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FINANCE COMMITTEE

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Annual Report on Budgetary Performance and Programme and Budgetary Transfers for the 2018-19 biennium.

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EXECUTIVE SUMMARY

- Conference resolution CR 12/2017 approved the 2018-19 budgetary appropriation of USD 1 005.6 million and the Programme of Work, subject to adjustments based on guidance provided by the Conference. The Council in December 2017 approved the revised distribution of the net appropriation by budgetary chapters in the Adjustments to the Programme of Work and Budget 2018-19 (CL 158/3).
- This report presents the forecasted biennial performance against the net appropriation updated to take account of the 2018 implementation of biennial work plans and corporate monitoring. Full expenditure of the 2018-19 net appropriation in Chapters 1 through 6 and 8 through 11 (the Strategic, Technical and Functional Objectives) is currently foreseen as shown in Table 1. In line with current practice, any unspent balances in the Technical Cooperation Programme (Chapter 7), Capital Expenditure (Chapter 13) and Security Expenditure (Chapter 14) will be transferred to the forthcoming biennium as per the Financial Regulations.
- Based on the forecasted performance against the 2018-19 net appropriation and in accordance with Financial Regulation 4.5(b), the Committee is requested to approve the forecasted transfers in favour of Chapters 1, 2, 3, 4 and 5.
- The unspent balance of the 2016-17 net appropriation of USD 3.9 million was allocated in 2018-19 through replenishment of the Special Fund for Development Finance Activities (SFDFA), as authorized by the Conference in July 2017 and confirmed by the Council in December 2017. The full amount has been earmarked to fund expenditure in support of climate change negotiations and development of Green Climate Fund projects.
- The next update on the forecasted performance against the 2018-19 net appropriation will be reported to the Committee for review and approval in November 2019. The final performance based on the 2018 and 2019 accounts will be reported in May 2020.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to take note of the forecasted 2018-19 budgetary out-turn arising from implementation of the Programme of Work as shown in Table 1 and to authorize the forecasted budgetary transfers.

Draft Advice

The Committee

- **took note of the forecasted 2018-19 budgetary performance arising from implementation of the Programme of Work; and**
- **authorized the forecasted budgetary Chapter transfers in favour of Chapters 1, 2, 3, 4 and 5 from Chapters 6 and 8 through 11.**

Introduction

1. Conference resolution 12/2017 approved the 2018-19 budgetary appropriation of USD 1 005.6 million and authorized the Director-General, notwithstanding Financial Regulation (FR) 4.2, to use any unspent balance of the 2016-17 appropriations for one-time use to support programmes of the Organization, including for the Special Fund for Development Finance Activities (SFDFA), in agreement with the Joint Meeting of the Programme and Finance Committees, and the Council at their meetings in November-December 2017¹.
2. The Council in December 2017 endorsed the Adjustments to the Programme of Work and Budget (PWB) 2018-19 and approved the modalities recommended by the Joint Meeting for use of unspent balance of the 2016-17 appropriations². The Council at its 159th session noted that the underspending of USD 3.9 million in the 2016-17 net budgetary appropriations expenditure would be entirely transferred to the SFDFA and requested an annual progress report on the funding and activities of the SFDFA³.
3. FR 4.1 authorizes the Director-General to incur obligations up to the budgetary appropriation voted by the Conference. In accordance with FR 4.6, the Director-General manages the appropriations so as to ensure that adequate funds are available to meet expenditures during the biennium. The FR 4.5 (a) calls for the Finance Committee to be notified of certain transfers between divisions and FR 4.5 (b) requires transfers from one chapter to another to be approved by the Finance Committee.
4. This report presents the forecasted budgetary performance against the 2018-19 net appropriation, seeks the Committee's approval for the budgetary chapter transfers arising from the implementation of the 2018-19 Programme of Work, and provides a progress report on the use of the 2016-17 unspent balance in 2018-19 through the SFDFA.

2018-19 Forecasted Budgetary Performance

5. The 2018-19 Programme of Work is implemented based on FAO's results-based monitoring framework. The extent to which FAO is on track to deliver the Outputs against indicators and targets at global, regional and national level is reported in the Mid-Term Review Synthesis Report 2018⁴. The resulting overall forecasted budgetary transfers arising from work planning and other implementation considerations are presented in column (e) of Table 1 for approval by the Finance Committee, and elaborated below.
6. Actual net delivery of 2018 net appropriation resources is shown in column (f) for Chapters 1 to 6 (Strategic Objectives and Objective 6) and 8 to 11 (Functional Objectives). It is based on expenditures and income as recorded in the 2018 unaudited accounts of the Organization prior to closure of the 2018 annual accounts in March 2019 (final figures will be reported in the Audited Accounts - FAO 2018, Statement V). Full expenditure of the 2018-19 net appropriation in Chapters 1 through 6 and 8 through 11 (the Strategic, Technical and Functional Objectives) is currently foreseen.

¹ C 2017/REP paragraph 76 and Conference Resolution 12/2017 paragraph 1)

² CL 158/3, CL 158/REP paragraphs 6-7 and 10 a)

³ CL 159/REP paragraph 6 h)

⁴ FC 175/7

Table 1: Forecasted 2018-19 Budgetary Performance by Chapter (USD 000)

