



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

COUNCIL

Hundred and Thirty-second session

Rome, 18 – 22 June 2007

REPORT OF THE 118TH SESSION OF THE FINANCE COMMITTEE

Rome, 17-25 May 2007

Table of Contents

	Paragraphs
Matters requiring attention by the Council	v
Introduction	1 - 3
Financial and Budget Reports	4 - 19
ANNUAL REPORT ON BUDGETARY PERFORMANCE AND PROGRAMME AND BUDGETARY TRANSFERS	4 - 9
FINANCIAL HIGHLIGHTS AND STATUS OF CURRENT ASSESSMENTS AND ARREARS	10 - 18
REPORT ON INVESTMENTS 2006	19
Oversight Matters	20 - 40

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PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS	20
2006 ANNUAL ACTIVITY REPORT OF THE OFFICE OF THE INSPECTOR-GENERAL	21 - 24
FAO AUDIT COMMITTEE (INTERNAL) – ANNUAL REPORT TO THE DIRECTOR-GENERAL FOR 2006	25
APPOINTMENT OF THE EXTERNAL AUDITOR	26 - 32
POLICIES OF UNITED NATIONS SYSTEM ORGANIZATIONS TOWARDS THE USE OF OPEN SOURCE SOFTWARE (OSS) FOR DEVELOPMENT (JIU/REP/2005/7)	33
A SECOND REVIEW OF THE IMPLEMENTATION OF HEADQUARTERS AGREEMENTS CONCLUDED BY UN SYSTEM ORGANIZATIONS: PROVISION OF HEADQUARTERS PREMISES AND OTHER FACILITIES BY HOST COUNTRIES (JIU/REP/2006/4)	34 - 39
TOWARDS A UN HUMANITARIAN ASSISTANCE PROGRAMME FOR DISASTER RESPONSE AND REDUCTION: LESSONS LEARNED FROM THE INDIAN OCEAN TSUNAMI DISASTER (JIU/REP/2006/5)	40
Financial Policy Matters	41 - 57
SCALE OF CONTRIBUTIONS 2008-2009	41
AFTER SERVICE MEDICAL COVERAGE FUNDING IN 2008-2009	42 - 44
PROGRESS REPORT ON ADOPTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS	45 - 49
MEASURES TO IMPROVE THE ORGANIZATION'S CASH SHORTAGE SITUATION	50 - 57
Budgetary Matters	58 - 65
SUMMARY PROGRAMME OF WORK AND BUDGET 2008-2009	58 - 65
Human Resources Matters	66 - 72
STATISTICS ON HUMAN RESOURCES	66
DECISIONS OF THE GENERAL ASSEMBLY ON RECOMMENDATIONS OF THE INTERNATIONAL CIVIL	

SERVICE COMMISSION AND UN JOINT STAFF PENSION BOARD (INCLUDING CHANGES IN SALARY SCALES AND ALLOWANCES)	67
RESOURCES OF HUMAN RESOURCES MANAGEMENT DIVISION	68 - 72
Organizational Matters	73 - 80
PROGRESS REPORT ON FAO ADMINISTRATIVE RESOURCES MANAGEMENT SYSTEMS	73 - 75
ADOPTION OF RUSSIAN AS A LANGUAGE OF FAO	76 - 78
B.R. SEN AWARD – PROPOSAL FOR PRIZE INCREASE	79 - 80
World Food Programme Matters	81 - 107
COSTS AND BENEFITS OF NEW INITIATIVES IN PROFILE RAISING	81 - 83
PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS	84 - 86
ANNUAL ACCOUNTS 2006	87 - 90
REPORT OF THE EXECUTIVE DIRECTOR ON THE UTILIZATION OF CONTRIBUTIONS AND WAIVERS OF COSTS (GENERAL RULES XII.4 AND XIII.4G)	91 - 93
UPDATE ON THE WFP MANAGEMENT PLAN (2006-07)	94 - 95
REPORT ON WFP'S INVESTMENT PERFORMANCE	96
FOURTH PROGRESS REPORT ON THE IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)	97 - 100
FUNDING OF EMPLOYEE TERMINATION PAYMENTS	101 - 105
UPDATE ON CAPACITY BUILDING (STRATEGIC OBJECT 5)	106
STATUS REPORT ON THE WINGS II PROJECT	107
Other Matters	108 - 114
DATE AND PLACE OF THE HUNDRED AND NINETEENTH SESSION	108

ANY OTHER MATTERS STATUS OF FAO'S ENGAGEMENT IN THE UNITED NATIONS SYSTEM REFORMS	109
CONDUCT AND RESOURCING OF INDEPENDENT EVALUATION OF EXTRA-BUDGETARY WORK	110
REQUEST FOR SPECIFIC AUDIT EXAMINATION UNDER FINANCIAL REGULATION 12.6 OF PROJECTS UNDER NEGOTIATION FOR THE FAO/WB-FUNDED AVIAN INFLUENZA CONTROL PROGRAM	111 - 114
Annex I	1 - 35
ANNUAL REPORT ON BUDGETARY PERFORMANCE AND PROGRAMME AND BUDGETARY TRANSFERS	1 - 35
Annex II	
PROPOSED SCALE OF CONTRIBUTIONS 2008-2009	

