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Food and Agriculture
Organization of the
United Nations

Organisation des Nations
Unies pour l'alimentation
et l'agriculture

Продовольственная и
сельскохозяйственная организация
Объединенных Наций

Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Sixty-sixth Session

Rome, 27 - 31 March 2017

Financial Position of the Organization

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EXECUTIVE SUMMARY

- This document presents an update to the Finance Committee on the financial position of the Organization as at 31 December 2016.
- Regular Programme Liquidity Position - As at 31 December 2016, the balance of Regular Programme cash, cash equivalents and short term deposits increased to USD 234.3 million (USD 113.3 million at 31 December 2015).
- Staff Related Liabilities - The total liability of the four plans as at 31 December 2016 was USD 1,319.2 million of which USD 875.6 million was unfunded (After Service Medical Coverage accounted for USD 815.7 million of the unfunded liability, whilst the Terminal Payments Fund accounted for the remaining unfunded portion of USD 59.9 million). The underfunding of the After Service Medical Coverage (ASMC) liability continues to be a cause of major structural deficit on the General Fund.
- Available-for-sale Investments - The value of long term investments at 31 December 2016 amounted to USD 443.6 million (USD 414.3 million at 31 December 2015). The increase of USD 29.3 million was due to several factors including a positive performance across equity and fixed income investments, and additional ASMC funding of approximately USD 7.7 million.
- General and Related Fund deficit - The General Fund deficit decreased from USD 922.2 million as at 31 December 2015 to USD 912.4 million as at 31 December 2016.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note that while the liquidity position of the Organization is stable, its on-going cash flow health is dependent on the timely payment of assessed contributions, and to urge all Member Nations to make timely and full payment of assessed contributions;
- The Committee is also invited to take note of the decrease in the deficit of the Organization to USD 912.4 million as at 31 December 2016 from USD 922.2 million as at 31 December 2015.

Draft Advice

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; and**
- **Took note of the amount of the General Fund deficit which was principally due to unfunded Staff Related Liability charges.**

Introduction and Contents

1. The update of 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 2016. The report is organized as follows:

- Financial Results for the year ended 31 December 2016:
 - i) Statement of Assets, Liabilities, Reserves and Fund Balances as at 31 December 2016 presented by source of funds and including comparative balances as at 31 December 2015 - Table 1.
 - ii) Statement of Income and Expenditure and Changes in Reserves and Fund Balances for the year ended 31 December 2016 presented by source of funds and including comparative balances for the year ended 31 December 2014 - Table 2.
- Summary Comment on Financial Results for the year ended 31 December 2016.
- Cash Flow for 2017 to 31 December 2017.

Table 1

STATEMENT OF ASSETS, LIABILITIES, RESERVES and FUND BALANCES

As at 31 December 2016

(USD 000)

UNAUDITED

AUDITED

	Funds		Total	
	General and Related	Trust and UNDP	31 December 2016	31 December 2015
ASSETS				
Cash and Cash Equivalents	234,330	446,892	681,222	561,885
Investments - Held for Trading	-	527,792	527,792	519,974
Contributions Receivable from Member Nations and UNDP	82,235	10,910	93,145	128,037
less: Provision for Delays of Contributions	(27,747)	(8,545)	(36,292)	(19,587)
Accounts Receivable	42,689	1,555	44,244	108,036
Investments - Available for Sale	443,641	-	443,641	414,263
TOTAL ASSETS	775,148	978,604	1,753,752	1,712,608
LIABILITIES				
Contributions Received in Advance	30,216	732,918	763,134	795,083
Unliquidated Obligations	48,488	214,762	263,250	261,415
Accounts Payable	59,021	-	59,021	55,086
Deferred Income	81,910	-	81,910	79,676
Staff Related Schemes	1,319,199	-	1,319,199	1,124,720
TOTAL LIABILITIES	1,538,834	947,680	2,486,514	2,315,980
RESERVES AND FUND BALANCES				
Working Capital Fund	25,745	-	25,745	25,745
Special Reserve Account	25,895	-	25,895	26,864
Capital Expenditure Account	33,327	-	33,327	27,188
Security Expenditure Account	21,995	-	21,995	19,403
Special Fund for Emergency and Rehabilitation Activities	-	30,924	30,924	38,604
Unrealised Gains / (Losses) on Investments	42,255	-	42,255	11,109
Actuarial (Gains)/ Losses	(472)	-	(472)	169,897
Fund Balances (deficit) , End of Period	(912,431)	-	(912,431)	(922,182)
TOTAL RESERVES AND FUND BALANCES	(763,686)	30,924	(732,762)	(603,372)
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	775,148	978,604	1,753,752	1,712,608

