



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

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

## FINANCE COMMITTEE

### Hundred and Fifteenth Session

Rome, 25 – 29 September 2006

### Measures to Improve the Organization's Cash Shortage Situation

#### *Executive Summary*

1. The impact of delays in payment by Member Nations of assessed contributions and ways to improve the Organization's cash shortage situation have been discussed by the Finance Committee at each of its recent past Sessions<sup>1</sup>. At its 113<sup>th</sup> Session in May 2006 the Committee, concerned with the Organization's worsening cash flow situation and its recourse to external borrowing, reviewed document FC 113/11 which described alternative measures that could be introduced to improve the Organization's cash shortage situation, including measures already in place to encourage timely payment of contributions, incentives, sanctions, measures proposed in the past but not adopted and recent UN system experience in contributions.
2. The Committee, recognizing the need for further consideration of the range of matters discussed, resolved to return to the subject at its September 2006 Session, with particular attention to the causes of cash shortages, *inter alia*, delays in payments, arrears and expenditure patterns.
3. This paper includes:
  - updated results of the survey of Member Nations on factors influencing payment
  - a table summarizing arrangements currently in place to encourage timely payment, measures discussed in the past by the Finance Committee but not implemented, and a series of proposals made by one Committee member during the 113<sup>th</sup> Session
  - an option to increase the level of the Working Capital Fund as a way to reduce external borrowing

<sup>1</sup> Main documents recently discussed by the FC in this regard:

108th Session of FC: 27 September – 1 October 2004 (Analysis of Contributions Received and proposals for Improvement)

109th Session of FC: 9-13 May 2005 (Incentive Scheme to encourage Prompt Payment of Contributions-Analysis of Impact of Zero Discount Rate)

110th Session of the FC: 19-23 September 2005 (Acceptance of Local Currency from Developing Countries in Payment of Assessed Contributions)

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4. As foreseen at its 113<sup>th</sup> Session in May 2006, aided by the information provided in this paper and with updated results of the survey of Member Nations, the Committee is requested to review the various alternative measures to improve the Organization's cash situation (including the option to increase the level of the Working Capital Fund) and make a comprehensive recommendation to the November 2006 session of Council. The Committee should also advise on continuation in 2007 of the zero discount rate for the Incentive Scheme to Encourage Prompt Payment of Contributions as set by Council in November 2004.

## Introduction

5. At its 113<sup>th</sup> Session in May 2006 the Committee, concerned with the Organization's worsening cash flow situation, which had forced the Organization to resort to external borrowing, reviewed document FC 113/11 which described alternative measures to improve the Organization's cash shortage situation, including measures already in place to encourage timely payment of contributions, incentives, sanctions, measures proposed in the past but not adopted and recent UN system experience in contributions. The Committee also reviewed the results of the survey of Member Nations which had been carried out by the Secretariat at the request of the Committee to identify those issues that influenced the timing of payments or the reasons for non-payment of assessed contributions. The Committee noted the low response to the survey and requested that the Secretariat continue to gather responses.

6. The Committee also discussed at length a series of proposals made by one Committee member, including proposals to encourage payment of arrears, proposals regarding the involvement of the Governing Bodies in external borrowing and proposals on voluntary contributions by Member Nations in arrears.

7. Recognizing the need for further consideration of the range of matters discussed, the Committee resolved to return to the subject at its September 2006 Session, with particular attention to the causes of cash shortages, *inter alia*, delays in payments, arrears and expenditure patterns. The Committee requested that the Secretariat prepare a comprehensive paper including further results of the survey and details of all of the proposals discussed to date (including proposals made by one Committee member) for review by the Committee at the September 2006 Session. The Committee resolved to review this paper with a view to making a comprehensive recommendation to the November 2006 session of Council.

8. This paper, prepared at the Committee's request, includes:

- updated results of the survey of Member Nations
- a table summarizing arrangements currently in place to encourage timely payment, measures discussed in the past by the Finance Committee but not implemented, and a series of proposals made by one Committee member during the 113<sup>th</sup> Session
- the option to increase the level of the Working Capital Fund to reduce external borrowing
- in addition, a recommendation is sought concerning continuation in 2007 of the zero discount rate for the Incentive Scheme to Encourage Prompt Payment of Contributions.