Matters requiring attention by the Council

Report of the Hundred and eighteenth Session of the Finance Committee

Paragraphs

FINANCIAL AND BUDGET REPORTS

- Annual Report on Budgetary Performance and Programme and Budgetary Transfers 4 - 9
- Financial Highlights and Status of Current Assessments and Arrears 10 - 18

OVERSIGHT MATTERS

- Appointment of the External Auditor 26 - 32

FINANCIAL POLICY MATTERS

- Scale of Contributions 2008-2009 40
- After Service Medical Coverage Funding in 2008-2009 41 - 43
- Measures to Improve the Organization's Cash Shortage Situation 49 - 56

BUDGETARY MATTERS

- Summary Programme of Work and Budget 2008-2009 57 - 64

ORGANIZATIONAL MATTERS

- Adoption of Russian as a Language of FAO 75 - 77
 - B.R. Sen Award – Proposal for Prize Increase 79 – 80
-

REPORT OF THE HUNDRED AND EIGHTEENTH SESSION OF THE FINANCE
COMMITTEE

Rome, 17 – 25 May 2007

Introduction

1. The Committee submitted to the Council the following report of its Hundred and eighteenth Session.
2. The following representatives were present:
Chairperson: Mr Aamir Khawaja (Pakistan)
Members: Mr Søren Skafte (Denmark)
Mr Eckhard W. Hein (Germany)
Mr Augusto Zodda (Italy)¹
Mr Seiichi Yokoi (Japan)
Ms Ana María Baiardi Quesnel (Paraguay)
Mr Roberto Seminario (Peru)
Mr Ahmed I. Al-Abdulla (Qatar)
Mr Lee Brudvig (United States of America)
H.E. Mary M. Muchada (Zimbabwe)
3. The Chairperson informed the Committee that Mr Aboubakar Bakayoko (Côte d'Ivoire) would regretfully be unable to attend this 118th Session of the Finance Committee. The Committee also noted that H.E. Mary M. Muchada had been designated to replace Ms Verenika Mutiro Takaendesa as the representative of the Republic of Zimbabwe at this session. Further, H.E. Romualdo Bettini had been designated to replace Mr Augusto Zodda as the representative of Italy during the first four days of this session.

Financial and Budget Reports

ANNUAL REPORT ON BUDGETARY PERFORMANCE AND PROGRAMME AND BUDGETARY TRANSFERS

4. In accordance with Financial Regulation 4.6, the Committee reviewed the Director-General's Fortieth Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2006-07 Biennium, based on the 2006 unaudited accounts and forecasts to biennium-end (see Annex I).
5. The Committee took note of under-budgeted items, totalling approximately US\$39 million, affecting the forecasted 2006-07 Regular Programme performance. These included a significant forecasted unfavourable staff cost variance (US\$19 million²) and redeployment costs for incumbents of abolished posts (US\$11 million). The Committee

¹ H.E. Romualdo Bettini replaced Mr Zodda from 17 to 22 May 2007.

² This excluded the general service salary increase of US\$13.9 million which was covered by Russia's assessed contribution and the Special Reserve Account.

appreciated that, in accordance with Financial Regulation 4.1, these under-budgeted items were being managed within the Regular Programme appropriation of US\$765.7 million approved by the Conference, largely through priority-based reductions in allotments ranging from 0.3% to 5.3%.

6. The Committee took note of the tentatively forecast transfers between budgetary chapters for the biennium from Chapters 2 (US\$0.7 million) and 4 (US\$5 million), in favour of Chapters 1 (US\$0.3 million), 3 (US\$1.1 million), 5 (US\$2.0 million) and 8 (US\$2.3 million). It noted that the formal request for transfers between chapters would be submitted at its next session in September 2007, based on updated information.

7. The Committee discussed at length the two additional items where expenditures in 2006-07 would exceed the amounts budgeted, namely terminal payments (US\$6.8 million) and a portion of current service costs of After-service Medical Coverage (ASMC) (US\$14.2 million). The Committee's guidance was sought on two alternative courses of action to cover these under-budgeted costs totalling US\$21 million:

1. allow the charges to remain against the General Fund (GF), increasing the deficit; or
2. identify a source of funding from within the Regular Programme (RP) appropriation, which would translate into programme reductions.