Table 2

INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
for the year ended 31 December 2016
(USD 000)

	Funds		UNAUDITED	
	General and Related	Trust and UNDP	31 December 2016	31 December 2014
INCOME:				
Assessment on Member Nations	483,174	-	483,174	522,495
Voluntary Contributions	67,289	690,375	757,664	789,142
Funds Received Under Inter-Organizational Arrangements	228	1,898	2,126	3,288
Jointly Financed Activities	19,918	-	19,918	16,661
Miscellaneous	12,402	1,372	13,774	13,172
Return on Investments - Long-Term	(9,514)	-	(9,514)	10,368
Net Other Sundry Income	9,238	-	9,238	10,418
(Loss) / Gain on Exchange Differences	3,071	-	3,071	(7,515)
TOTAL INCOME	585,806	693,644	1,279,450	1,358,029
EXPENDITURE:				
Regular Programme	514,843	-	514,843	542,628
Projects	-	692,272	692,272	722,858
TOTAL EXPENDITURE	514,843	692,272	1,207,115	1,265,486
EXCESS OF INCOME OVER EXPENDITURE	70,963	1,372	72,335	92,543
Actuarial Gains or Losses	-	-	-	(1,061)
Interest Cost of Staff Related Liabilities	(35,633)	-	(35,633)	(49,723)
Prior service credit on Staff Related Liabilities	2,746	-	2,746	-
Provision for Contributions Receivable and Other Assets	(16,916)	-	(16,916)	(1,058)
Deferred Income	(2,234)	-	(2,234)	(11,875)
Net Movement in Capital Expenditure Account	(6,139)	-	(6,139)	(9,500)
Net Movement in Utilisation of Security Expenditure Account	(2,592)	-	(2,592)	(2,937)
NET EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE	10,195	1,372	11,568	16,389
Transfer of Interest to Donor Accounts	-	(1,372)	(1,372)	(503)
Net Transfers from/(to) Reserves				
Working Capital Fund	(1,407)	-	(1,407)	-
Special Reserve Account	969	-	969	(2,704)
Fund Balances, Beginning of Period (as previously reported)	(922,188)	-	(922,188)	(875,366)
Fund Balances, Beginning of Period				
FUND BALANCES, END OF PERIOD	(912,431)	-	(912,431)	(862,184)

Summary Comment on Preliminary Results of the year ended 31 December 2016

Liquidity position and outstanding contributions

2. The liquidity of the Organization under the General Fund as represented by cash and cash equivalents totalled USD 234.3 million at 31 December 2016 (USD 113.3 million as at 31 December 2015).

Investments - held for trading

3. The value of "Investments - held for trading" as at 31 December 2016 amounted to USD 665.2 million (of which USD 137.4 million was reported within cash and cash equivalents as their duration was less than 3 months) and together with "term deposits" of USD 461.5 million (disclosed within cash and cash equivalents), for a total of USD 1,126.7 million¹ (USD 1,026.0 million as at 31 December 2015) mainly represented unspent balances on Trust Fund projects.