## Results of Survey of Member Nations

9. At the request of the Finance Committee at its 109<sup>th</sup> Session in May 2005, the Secretariat conducted a survey of Member Nations to identify those issues that influence the timing of payments or the reasons for non-payment of assessed contributions. Ad-hoc questionnaires listing specific questions in this regard were sent in December 2005 to all Member Nations together with the Annual Call Letters for the 2006 Assessed Contributions. The questionnaire called for Government responses to reach the Secretariat by the end of February 2006 in order for the results to be presented to the May 2006 Session of the Finance Committee. As at 8 May 2006 only 49 responses had been received and the Committee, noting the low response to the survey, requested the Secretariat to continue gathering responses. Follow-up letters were sent on 21 March 2006, 28

April 2006 and 18 July 2006 to the Permanent Representations of all those Members that had not replied. In addition, representatives from Finance Division met briefly with certain Regional Groups to request their assistance in following up with Member Nations which had not responded to the questionnaire.

10. A brief summary of the responses received as of 18 July 2006 is as follows:

Questionnaires sent in December 2005	188
<i>Less:</i> Replies received as at 18 July 2006	59
Follow-up Letters sent on 18 July 2006	<u>129</u>

11. The final results of the survey will be summarized and tabled for the Committee's review as a working paper update.

12. Preliminary results show that 46 of the responses indicated that the annual budget cycle at the national level was the main factor which influenced timing of payments. 13 Member Nations mentioned deteriorating economic conditions as the reason for non-payment. Only one Member Nation cited difficulty in procuring freely convertible currency to pay FAO contributions.

### **Summary of measures to encourage timely payment**

13. The following table summarizes all measures considered to date with regard to encouraging timely payment of contributions. These include: measures currently in place to encourage timely payment, measures discussed in the past by the Finance Committee but not implemented, and the proposals made by one Committee member during the 113<sup>th</sup> Session. Several of the proposals have been discussed on more than one occasion by the Finance Committee and for ease of reference, individual measures are referenced to the most recent FC document/session in which they were discussed.

<b>Measures to improve cash shortage situation</b>	<b>Reference to FC document/Session</b>
<b>Measures currently in place</b>	
a) 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.	FC 113/11
b) In accordance with procedures established during the 2002-03 biennium, statements of contributions outstanding are sent by the Finance Division to Member Nations on a quarterly basis.	FC 113/11
c) 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.	FC 113/11
d) 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.	FC 113/11
e) Since September 2003 the Finance Division has sent to all FAO Regional Offices and Sub-Regional Offices a detailed	FC 113/11

	report every three months describing the contributions position of all Member Nations in their region, with the request that FAO officials follow-up with local authorities to ensure payment is made.	
f)	Country briefs are provided to the Director-General on an on-going 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.	FC 113/11
g)	Letters are sent periodically by the Assistant Director-General, AF 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.	FC 113/11
h)	Ongoing contacts with Permanent Representations and Representatives to FAO.	FC 113/11
i)	A mechanism introduced by Conference in 1991 with the view to encourage the timely payment of contributions is the Incentive Scheme to Encourage Prompt Payment of Contributions. The Committee will recall that the discount rate was temporarily set at zero by a Council decision in November 2004. During its 115 <sup>th</sup> Session, the Committee should advise on continuation of the zero discount rate. Should the Committee decide to re-instate a non-zero discount rate to be used to apply credits to 2007 contributions, the Committee will be requested to concur with a proposed discount rate to be used. In such case, the Secretariat will provide details of such proposed rate in the form of a working paper.	FC 113/11
j)	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).	FC 113/11
k)	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).	FC 113/11
l)	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).	FC 113/11
<b>Measures discussed in the past but not implemented</b>		
m)	A proposal to consider amounts due to the Working Capital Fund and Special Reserve Account as "contributions" in accordance with Article III.4 and GRO XXII-5 and XXII-7 (considered in 1994).	FC 113/11
n)	A proposal to amend the sanctions under Article III.4 and GRO XXII-5 and XXII-7 so that only one year of arrears would have resulted in the loss of voting rights (instead of two) (considered in 1991).	FC 113/11
o)	Extension of the restriction under GRO XXII-5 & XXII-7 to include loss of seat in the Finance and Programme	FC 113/11