8. The Committee was informed of the importance of addressing these under-budgeted costs in a manner which avoided further deterioration of the Organization's General Fund deficit. Some members noted, however, that very few programme activities could be cut at this stage of the biennium and felt that both items should remain charged to the General Fund, increasing its deficit (Option 1). A combination of Options 1 and 2 was also proposed by some members where the under-budgeted ASMC current service costs remained charged to the General Fund but the excess 2006-07 expenditure for terminal payments (US\$6.8 million) was charged against the RP appropriation, given the fact that the payments had an immediate cash impact. Many members felt that, should it be agreed to cover any of these costs from within the RP Appropriation, the Technical Cooperation Programme (TCP) should be protected in line with the spirit of the 2005 Conference report.

9. In light of the above, the Secretariat was requested to review the viability of alternative solutions for funding the excess terminal payments from within the RP appropriation while protecting the TCP programme and to report thereon to the September 2007 session of the Finance Committee.

FINANCIAL HIGHLIGHTS AND STATUS OF CURRENT ASSESSMENTS AND ARREARS

10. The Committee reviewed the paper on Financial Highlights and Status of Current Assessments and Arrears which showed the unaudited results of operations as at 31 December 2006 and the financial status of the Organization at mid-point of the current biennium. The Committee also reviewed a working paper on the status of assessed contributions as at 17 May 2007. Some Members noted that the adoption of IPSAS would improve significantly the transparency and completeness of financial information by attributing more realistic values to both assets and liabilities in the Organization's official accounts.

11. The General Fund deficit at 31 December 2006 had declined to US\$95.6 million, compared to the US\$124.8 million deficit at the close of the previous biennium. The improvement was, however, based on interim results and could not be regarded as indicative of the final outcome of the 2006-07 biennium.

12. In reviewing the Financial Highlights, the following salient points were noted by the Committee:

- a) unpaid contributions from Member Nations declined from US\$179 million as at 31 December 2005 to US\$110.5 million as at 31 December 2006, thanks to some large payments from Member Nations at the end of 2006, and the 100% provision recorded against unpaid contributions was therefore reduced by US\$68.5 million. Contributions still unpaid for current RP assessments at the end of 2006 stood at US\$45.2 million in consolidated dollars. Arrears from prior years, which stood at US\$56.2 million in consolidated dollars at 31 December 2006, remained persistently high. Current outstanding contributions and arrears, together with depletion of reserves, continued to be the most significant factors undermining the financial health of the Organization.
- b) The under funding of the After-Service Medical Coverage (ASMC) amortization continued to be a cause of structural deficit on the General Fund. The 2006 charge for ASMC amortization amounted to US\$22.9 million while the approved assessments towards funding the ASMC amortization amounted to US\$7.1 million for the full year. The shortfall of US\$15.8 million increased the General Fund deficit. On the positive side, long-term investment income, earmarked by Conference Resolution for funding the Organization's share of staff related liabilities, amounted to US\$16.0 million for the year ended 31 December 2006.
- c) Expenditure charged to the Capital Expenditure Account for the year ended 31 December 2006 amounted to US\$8.5 million, leaving an unspent balance of US\$1.6 million.
- d) There was a slow down in the rate of TCP expenditure from an average monthly level of US\$5.2 million in the 2004-05 biennium to an average monthly level of US\$2.7 million in 2006, reflecting the liquidity shortage faced by the Organization during 2006, as illustrated by the levels of external borrowing which reached US\$104 million in November 2006.

13. With regard to the other components of the Organization's reserves, the Committee was informed that delays in receipts of member contributions required the full balance of the Working Capital Fund (WCF) to be advanced to the General Fund in May 2006, leaving a nominal balance of only US\$0.3 million at 31 December 2006. Similarly the Special Reserve Account (SRA) movements during 2006 included advances to the General Fund in May 2006, prior to recourse to external borrowing, net currency exchange gains of US\$8.2 million, and a charge approved by the Governing Bodies of US\$6.4 million to cover the unbudgeted portion of the general service salary increase. The SRA had a balance of US\$12.1 million as at 31 December 2006.

14. The balance at 31 December 2006 of the Special Fund for Emergency and Rehabilitation Activities (SFERA), which had been established under the provisions of Financial Regulation 6.7 in 2004, was US\$11.7 million, practically unchanged from the balance at the close of the 2004-05 biennium. During the year ended 31 December 2006, a total of US\$23.0 million was contributed by member governments to the SFERA, of which US\$22.6 million had been applied to the FAO response to avian influenza.

15. The Committee was informed that the main financial issues facing the Organization this biennium were similar to those faced during the last biennium. In addition, the Committee was informed of the effect of certain under-budgeted costs which would contribute to an increase of the General Fund deficit at the end of 2007.