Ch	Strategic/Functional Objective	Adjusted PWB 2018-19 (CL 158/3)	Forecasted Net Expenditure	Forecasted Balance vs. Appropriation	2018 Actual Net Expenditure
(a)	(b)	(c)	(d)	(e=c-d)	(f)
1	Contribute to the eradication of hunger, food insecurity and malnutrition	82,451	86,391	-3,940	35,802
2	Make agriculture, forestry and fisheries more productive and sustainable	197,117	198,208	-1,091	85,103
3	Reduce rural poverty	66,527	71,400	-4,873	29,738
4	Enable more inclusive and efficient agricultural and food systems	105,879	110,244	-4,365	45,622
5	Increase the resilience of livelihoods to threats and crises	54,350	56,670	-2,320	22,297
6	Technical quality, statistics and cross cutting themes (climate change, gender, governance and nutrition)	68,651	60,809	7,842	29,674
7	Technical Cooperation Programme	140,788	140,788	0	
8	Outreach	78,630	77,659	971	36,540
9	Information Technology	36,244	33,174	3,070	15,118
10	FAO governance, oversight and direction	70,548	66,866	3,682	28,751
11	Efficient and effective administration	64,535	63,513	1,022	30,084
12	Contingencies	600	600	0	0
13	Capital Expenditure	16,892	16,892	0	
14	Security Expenditure	22,421	22,421	0	
Total		1,005,635	1,005,635	0	

*The Net Expenditure total in column (d) excludes expenditure funded from the USD 3.9 million 2016-17 carryover, which is outside the 2018-19 net appropriation.

7. The forecasted budgetary transfers under the Strategic Objectives (Chapters 1 through 5) arise partially from support to emerging cross-cutting areas of programmatic priority through the Multidisciplinary Fund. To ensure that the Strategic Programmes work together and support delivery at country level, the Multidisciplinary Fund of USD 10 million budgeted in Chapter 6 is allocated to the Strategic Programme Leaders (currently estimated at USD 2 million in each Strategic Objective) to fund selected proposals in support of the Regional Initiatives and work of the Strategic Programmes at country level.

8. The forecasted budgetary performance in Chapters 1 through 5 is also impacted by detailed work planning that resulted in realignment of some costs under the most appropriate Strategic Objectives, as well as the payment of the FAO cost share contribution of USD 4.7 million for the Resident Coordinator System for 2019, as authorized by Council⁵. The unbudgeted portion of this contribution of USD 2.55 million has been funded from the forecasted favourable variance in staff costs, as outlined below.

9. The forecasted transfer of USD 3 million out of *Chapter 9* (Information Technology) is mainly due to the lower IT infrastructure and support services costs with the continuous shift towards exploiting the outsourcing opportunities now readily available in the IT marketplace. The forecasted transfers of USD 1 million, USD 3.7 million and USD 1 million out of *Chapters 8* (Outreach), *10* (FAO Governance) and *11* (Administration), respectively are based on the forecasted change in distribution of recoveries from projects following the progressive implementation of the new cost recovery model, as outlined below.

10. The staff cost variance is the difference between budgeted and actual staff costs in a biennium. For the 2018-19 biennium, a USD 9.0 million favourable staff cost variance, net of currency variance, is forecasted. The main factors contributing to the favourable variance in 2018-19 are the lower post adjustment multiplier for professional staff in Rome as a result of the cost-of-living survey that became effective on a gradual basis from 1 August 2017, as well as lower than budgeted expenditures for education grant, entitlement travel, dependency allowance, and rental subsidy.

11. Most of the underlying causes of any difference between the actual and standard unit costs of staff, such as the results of the cost-of-living survey or the actuarial valuations, are beyond the control of the Organization. The staff cost variance is centrally monitored and any surplus or deficit is charged at the end of the year to the financial accounts across all programmes in proportion to the staff costs incurred at standard rates.

12. FAO's new Cost Recovery Policy, based on the Comprehensive Financial Framework for cost recovery approved by the FAO Council in 2015⁶ was gradually introduced starting in January 2018. The revised policy is designed to ensure that FAO's costs are correctly measured and distributed among all funding sources, consistent with UN-system policy and UN General Assembly-encouraged practices.⁷ The updated methodology for categorizing and measuring costs ensures that charges closely reflect actual project costs and improves transparency, equitability and accountability to Members and resource partners.

13. Under the new cost recovery model, the distribution of recoveries across the budgetary chapters has changed, with, in particular, a higher share going to Chapters 8 (Outreach) and 10 (FAO governance, oversight, and direction). The recoveries against budgeted amounts are being closely monitored and any foreseen variances will be reported in November 2019.

⁵ CL 160/REP paragraph 10 c)

⁶ CL 151/REP paragraph 11 e) and FC 157/10

⁷ UN General Assembly Resolution 71/243, paragraph 35

14. Some other variations in budgetary performance by Chapter may still occur, including on account of variations in the final average percentage of expenditures in Euro compared with the assumptions in the forecasts.

Use of the 2016-17 unspent balance

15. As authorised by the Council⁸, the unspent 2016-17 balance of USD 3.9 million is being used, through replenishment of the SFDDFA, to advance financing to provide technical assistance and investment programming for development finance in 2018-19. At this time, the full USD 3.9 million has been earmarked to fund expenditure in support of climate change negotiations and development of Green Climate Fund projects.

16. In 2018, FAO, as Green Climate Fund (GCF) Implementing Entity, continued to engage in a strategic exchange and dialogue with the GCF Secretariat, attended GCF Board meetings, and supported a large number of countries in preparing readiness projects or fully-fledged GCF proposals. Out of a total of 82 country requests for support, FAO has prioritized 27 countries for Early Action on full-scale projects. In 2018, FAO has submitted three full-scale projects to the GCF (El Salvador, Kyrgyzstan and Pakistan) and two Concept Notes, the required first stage of proposal submission (Nepal and the Sudan). Two full projects in El Salvador and Paraguay (submitted in 2017) have been approved in 2018 for a total project value of USD 218 million, of which USD 60.9 million in grant funding. FAO has also received approval for 12 Green Climate Readiness and National Adaptation Plans (NAP) projects for a value of approximately USD 10 million.

⁸ CL 158/REP paragraph 10 a) and CL 159/REP paragraph 6 h)