Committees (considered in 1991).	
p)	To facilitate the payment of contributions by those Member Nations with limited availability of convertible currency, the Finance Committee at its 77th Session in September 1993 and again at its 110 <sup>th</sup> Session in September 2005 considered a proposal to recommend derogation from Financial Regulation 5.6 which would have allowed, under certain conditions, the Secretariat to accept contributions in non-freely convertible local currencies.
<b>Measures Proposed by Japan at FC 113 Session</b>	
q)	Member Nations in arrears more than the amount of the contributions due from them for the two preceding calendar years are required to submit an instalment plan to the Finance Committee for review. <sup>2</sup>
r)	Member Nations in arrears less than the amount of the contributions due from them for two preceding calendar years are required to provide written explanation on the reason of their arrears to the Finance Committee for review.
s)	All Member Nations are encouraged to submit in the beginning of each year payment schedule of assessments.
t)	The practice of automatically restoring voting rights for all Member Nations on the first day of the Conference should be immediately discontinued.
u)	The Finance Committee, at their regular meetings, should review recent borrowing and borrowing forecasts of the Secretariat
v)	The Secretariat will identify and implement measures to avoid cash flow crises.
w)	A set of guidelines are to be developed on the provision of voluntary contributions by Member Nations in arrears.

### Option to Increase the Level of the Working Capital Fund

14. As provided in the Basic Texts (Financial Regulation 6.2 (a)(i)), the main purpose of the Working Capital Fund is to advance moneys on a reimbursable basis to the General Fund in order to finance budgetary expenditures pending receipt of contributions to the budget.

15. It is recalled that Conference approval of the Programme of Work and Budget constitutes an authorization (under Financial Regulation 4.1) for the Organization to incur obligations and make payments to deliver the programme. The lengthy process of negotiation and approval of the biennial programme of work reflects the expectation by Member States that the approved programme of work be implemented in full and for this reason the Membership is called upon to make full and prompt payment of assessed contributions.

16. While the expenditure patterns of the Organization are fairly constant throughout each year (see Table 5 in document FC115/2, Financial Highlights and Status of Current Assessments and Arrears), the impact of delays in payments of Members' assessments has become increasingly acute in the last few years. The Organization's cash inflow became insufficient in 2004, when for

<sup>2</sup> See also paragraphs 32 and 33 of the Report of the 2005 Conference (C2005/REP)

the first time in a decade external borrowings were briefly required. In 2005 the Regular Programme cash inflow worsened considerably, when borrowing started in August and lasted without interruption to February 2006 (with peak borrowing of US\$ 71 million at end-2005). The Organization's cash position again turned negative in late June 2006, two months earlier than in 2005, and recourse to external borrowing was required. As noted in the Financial Highlights paper (see FC 115/2, paras 10-12), the interest cost of borrowing during 2006 is estimated to be some US\$ 1,000,000. The Organization is forced to borrow when contributions are not received on a timely basis and after any available balance on the Working Capital Fund has been advanced to the General Fund.

17. Recourse to external borrowing is in each instance preceded by full utilization of the Working Capital Fund, the level of which was last increased in 1991 to US\$25 million by special assessments to all Members (Conference Resolution 15/91), plus any available balance of the Special Reserve Account, which by Conference resolution is also to be advanced to the General Fund pending receipt of contributions. For many years the level of the Working Capital Fund proved sufficient for such purposes. However, deterioration in payments from Members in 2004, 2005 and again in 2006, required full use of the Working Capital Fund which was shown to be insufficient to avoid borrowing. Given the extent of interest costs sustained for external borrowing, one solution to delay recourse to external borrowing would be to significantly increase the level of the Working Capital Fund.

18. As Members' payment patterns result in a forecast of borrowing levels of up to US\$ 60-70 million for an extended period in 2006, a Working Capital Fund level of US\$75 million may be advisable. Such level would represent approximately two months of the Organization's cash outflow and such amount has been cited in past Committee sessions as a prudent cash holding position. Additional assessments on Members totalling some US\$50 million would be required to increase the reserve from the current level of US\$ 25 million. Should the Finance Committee advise that a way to limit the need for recourse to external borrowing would be to increase the level of the Working Capital Fund, a Draft Resolution in this sense could be considered at the May 2007 Session and, if endorsed by the Committee, forwarded to Council and Conference for decision.

## **Conclusions**

19. The 2004-05 biennium saw a net increase of US\$72 million of unpaid contributions (both current assessments and arrears) due to the very low collection rate in 2005 when only 75% of current assessments were received. Delays in payment of current assessments and non-payment of arrears can cause the Organization to consume its statutory reserves for operating needs and, when these are depleted, to approach the banking sector to negotiate loans. The Secretariat in recent years has intensified its efforts both at Headquarters and in Regional Offices by reminding Member Nations of their obligations and soliciting payments of current contributions and arrears. While there had been improvement in the collection of arrears during the first months of 2006 which significantly reduced the overall balance of unpaid contributions, the status of contributions as at 30 June 2006 shows a decrease in the rate of collections of current assessments compared to previous years (see document FC 115/2). The Organization therefore again faces significant difficulties in cash flow due to late payment of important current assessments (see 2006 Cash Flow Forecast in document FC 115/2).