16. With regard to the Organization's share of staff related liabilities, the 2006-07 assessment of US\$14.1 million towards funding ASMC amortization was already recognized by the Committee and by Council in 2005 as being insufficient to offset the actual ASMC amortization charges which amounted to US\$45.4 million for the 2006-07 biennium. The Committee would review the latest actuarial results under its agenda item on *After Service Medical Coverage Funding in 2008-09*. The Committee also noted the financial implications of other unbudgeted staff costs to be addressed in 2007, including a portion of current service costs for ASMC and

additional termination payments. These were discussed under its agenda item on *Annual Report on Budgetary Performance and Programme and Budgetary Transfers*.

17. The Committee was informed that General Fund liquidity would continue to be under pressure from the impact of delays in receipt of contributions and the persistently high level of arrears. Extensive borrowing was necessary in 2006 and borrowing had already begun in the early months of 2007 (bank loans currently stood at US\$25 million). Based on current expected receipt and expenditure patterns, unless important contributions were paid earlier than in the past, borrowing would continue through the end of 2007 with an expected peak of over US\$100 million in October this year. The Committee was informed that the Organization's existing credit lines were sufficient to cover expected borrowing needs, and that the Organization was seeking additional credit lines. Cumulative interest costs on external borrowing amounted to US\$1.5 million in 2006 and were expected to increase to between US\$2.5 million and US\$3.0 million for 2007. Given the significance of the amounts, reporting of interest costs in the Organization's accounts would be modified as appropriate.

18. The Committee, noting that only 31.54% of current year assessments had been received by 17 May 2007 and that nearly US\$300 million was still owed to the Organization at this stage of the year, expressed serious concern in respect of the liquidity shortage and the increasing deficit, as these factors cast doubt on the Organization's capacity to carry out its mandate. The Committee again noted with serious concern the magnitude of the accumulated General Fund deficit of US\$95.6 million, the repeated recourse to reserves (both the WCF and SRA had again been advanced in full to the GF), and the extent of external borrowing. In addition, the Committee discussed the necessary levels of the WCF and SRA and noted that proposals for replenishment of reserves would be considered during discussion of its agenda item on the *Summary Programme of Work and Budget 2008-09 (SPWB)*. The Committee expressed further concern at the current level of arrears of Members' contributions, the persistently large number of Member Nations with potential voting rights problems, and the loss of resources represented by interest costs on external borrowing. The Committee once again strongly appealed to Members to fulfil their responsibilities towards the Organization in ensuring prompt payment of their outstanding contributions. The Committee resolved to inform the Council of the current severe financial situation of the Organization.

REPORT ON INVESTMENTS 2006

19. The Committee took note of the information provided in the above-referenced document (FC 118/4).

Oversight Matters

PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS

20. The Committee took note of the information provided in the above-referenced document (FC 118/5).

2006 ANNUAL ACTIVITY REPORT OF THE OFFICE OF THE INSPECTOR- GENERAL

21. The Committee received a brief summary of the 2006 Annual Activity Report of the Office of the Inspector-General, which was presented to the Committee members for their review and discussion.

22. The Committee thanked the Inspector-General for providing them with such a clear, concise and informative report and then discussed key aspects of the report and as needed,

obtained clarifications from the Inspector General, the Legal Counsel and the Assistant Director-General, *ad interim*, AF. The key issues discussed by the Committee included:

- expression of concern over the abuse of lump-sum travel entitlements by professional staff within the Organization;
- reasons for the decrease of closed audit recommendations from 55% in 2005, to 46% in 2006 and why 75 recommendations from 2001-2005 identified as high risk were still open;
- status of the Finance Committee recommendation to make audit reports available to member states upon request.
- status of filling the vacant auditor posts in Bangkok and Cairo;
- status of transferring tender panel activities to AF;
- inquiry as to the circumstances related to the departure of the former Director, Human Resources Management Division from the Organization and whether the Committee would receive a discretionary report; and
- inquiry as to the results of the recent IIA³ Quality Assessment of the Office of the Inspector General.

23. In particular, the Committee expressed its concerns over the apparent abuse by some staff of the lump-sum entitlement and was reassured that the matter was being addressed by the Office of the Inspector-General and by management.

24. The Committee also acknowledged the Secretariat's replies to its concerns, especially that:

- the Organization had taken and was continuing to take steps to work out a protocol for releasing audit reports to member countries;
- two vacant auditor posts in Cairo and Bangkok had been filled;
- the Inspector-General was actively pursuing the issue of the open 75 high-risk recommendations from 2001-2005 and would report on their status to the Audit Committee in June 2007; and
- the Office of Inspector-General had taken steps to transfer the tender panel activity to AF.

FAO AUDIT COMMITTEE (INTERNAL) – ANNUAL REPORT TO THE DIRECTOR-GENERAL FOR 2006

25. The Committee took note of the information provided in the Annual Report of the Audit Committee (Internal) to the Director-General for 2006 (ref. FC 118/7).

APPOINTMENT OF THE EXTERNAL AUDITOR

26. The Committee considered the proposals received for External Audit services. The Committee noted that, although all member states had been invited to bid for these services, only six favourable responses had been received.