4. FAO's prudent, low risk investment style and the continuing near zero interest rate environment for the first half of 2016 kept the returns on the held for trading investment portfolio very low, with a return of 0.63% through 31 December 2016. This however, exceeded the benchmark return of 0.21% by 0.42%.

Investments - available-for-sale

5. Available-for-sale investment portfolios, which represent those investments set aside to fund the Organization's Staff Related Schemes, increased in value from USD 414.3 million at 31 December 2015 to USD 443.6² million as at 31 December 2016. The overall increase was due to several factors including a positive performance for the equity investments and additional ASMC funding of approximately USD 7.7 million.

- Overall performance of the long term funds was approximately 5.35%
- Additional funding of USD 2.7 million and Euro 4.6 million were injected into the portfolio towards the ASMC liability

Staff Related Schemes

6. 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)

7. The results of the latest actuarial valuation as at 31 December 2016 and related funding requirements and issues are presented to the 166th Session of the Finance Committee in document FC 166/5, 2016 Actuarial Valuation of Staff-Related Liabilities.

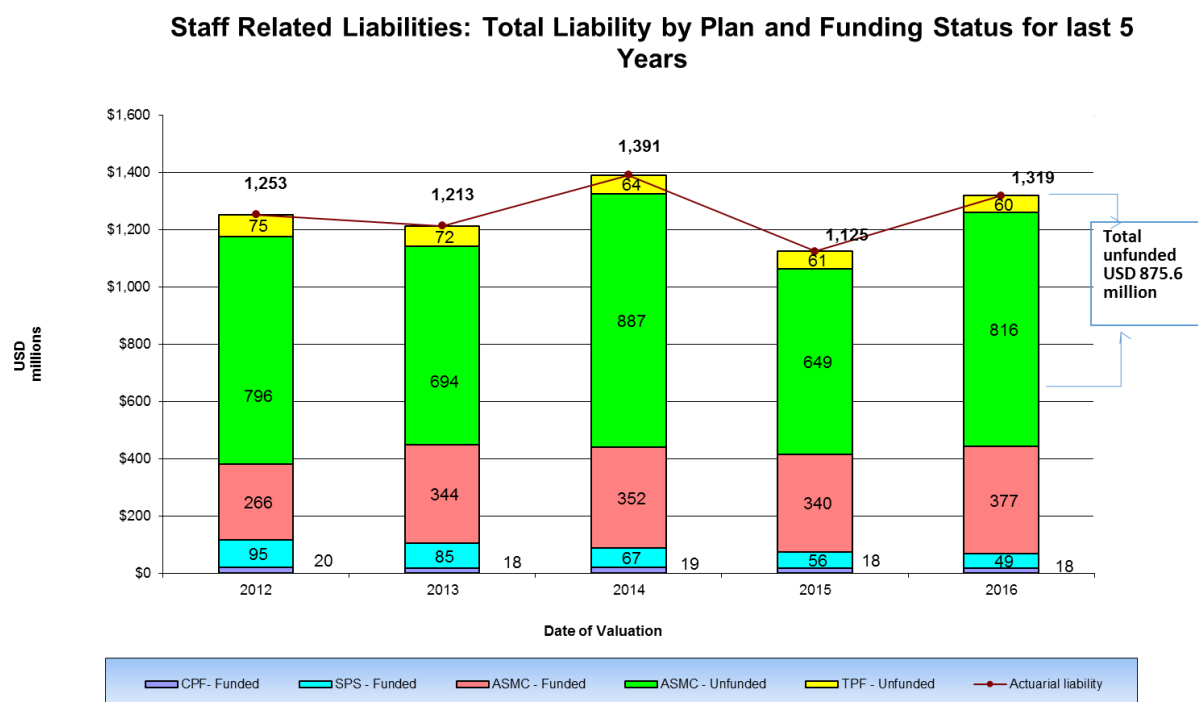
¹ USD 1,126.7 million reported in FC 166/2 differs from USD 1,149.9 million reported in FC 166/3 due to the differences in accounting classifications of: i) accrued interest income being reported within Accounts Receivable, and ii) NT Government Select Fund being reported within Cash and Cash equivalents.

