,671)
Provision for Contributions Receivable and Other Assets	(993)	-	(993)	1,258
Deferred Income	(4,818)	-	(4,818)	(14,254)
Net Movement in Capital Expenditure Account	9,748	-	9,748	(3,488)
Net Movement in Security Expenditure Account	1,815	-	1,815	(1,735)
NET EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE	(8,451)	856	(7,594)	(2,411)
Transfer of Interest to Donor Accounts	-	(856)	(856)	
Net Transfers from/(to) Reserves				(1,590)
Working Capital Fund	-	-	-	
Special Reserve Account	220	-	220	(680)
Change in Accounting Policy with respect to:				
Classification of Short Term Investment Income			-	(2,173)
Fund Balances, Beginning of Period (as previously reported)	(937,293)	-	(937,293)	(558,992)
FUND BALANCES, END OF PERIOD	(945,524)	0	(945,523)	(566,046)

Summary Comment on Preliminary Financial Results of the year ended 31 December 2012

Liquidity position and outstanding contributions

2. The liquidity of the Organization under the General Fund as represented by cash and cash equivalents totalled USD 105.0 million at 31 December 2012, an increase of USD 43.6 million from USD 61.4 million reported as at 31 December 2011. The increase in liquidity was driven by an improved rate of collections of the current assessments during 2012 (89.2% versus 82.5% as at 31 December 2011), as well as the settlement of arrears of contributions of over USD 21.0 million and EUR 49.3 million, and an increase in receipt of contributions paid in advance from USD 17 million in 2011 to USD 22 million in 2012.

3. Cash includes USD 1.0 million and Euros 1.6 million that have been received from Member Nations as partial payment of the 2012 ASMC fund past service cost assessment. These funds were pending investment at the year end date in to a new asset class, scheduled in the first quarter of 2013. The delay in investing these amounts through an intermediary investment portfolio was to avoid additional transaction costs. See paras. 20-21 for further discussion on the projected cashflow of the Organization in 2013.

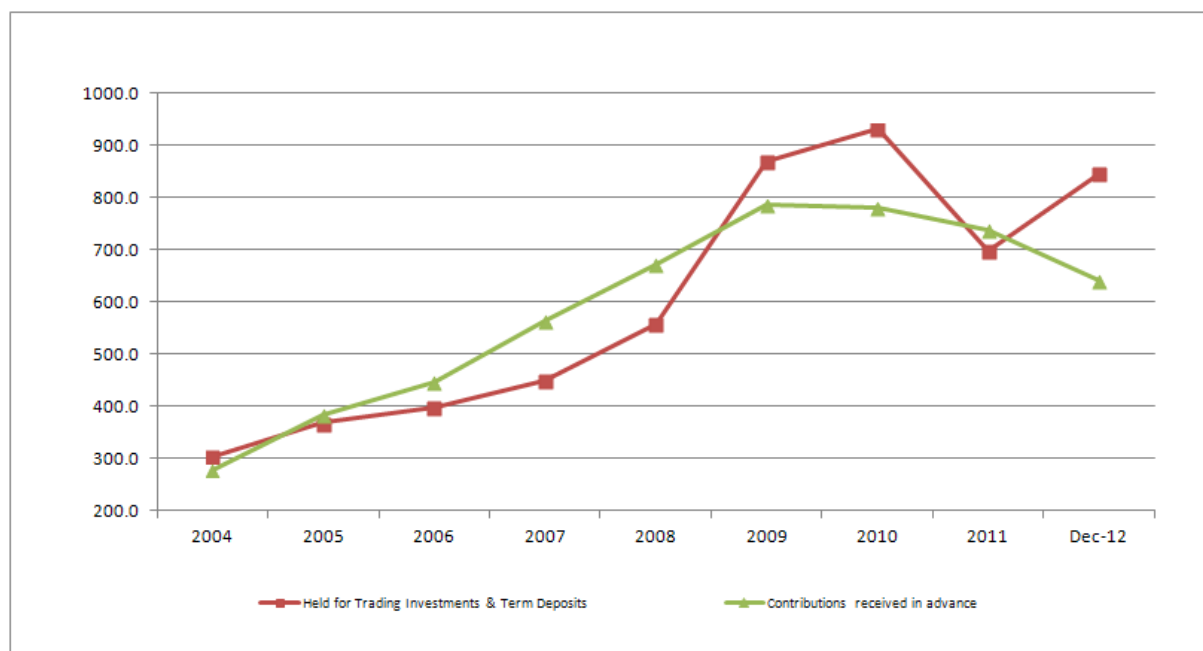
Investments - held for trading

4. The value of Investments - held for trading as at 31 December 2012 amounted to USD 336.9 million, and together with term deposits (USD 464.8 million) and cash balances included in the portfolios (USD 45.4 million) but reported within Cash and Cash Equivalents, represent mainly unspent Trust Fund balances held pending disbursements on project implementation.