27. The Committee noted that:

- as agreed at the Committee's 115th session, a Working Group of Finance Committee Members had met on 6 March 2007 to review the six bids received and draw up a shortlist of the best proposals; and
- following a detailed review of the bids against all the criteria agreed by the Finance Committee in its 115th Session, the Working Group had concluded that, taken as a whole, the bids presented by the Comptroller and Auditor General of India and the Commission on Audit of the Philippines were significantly better than all the others. Accordingly, the Working Group had decided that only these two should be shortlisted to

³ Institute of Internal Auditors

make a presentation to the Finance Committee. The Committee endorsed the Working Group's review process and the proposed shortlist.

28. The two shortlisted bidders made presentations to the Finance Committee's 118th session to enable members to have a better appreciation of the proposals and provide an opportunity to seek additional information and clarification so as to facilitate the selection process.

29. Members recognized the importance of ensuring that the selection process be objective, impartial, transparent and merit-based, and observed that the proposals made by the two shortlisted bidders were both of high quality. The Committee considered various aspects of the proposals such as independence, qualifications of officials and staff, training and experience, audit approach and strategy, audit reports and costs. In making its recommendation, the Committee also took into consideration the opportunity for rotation. The Committee agreed to recommend to Council for its consideration the proposal submitted by the Commission on Audit of the Republic of the Philippines.

30. The Committee paid tribute to the incumbent External Auditor, the Comptroller and Auditor General of India, and complemented him for the excellent work and reports provided to the Committee during the past three biennia.

31. Some Committee Members recommended that the policy be changed in the future so that, at the time of the next appointment of the External Auditor, a six year, non-renewable term of office be granted as this would provide adequate continuity and favour independence and rotation.

32. The Committee recommended the following resolution to the Council for the appointment of the External Auditor for the four year period, commencing with the Audit of the 2008-2009 biennium.

Resolution .../132

APPOINTMENT OF THE EXTERNAL AUDITOR

THE COUNCIL

Noting that the Finance Committee recommends the appointment of the Commission on Audit of the Republic of the Philippines as External Auditor of the Organization;

Recognizing the need and importance of the function of the External Auditor to review and certify the accounts of the Organization;

Decides to appoint the Commission on Audit of the Republic of the Philippines as External Auditor of the Organization for a period of four years commencing with the year 2008.

**POLICIES OF UNITED NATIONS SYSTEM ORGANIZATIONS TOWARDS
THE USE OF OPEN SOURCE SOFTWARE (OSS) FOR DEVELOPMENT
(JIU/REP/2005/7)**

33. The Committee took note of the information provided in document CL 132/INF/10 – *Policies of United Nations System Organizations toward the Use of Open Source Software (OSS) for Development*.

**A SECOND REVIEW OF THE IMPLEMENTATION OF HEADQUARTERS
AGREEMENTS CONCLUDED BY UN SYSTEM ORGANIZATIONS:
PROVISION OF HEADQUARTERS PREMISES AND OTHER FACILITIES BY
HOST COUNTRIES (JIU/REP/2006/4)**

34. In its review of this Joint Inspection Unit report, the Committee focussed on three issues. First, the Committee noted the recommendation that the Executive Heads of United Nations organizations should remind their officials of their obligation to be exemplary in respect of laws and traditions of host countries. The Committee was informed that FAO had issued various circulars reminding staff that their diplomatic immunities and the functional immunity of the Organization could not be invoked in connection with non-fulfilment of private obligations.

35. Second, the Committee noted the recommendations regarding inter-action with the host government, including the establishment of a committee on relations with the host government. In this connection, it was observed that the Finance Committee and the Committee on Constitutional and Legal Matters (CCLM) had the authority to review such matters and had done so in the past, thus obviating the need for any specific committee. In particular, the statutory functions of the CCLM included matters related to the privileges and immunities of the Organization at headquarters, regional and country offices.

36. Third, the Committee noted that some senior officials of the Organization in Italy had been faced with difficulties in obtaining exemptions from Value Added Tax (VAT) and that this did not appear to be in conformity either with Article XIII Section 28(a)(iii) of the Headquarters Agreement of 1950 whereby senior officials were accorded privileges and immunities not less than those accorded to the members of the diplomatic corps, nor with the exchange of letters of 20-23 December 1986 regarding the authentic interpretation of that provision.

37. In order to clarify the dimensions of the problem, the representative of Italy pointed out that so far the Italian Tax Authorities had rejected only 6.2% of VAT exemption requests submitted by FAO officials. The representative of Italy noted that, while some specific difficulties had arisen in individual cases, this did not imply that the Italian Government was withholding such benefits or handling requests for tax exemption from FAO senior officials in a manner different from those made by members of the diplomatic corps. He provided assurances that Italy would comply fully with its obligations and would not discriminate on the basis of criteria such as nationality, nor establish any distinction between senior officials of FAO and members of the diplomatic corps.