² USD 443.6 million reported in FC 166/2 differs from USD 445.3 million reported in FC 166/3 due to the differences in accounting valuation standards and also accounting classifications of accrued interest income being reported within Accounts Receivable.

8. The total liability of the Plans at 31 December 2016 amounted to USD 1,319.2 million, representing an increase of USD 194.5 million compared to the balance of USD 1,124.7 million as at December 2015.

9. As at 31 December 2016, unfunded staff related liabilities amounted to USD 875.6 million, of which After Service Medical Coverage accounted for USD 815.7 million and the Terminal Payments Fund accounted for USD 59.9 million. Table 3 presents the analysis of the total actuarial liability by plan by funding status.

Table 3



General and Related Fund Balance

10. The General Fund deficit remained stable from 2015, showing a marginal decrease from USD 922.2 million as at 31 December 2015 to USD 912.4 million as at 31 December 2016.

TCP Expenditure and Deferred Income

11. During the year ended 31 December 2016, TCP expenditure charged against the 2016 share of the 2016-17 appropriation amounted to USD 13.9 million whilst that against the 2014-15 appropriation amounted to USD 50.0 million. The average monthly TCP expenditure during the period continued to steadily progress up to USD 5.3 million as at 31 December 2016 compared to an average of USD 4.8 million at 31 December 2014, the first year of the previous biennium, and USD 5.2 million by the end of that biennium. As at 31 December 2016, the TCP deferred income (i.e. the available appropriation from the prior biennium and from 2016) totalled USD 81.9 million, of which the 2016 share of the appropriation amounted to USD 52.3 million, whilst that of the 2014-15 appropriation amounted to USD 29.6 million. As of 1st January 2017 a further USD 66.7 million will be made available for the 2016-17 appropriation, being the 2017 share of the 2016-17 appropriation.

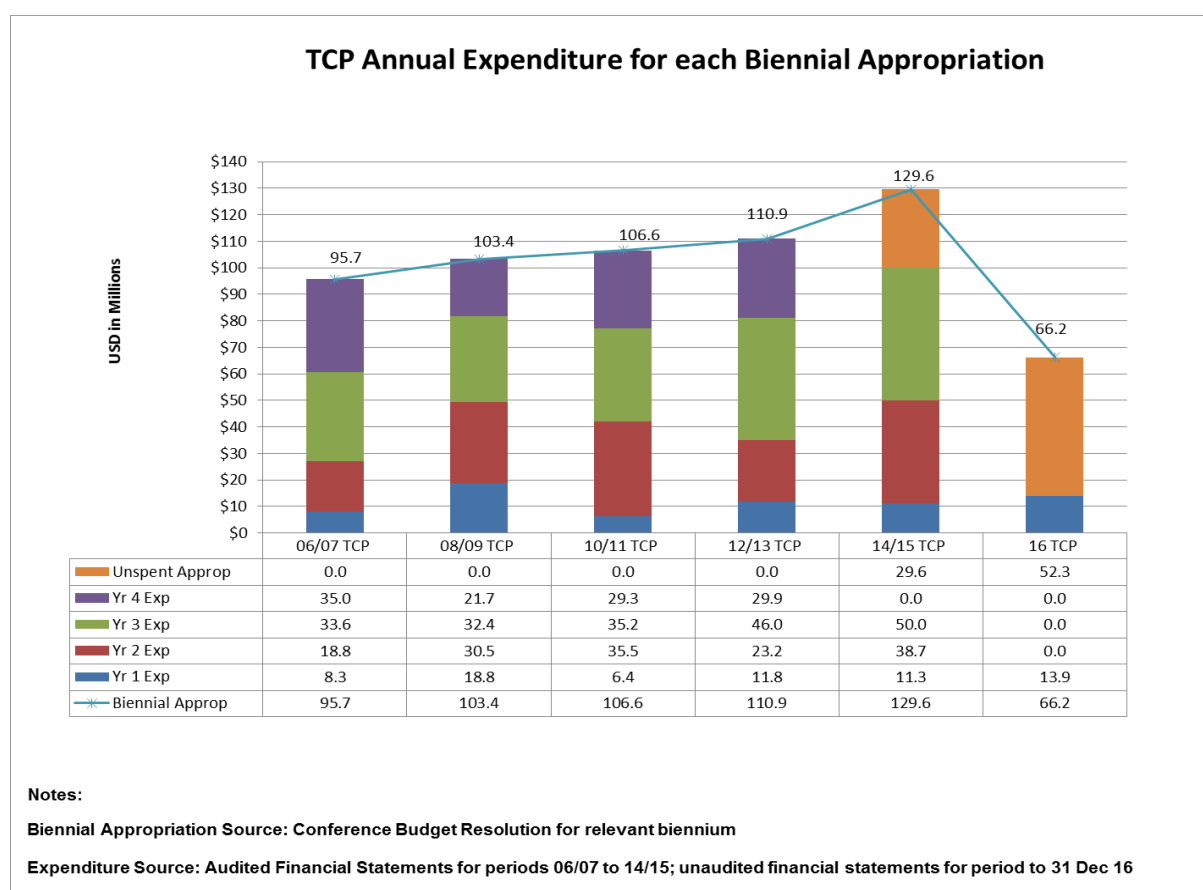
12. The average monthly TCP expenditure of all appropriations is shown in Table 4 below:

Table 4

Average monthly expenditure	Average monthly TCP expenditure					
	Time period					
	2016 12 months	2014-15 24 months	2012-13 24 months	2010-11 24 months	2008-09 24 months	2006-07 24 months
	5.3	5.2	4.1	4.0	4.9	2.5

13. Table 5 presents the TCP expenditure (including accruals) for all appropriation periods and TCP available appropriation (i.e. deferred income) for each year from 1 January 2002 to 31 December 2016. The expenditure incurred during 2016 against the 2014-15 appropriation represented 62.9% of the available brought forward balance of the appropriation. This balance is available for expenditure through 31 December 2017. The expenditure incurred in 2016 against the 2016 share of the appropriation represented 21.0% of that share, while the remaining USD 52.3 million is available for spending until 31 December 2019.

Table 5



Gains on Exchange Differences

14. During the year ended 31 December 2016 the Organization recorded a net gain on exchange of USD 3.1 million which was mainly generated from Euro-Dollar translation differences (non-cash).

Voluntary Contributions

15. “Trust Funds and UNDP” comprise activities funded from voluntary contributions through projects, including those funded by the United Nations Development Programme.

16. Contributions Received in Advance for Trust and UNDP Funds amounted to USD 732.9 million at 31 December 2016 compared to USD 755.7 million at 31 December 2015. These amounts represent the balance of voluntary contributions received from donors which have not yet been expended on the implementation of projects.

17. Table 6 presents an analysis of the Trust Fund contributions received³ from donors during the year ended 31 December 2016. This table includes details of the top 25 contributors during the period together with comparative rankings for the equivalent period to 31 December 2015.

18. In accordance with FAO's accounting policy, income from voluntary contributions is recognized proportionately with the degree of project activity completed as measured in terms of expenditure.

19. Income reported on Trust Fund and UNDP projects for the year ended 31 December 2016 amounted to USD 766.6 million, compared with combined USD 789.1 million reported for the year ended 31 December 2014, the first year of the previous biennium.