5. FAO's prudent, conservative, low risk investment style and the continuing near zero interest rate environment in 2012 kept the returns on the held for trading investment portfolio very low, with an annual return of 0.27%. However, this exceeded the benchmark return of 0.05%. In 2011 the return figures were at 0.15 % compared to a benchmark return of 0.05 %.

6. Table 3 presents information on balances of the Trust Fund portion of Investments - held for trading and term deposits, and the correlation with contributions received in advance at the end of each year from 2004 to 31 December 2012.

Table 3



Investments - available-for-sale

7. Available-for-sale investment portfolios, which represent those investments set aside to fund the Organization's Staff Related Schemes, increased in value from USD 326.9 million at 31 December 2011 to USD 372.0 million as at 31 December 2012. The increase was due to several factors including:

- additional funding totalling USD 3.95 million was injected into the portfolio in line with the receipt of contributions which include specific Conference-approved funding towards the ASMC liability;
- during the year ended 31 December 2012, the return on the available-for-sale portfolio of investments generated a net gain of USD 41.1 million. Overall, the gain was due to favourable market conditions, including the effect of an improved EUR/ USD foreign exchange rate from 31 December 2011, and comprised USD 7.9 million of interest income, USD 32.7 million of net unrealised gains, net realised gains of USD 2.8 million, and offset by USD 2.3 million of management fees charged by the Organization's investment portfolios managers.

Staff Related Schemes

8. 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)

9. The results of the latest actuarial valuation as at 31 December 2012 and related funding requirements and issues are being presented in detail at the 148th Session of the Finance Committee in document FC 148/5 - *2012 Actuarial Valuation of Staff-Related Liabilities*.

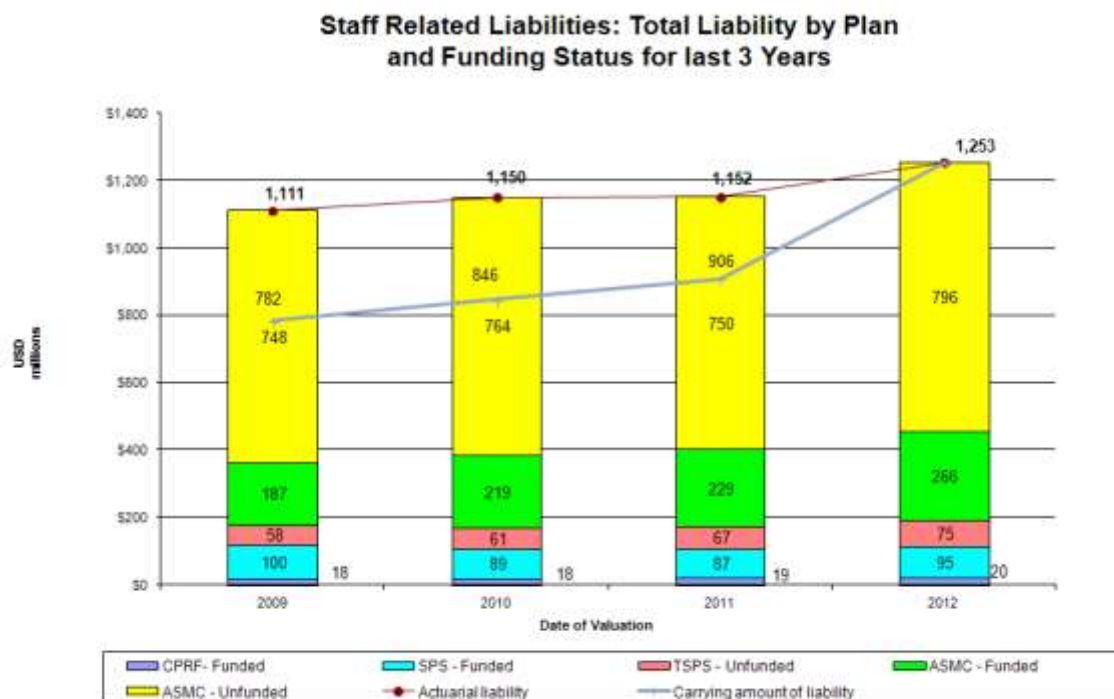
10. As at 31 December 2012 the Organization decided to stop using the "corridor method" to recognize actuarial gains and losses, in which excess Actuarial gains and losses over a threshold are amortized to the Statement of Income and Expenditure during the period. Consequently, the