38. Recognizing that it was important that FAO and the Italian tax authorities agree upon the criteria to be applied to deal with requests for VAT exemption, he expressed his Government's readiness to set up a working group consisting of representatives of the Ministries of Foreign Affairs and Finance and FAO which, in accordance with the agreements in force, would deal expeditiously with relevant, practical issues such as transparency and avoidance of abuses and the preparation of relevant guidelines.

39. The Finance Committee expressed its deepest appreciation to the Italian Government for all facilities provided to FAO and its staff over the years, with particular reference to all Headquarters related facilities. The Committee welcomed the assurances provided by the representative of Italy of his Government's intention to comply fully with existing agreements, as well as the assurances that no discrimination would be made. The Committee noted that this was in line with a proposal made by the Organization through its Note Verbale of 30 March 2007 to the Italian Government, and looked forward to receiving a report on the successful outcome of the discussions in the working group.

**TOWARDS A UN HUMANITARIAN ASSISTANCE PROGRAMME FOR
DISASTER RESPONSE AND REDUCTION: LESSONS LEARNED FROM THE
INDIAN OCEAN TSUNAMI DISASTER (JIU/REP/2006/5)**

40. The Committee took note of the information provided in the above-referenced document (CL 132/INF/12).

Financial Policy Matters

SCALE OF CONTRIBUTIONS 2008-2009

41. The Committee reviewed and accepted the proposed Scale of Contributions for the biennium 2008-2009 set out in document FC 118/10 Corr. 1, as derived from the United Nations Scale of Assessments (see Annex II). The Committee welcomed the Secretariat's readiness to provide information on, and facilitate access to, the methodology used for calculation of the United Nations Scale of Assessments. The Committee endorsed the following draft resolution for transmittal to Council and Conference:

Resolution
SCALE OF CONTRIBUTIONS 2008-09

THE CONFERENCE

Having noted the recommendations of the Hundred and Thirty-second Session of the Council;

Confirming that as in the past, FAO should follow the United Nations Scale of Assessments subject to adaptation for the different membership of FAO;

Decides that the FAO Scale of Contributions for 2008-09 should be derived directly from the United Nations Scale of Assessments in force during 2007;

Adopts for use in 2008 and 2009 the Scale as set out in Appendix ___ of this report.

AFTER SERVICE MEDICAL COVERAGE FUNDING IN 2008-2009

42. The Finance Committee reviewed the paper (doc. FC 118/11) and noted that on the basis of the most recent 2006 actuarial valuation, the After Service Medical Coverage (ASMC) past service liability at 31 December 2006 amounted to US\$526.3 million, a decrease of US\$7.1 million from the 2005 valuation. The valuation was performed by a specialized firm selected on the basis of a joint tender issued by the Rome-based United Nations agencies. The firm performed an analysis of actual claim costs, payments of benefits and salary scales and applied the latest economic and demographic assumptions, including discount rate, inflation, medical inflation, mortality rates and retirement ages. The Committee noted that, should amortization of the past service liability be matched with biennial funding at the level prescribed by the latest actuarial valuation, an approach which would be in accordance with the Council's position expressed in its 125th session and in line with Council's expectation expressed in November 2005, then the ASMC past service funding necessary for the 2008-09 biennium amounted to US\$45.0 million. This would represent an increase of US\$31 million from the approved biennial funding of US\$14.1 million in both 2004-05 and 2006-07.

43. The Committee also noted the ASMC comparison between the situation of FAO and that of the UN in New York, as well as other large UN organizations. The updated actuarial value of the UN's accrued after-service health insurance liabilities as at 31 December 2005 was calculated at US\$2.1 billion. The Committee was informed that the UN would record all such liabilities in its financial statements as at 31 December 2006 and for subsequent periods. The Committee discussed FAO's treatment of the ASMC liability in the Audited Accounts, noting that a significant portion of the actual liability remained unrecorded. While the full liability was disclosed in the Notes to the Accounts, the Committee was informed that with the adoption of IPSAS, all UN entities would record the full liability in their financial statements. The Committee

noted that each organization within the UN system was responsible for funding its own ASMC liability. No UN-wide funding solution was contemplated, as each agency had a different magnitude of liability and funding approach.

44. The Committee decided to inform Council of the latest actuarial estimates of the ASMC past service liability and to formulate its recommendation to Council for ASMC funding for 2008-09 at its September 2007 session when the Independent External Evaluation (IEE) report was available.