³ For operational purposes FAO also maintains a comprehensive tracking of the approval of voluntary contributions, counted at the time when trust funds are both approved by the resource partner and have become operationally active. At that time, part but frequently not all of the funds have been received by FAO. The phased model of funds receipt for trust funds explains the difference between the figures reported in this document for “Contributions Received” and the figures for “Contributions Approved” published elsewhere.

Table 6 - Analysis of Voluntary Contributions Received

Year ended 31 December 2016	USD 000's	Year ended 31 December 2015	USD 000's
(1) European Union	142,992	(1) European Union	104,480
(2) United States	105,567	(2) United States	62,734
(3) Fao Direct Access To Gef Funding	54,041	(3) United Kingdom	41,223
(4) United Kingdom	49,609	(4) UNDP Administered Donor Joint Trust Fun	35,885
UN Office for the Coordination of			
(5) Humanitarian Affairs (OCHA)	36,042	(5) UN Office for the Coordination of Humani	33,151
UNDP Administered Donor Joint Trust			
(6) Fund	25,914	(6) Fao Direct Access To Gef Funding	31,077
(7) Germany	21,987	(7) Japan	28,407
(8) Netherlands	20,290	(8) Norway	18,686
Ldf - Least Developed Countries Fund For			
(9) Climate Change (Ldcf)	16,730	(9) Germany	17,024
(10) Japan	16,540	(10) Switzerland	13,606
(11) Norway	15,662	(11) Saudi Arabia	13,333
(12) Canada	15,423	(12) China	10,000
(13) Switzerland	15,020	(13) Italy	9,772
Jca - Japan International Cooperation			
(14) Agency (Jica)	14,696	(14) World Bank	9,660
(15) Saudi Arabia	12,544	(15) Chad	9,620
(16) Sweden	12,319	(16) Chf - The Common Fund For Humanitarian	9,266
(17) Belgium	11,773	(17) Belgium	9,264
(18) Italy	10,337	(18) Netherlands	8,164
(19) Un Children Fund (Unicef)	8,044	(19) Un Children Fund (Unicef)	8,133
(20) Brazil	7,958	(20) Ldf - Least Developed Countries Fund For	7,478
(21) Mexico	7,202	(21) Brazil	7,247
(22) World Bank	6,596	(22) Sweden	6,593
BMG - Global Development Program Of			
(23) The Bill & Melinda Gates Foundation	6,333	(23) Australia	5,781
(24) Venezuela	5,192	(24) Afghanistan	5,735
(25) Scf - Special Climate Change Fund (Scf)	4,818	(25) Colombia	5,339
Top 25	643,632	Top 25	511,657
<u>Multi-donor:</u>		<u>Multi-donor:</u>	
Other Multi-donor	62,782	Other Multi - Donor	59,761
Other donors	99,031	Other donors	108,021
Total	805,445	Total	679,439

2017 Cash Flow Forecast (Regular Programme)

20. Table 7 below presents the Organization's consolidated Regular Programme month end short term liquidity position (which includes cash and cash equivalents) with a forecast from 1 January through 31 December 2017. All figures are expressed in millions of USD. The opening cash flow position of USD 234.30 million as at 31 December 2016 is higher than in the previous year. This is due to the timing of payments by the U.S.A. which had paid 85% of its 2016 Assessments by December 2016 compared to 50% of its 2015 assessments by December 2015. The main elements and assumptions included in the 2016 forecast data are as follows:

21. The percentage of 2016 assessed contributions paid to the Organization by Member Nations as at 31 December 2016 was 89.86 %, a higher rate of receipts than the equivalent figure of 81.97 % for the previous year. Further details on the status of current assessments and arrears as at 31 December 2016 are presented in document FC 166/INF/2.

22. Based on Members' past payment patterns and the Regular Programme cash level as at 31 December 2016, the Organization's liquidity is expected to be sufficient to cover operational needs though the end of 2017. The current forecast reflects the 2016 payment patterns of the largest contributors and is subject to change upon receipt of confirmation from the Members of their expected payment dates. 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 2017.

Table 7