Organization has implemented the "Reserve approach" to recognize all actuarial gains and losses in the period in which they occur in relation to ASMC, SPS, and TPF, as a separate item directly in net assets/equity. The CPRF plan is not considered a post employment benefit, but a long term liability and therefore all actuarial gains and losses continue to be recognised in full in the Income and Expenditure statement in the period which they occur. The change in policy was implemented as IPSAS is expected to change with respect to the corridor method and instead recommend the immediate recognition of all actuarial gains/losses. The change in relation to the first three plans resulted in the recognition of USD 296.0 million of actuarial losses as at 31 December 2012 directly in retained earnings.

11. The total liability of the Plans at 31 December 2012 amounted to USD 1,252.5 million (USD 1,152.1 million as at December 2011). During 2012, the Organization recorded a current service cost for all the Plans of USD 38.9 million and interest cost of USD 48.6 million. On ASMC, TPF and CPRF a total actuarial loss of USD 14.1 million was also recognised in the Income and Expenditure statement prior to the change in accounting treatment. Returns on the available-for sale 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 realised returns on the available-for sale portfolio fall short of the interest costs by some USD 40.2 million.

12. As at 31 December 2012 unfunded staff related liabilities amounted to USD 871.0 million of which After Service Medical Coverage (ASMC) accounts for USD 795.6 million and the Terminal Payments Fund (TPF) accounts for USD 75.4 million. Table 4 presents the analysis of the total actuarial liability by plan by funding status.

Table 4



General and Related Fund Balance

13. The General Fund deficit increased by USD 301.9 million from USD 641.3 million as at 31 December 2011 to USD 945.5 million as at 31 December 2012. Of the increase in the deficit, USD 296.0 million is a result of fully recognizing the liability for the Staff Related Schemes.

TCP Expenditure and Deferred Income

14. During 2012, TCP expenditure charged against the 2012 appropriation amounted to USD 12.0 million whilst that against the 2010-11 appropriation amounted to USD 35.5 million. The average monthly TCP expenditure during the period was USD 3.95 million, which represents a noticeable increase from the average expenditure during the comparative period ended 31 December 2010 of USD 3.2 million. As at 31 December 2012, the total TCP deferred income (i.e. the available appropriation) amounted to USD 72.9 million.

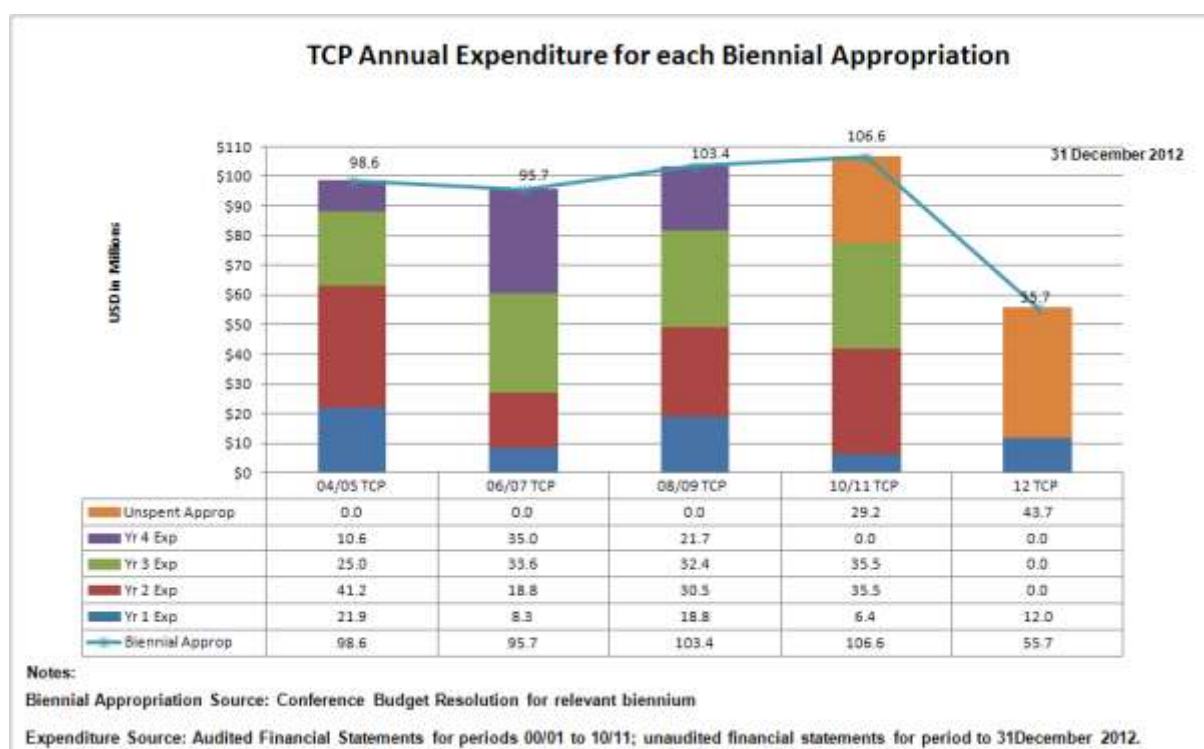
15. The average monthly TCP expenditure of all appropriations is shown in Table 5 below:

Table 5

Average monthly expenditure	Time period					
	2012	2010-11	2010	2008-09	2006-07	2004-05
	12 months	24 months	12 months	24 months	24 months	24 months
	3.95	4.0	3.2	4.9	2.5	5.2

16. 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 2004 to 31 December 2012. The expenditure incurred against the 2012 appropriation represents 21.6% of the available appropriation. The balance will be available for expenditure through 31 December 2015, together with the new appropriation for each calendar year. The expenditure incurred during 2012 against the brought forward balance on the 2010-11 appropriation represents 54.8% and is in line with the expectation of full utilisation by the end of the 2012-13 biennium.

Table 6



Immediate Plan of Action Deferred Income

17. As at 31 December 2011, as authorised by Conference Resolution 5/2001, the Organization carried forward USD 8.7 million of unspent balance on the 2010-11 appropriation for full implementation of the IPA, including one time IPA investment costs to be incurred during 2012-13 financial period. As at 31 December 2012, USD 3.4 million of the carry forward has been spent, of which USD 2.2 million was used to fund specialist working groups of the IPA Programme Management Unit, USD 0.5 million on IPA Communications and USD 0.9 million to strengthen Programming, budgeting and Results Based Monitoring.

Losses on Exchange Differences

18. During year ended 31 December 2012 the Organization recorded a net loss of USD 4.2 million, of which, the majority of the gross losses of the Organization were generated on the Euro portion of the Assessments on Member Nations¹. Actual cash backed foreign exchange differences incurred by the Organization amounted to USD 0.2 million loss during the period. This loss was transferred to the Special Reserve Account, in line with the agreement reached by Member Nations to cease transfer of Euro-to-Dollar translation differences (non-cash) to the SRA during the Finance Committee's 135th session and reported in document FC 135/2.

2013 Cash Flow Forecast (Regular Programme)

19. 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 1 January 2013 through 28 February 2013 and a forecast through 31 December 2013. All figures are expressed in millions of USD. The opening cash flow position of USD 105.0 million is higher than in previous years and due to significant receipts of assessments and arrears in the latter stages of 2012. The main points arising and assumptions included in the 2013 forecast data are as follows:

- The percentage of assessed 2013 contributions paid to the Organization by Member Nations in the first month of the year was 12.86 percent, a rate of receipt higher than at the end of January 2012 (8.57 percent). The improved collection rate results from receipts of the current assessments from Member Nations that typically pay later in the year (USD 27.3 million and EUR 4.0 million).
- During January 2013 two additional countries settled most of their arrears of contributions, generating an additional USD 10 million consolidated liquidity.

20. Based on Members' past payment patterns, the Regular Programme cash level for the initial months of 2013 is expected to be sufficient to cover operational needs. Current forecast follows the payment pattern of the largest contributors from 2012 and is subject to change upon receipt of confirmation from the Members of the expected payment dates. Certain assumptions regarding the collection of arrears from specific Member Nations have been confirmed and the Organization expects to receive USD 11.7 million and EUR 8.39 million by the end of March 2013 from a major contributor. Other assumptions of receipts of arrears are pending confirmations by respective Member Nations.

21. Based on the latest information from Member Nations regarding the expected payment dates, the Regular Programme cash level for 2013 is expected to be sufficient to cover operational needs throughout the year. However, in the event that the major contributors do not pay their contributions as expected, the liquidity of the Organization may be at risk in the second half of the year. 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 2013.

¹ 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.

Table 7