20. The Finance Committee is urged to draw the attention of the Council to the need for all Member Nations to make timely payment of assessed contributions. Only timely payment by Members of their assessments will ensure that FAO can meet the operating cash requirements for the Programme of Work without recourse to statutory reserves or to external borrowing.

21. As agreed at its 113th Session in May 2006, aided by the information provided in this paper and in the update of the results of the survey of Member Nations, the Committee is requested to review the various alternative measures to improve the Organization's cash situation

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(including the option to increase the level of the Working Capital Fund) and make a comprehensive recommendation to the November 2006 session of Council. The Committee should also advise on continuation in 2007 of the zero discount rate for the Incentive Scheme to Encourage Prompt Payment of Contributions as set by Council in November 2004.

**Measures Proposed by Japan at 113<sup>th</sup> Session of the Finance Committee**  
**Attachment to FC 115/6 (Page 1 of 2)**

PROPOSALS TO ENCOURAGE THE PAYMENT OF ARREARS

**(1) Member Nations in arrears more than the amount of the contributions due from them for the two preceding calendar years are required to submit an Instalment Plan to the Finance Committee for review** (in principle, for the period of up to six years in accordance with the practices at UN Headquarters, in order to raise the awareness of Member countries with arrears and improve the transparency and predictability of future financial condition of FAO.)

The Finance Committee will provide its recommendation on approval or denial of the restoration of their voting rights to the Council and Conference.

Due consideration will be given to Member Nations with extremely difficult condition, such as involved with military conflict, devastated by natural disaster or in the stage of rehabilitation / reconstruction from such conflict / disaster.

**(2) Member Nations in arrears, less than the amount of the contributions due from them for two preceding calendar years are required to provide written explanation on the reason of their arrears to the Finance Committee for review.**

**(3) All Member Nations are encouraged to submit in the beginning of each year payment schedule of assessments. (4) The practice of automatically restoring voting rights for all Member Nations on the first day of the Conference should be immediately discontinued.** (The restoration of voting rights should only be authorized by the Conference in exceptional circumstances, and, in each case, on the basis of advice from the Finance Committee. Countries wishing to have their voting rights restored should submit a request for consideration by the Finance Committee preceding the Conference stating clearly the grounds on which they wish to have their voting rights restored.)

Conference Report 2005C/REP (for reference)

32. The Conference expressed its concern at the high number of Member Nations in arrears and held the view that any past recommendations that voting rights be restored for all Member Nations on the first day of the Conference, or upon submission of a letter to that effect, should not be regarded as preventing the Conference from taking a different position in future. While taking note of Article III, paragraph 4 of the Constitution whereby the Conference may permit a Member Nation in arrears to vote if it is satisfied that the failure to pay is due to conditions beyond the control of the Member Nation, the Conference recommended that, in future, the normal course of action in respect of Member Nations in arrears should consist in actively encouraging them to submit an Instalment Plan for the settlement of such arrears, as a condition for the restoration of their voting rights.

33. The Conference recommended that consideration be given in future that requests for restoration of Voting Rights should be referred to the Director-General for submission to the Autumn Session of the Finance Committee, in Conference years, which would submit its view to the Conference, through the Council, for consideration by the General Committee, without prejudice to the authority of the Conference to make autonomous determinations under Article III, paragraph 4 of the Constitution.

**Measures Proposed by Japan at 113<sup>th</sup> Session of the Finance Committee**  
**Attachment to FC 115/6 (Page 2 of 2)**

PROPOSALS ON INVOLVEMENT OF THE GOVERNING BODIES IN EXTERNAL  
BORROWING BY THE SECRETARIAT

- (a) The Finance Committee and the Council, at their regular meetings, review recent borrowing and borrowing intentions of the Secretariat, and
  
- (b) The Secretariat identify and implement measures to avoid cash flow crises.

PROPOSALS ON VOLUNTARY CONTRIBUTION BY MEMBER NATIONS IN ARREARS

A set of guidelines are to be developed on the provision of voluntary contributions by Member Nations in arrears.

The guidelines should *inter alia* contain:

- (a) criteria for voluntary contribution by Member Nations in arrears, which may be limited to emergency programmes within a certain amount, or
  
- (b) the introduction of a mechanism that would require Member Nations in arrears wishing to contribute voluntarily to provide written explanation of the intention of the contributions to the Chairperson of the Finance Committee.