PROGRESS REPORT ON ADOPTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

45. The Committee noted the progress made on IPSAS adoption in FAO and that the estimate of total project costs, including technical costs, amounted to US\$7.2 million over a period of three biennia from 2006-07 to 2010-11. Of the total forecast, US\$5.8 million relating to the period 2008-09 was included in the Capital Budgeting proposals in the SPWB 2008-09. The Committee was informed that there was a reasonable degree of confidence in the cost estimates as the Organization's corporate financial system supported modern financial reporting requirements and consequently it was forecast that the major changes would impact existing business processes rather than require extensive system developments.

46. The Committee noted that an additional amount of US\$3.4 million provided within the Capital Budgeting proposals in the SPWB 2008-09 would cover an element of the technical preparation of systems to accommodate IPSAS.

47. The Committee recalled that IPSAS adoption by 1 January 2010 was a UN system-wide requirement and was informed that the Organization had established mechanisms for inter-agency cooperation on IPSAS adoption with the World Food Programme in Rome and the World Health Organization and the International Labour Organization in Geneva. Such collaboration was expected to lead to common solutions to shared problems.

48. The Committee recognized that the application of IPSAS concerned the Organization's official financial reporting and would raise issues of consistency with budget and donor reporting. Such issues needed to be evaluated both within the Organization and within the UN system-wide context and proposals made as appropriate.

49. The Committee requested a further progress report on IPSAS adoption for its May 2008 session which should also include any decisions required from the Committee with respect to potential changes to budgeting and donor reporting resulting from IPSAS adoption.

MEASURES TO IMPROVE THE ORGANIZATION'S CASH SHORTAGE SITUATION

50. The Committee examined the document prepared by the Secretariat, as well as the document prepared for the 115th session on the same subject, and discussed the measures to improve the Organization's cash shortage situation. The Committee also welcomed the information on recent borrowings and borrowing forecasts provided by the Secretariat for the consideration of the Committee under its standing item on *Financial Highlights*.

51. The Committee agreed that the Regular Programme liquidity situation of the Organization was critical and would only be improved through timely payment of assessed contributions by the Member Nations. Nevertheless, it was recognized that some countries faced extremely difficult economic situations. 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.

52. As for the measures to enhance the payment by the Member Nations, the Committee supported all measures currently in place. Several members had consulted with their respective regional groups, as agreed during the Committee's 115th session, on the measures which had been discussed in the past but not implemented and on the proposals made by one member at the 113th session, but conclusions had not been reached by all regions. The Committee thanked especially the representative from Japan for the proposals made and for pursuing various initiatives to improve collection of contributions.

53. The members therefore agreed to propose to the Conference certain measures which all Committee members supported at this time, postponing discussion of other measures to a later session, allowing further analysis as well as consideration of any relevant recommendations arising from the Independent External Evaluation.

54. The Committee agreed to propose that the Conference approve a derogation of Financial Regulation 5.6 in order to allow the Secretariat to accept contributions in non-freely convertible local currencies, under certain conditions as set out in document FC 110/17, paras 12 and 19.

55. The Committee agreed to propose to the Conference, through the Council, that Member Nations in arrears of more than the amount of the contributions due from them for the two preceding calendar years be required to submit an installment plan to the Finance Committee for review, and subsequent approval by the Conference.

56. The Committee further agreed to propose to the Conference, through the Council, that the practice of automatically restoring voting rights for all Member Nations on the first day of the Conference be immediately discontinued.

57. The Committee agreed to recommend the following draft resolutions to the Conference through the Council for the introduction of the above-referenced additional measures to encourage timely payment of contributions, noting that Legal Counsel had not yet had an opportunity to review these texts in detail.

Conference Resolution .../34

MEASURES TO ENCOURAGE TIMELY PAYMENT OF CONTRIBUTIONS

THE CONFERENCE

Noting that the Regular Programme liquidity situation of the Organization is critical and can only be improved through timely payment of assessed contributions by the Member Nations;

Decides that in order to encourage timely payment from Member Nations of assessed contributions, the practice of automatically restoring voting rights for all Member Nations on the first day of the Conference shall be immediately discontinued.

Conference Resolution .../34

MEASURES TO ENCOURAGE TIMELY PAYMENT OF CONTRIBUTIONS

THE CONFERENCE

Noting that the Regular Programme liquidity situation of the Organization is critical and can only be improved through timely payment of assessed contributions by the Member Nations;

Recognizing that additional measures are required in order to encourage timely payment from Member Nations of assessed contributions;

Decides to introduce a rule whereby Member Nations in arrears of more than the amount of the contributions due from them for the two preceding calendar years shall be required to submit an

instalment plan to the Finance Committee for review and subsequent approval by the Conference, as a condition for the restoration of their voting rights;

Decides, in order to facilitate the payment of contributions by those Member Nations with limited availability of convertible currency, to approve a derogation from Financial Regulation 5.6 to allow the Director-General to accept contributions in non-freely convertible local currencies under the following conditions:

- the Organization requires to have activities in the country for which the currency can be spent;
- the currency is usable without further negotiation within the exchange regulations of the country;
- local currency contributions can only be accepted in such amounts as can be utilized during a short period of time, with a view to ensuring that the currency is received and spent at the same UN operational exchange rate;
- credit shall be granted against assessed contributions at the UN operational rates of exchange in force on the date the local currency is received in a bank account of the Organization;
- where the UN operational rate of exchange differs significantly from the market exchange, the rate of exchange to be applied for the purpose of crediting the contribution of the Member Nation is the rate that FAO will have obtained for the conversion into euro/dollars at the date on which the local currency is credited to the bank account of the Organization;
- local currency amounts will not be accepted for those countries whose currency is subject to persistent devaluation. If at any time during the period of utilization of the local currency funds, there shall occur a reduction in the exchange value or a significant devaluation of the local currency with respect to the euro/dollar, the Member Nation will be required upon notification to make an adjusting payment to cover the exchange loss pertaining to the unspent balance of that contribution;
- payments of arrears shall not be accepted in non-freely convertible currencies.

Decides that a Member Nation, whose currency is not freely convertible, wishing to avail itself of this payment method, shall submit a request to the Director-General and obtain approval prior to effecting any transfer of funds to the Organization. The Director-General shall decide on such a request based on whether it is in the best interests of the Organization and involves no risk of financial loss.

Budgetary Matters

SUMMARY PROGRAMME OF WORK AND BUDGET 2008-2009

58. The Committee recognized that the content of the *Summary Programme of Work and Budget 2008-09*, contained in document CL 132/3, responded to the request of the November 2006 Council for a “comprehensive financial plan” and noted that the eventual cost of implementing the recommendations of the Independent External Evaluation could not be quantified at this stage. It concentrated its examination on Part III, Key Financial and Budgetary Issues, which comprised two main elements, namely:

1. the financial implications of the “maintenance budget”, which sought to continue the Programme of Work at the level approved by the Governing Bodies for the 2006-07 biennium, adjusted to capture all subsequent cost increases, as well as incremental requirements that had been reported to, or endorsed by, Members during 2006-07 for implementation in the 2008-09 biennium; and
2. the proposals to restore the financial health of the Organization.

59. The Committee appreciated the concise yet comprehensive information in the SPWB 2008-09, which provided a useful basis for discussions on the programme of work and budget for the next biennium. Many members considered the structure of the document and the absence of multiple scenarios especially helpful to focus discussion on the issues presented. One member expressed disappointment that alternative financial scenarios were absent. On budget levels, the Committee expressed a range of views from zero nominal growth to real growth, but agreed that it would be premature to enter into a detailed discussion of the budget level at this stage.

60. The Committee also appreciated the additional information provided to the Committee during its session and considered it to be presented in a generally clear manner, but members requested more information, as indicated in paragraph 63 below. In light of the magnitude of the increases quantified under the two areas described in Part III of the SPWB 2008-09, some members ascribed greater priority to the programme budget - despite the vital importance they attached to addressing the financial health and liquidity situation - suggesting that resources to restore the financial health of the Organization could be phased over a longer period.

61. The Committee discussed at length the cost increases for 2008-09, estimated at US\$100.9 million for the biennium. It carefully reviewed the calculated cost increases and recognized that the unprecedented level of cost increases resulted mainly from adjustments to reflect in the 2008-09 biennium increases in costs of personnel services that occurred during the current biennium. These were also discussed under the agenda item on the *Annual Report on Budgetary Performance and Programme and Budgetary Transfers*.

62. The Committee took note of the lapse factor methodology and the attendant risk to programme implementation described in paragraphs 76 through 79 of the SPWB 2008-09. It was informed that several United Nations organizations had in place a similar practice and concluded that the methodology approved by the FAO Council at its 107th session should continue in the Programme of Work and Budget 2008-09 (PWB).

63. With regard to the full PWB, the Committee recommended that the two distinct themes elaborated in the SPWB continue to be addressed: i) a "maintenance budget" proposal, including further analysis of its various components, particularly cost increases, efficiency gains and savings and capital expenditure requirements in 2008-09; and ii) the proposals on restoring the financial health of the Organization. The Committee also deemed it desirable to receive at its September 2007 session preliminary and tentative indications of the costs of implementing IEE recommendations, if timing permitted.

64. The Committee acknowledged that, in view of the imminent recommendations from the IEE on programme prioritization, significant reallocation of resources could not take place at this juncture within a "maintenance budget" level. Notwithstanding this constraint, the Committee requested the Secretariat to include in the full PWB a clear presentation of the proposed programme of work in 2008-09, including programme implementation at the field level, as well as adequate reflections of major challenges, such as climate change and bioenergy.

65. Furthermore, the Committee appreciated the Secretariat's offer to prepare Information Notes on individual topics to support Members in their preparations for the PWB discussions.

Human Resources Matters

STATISTICS ON HUMAN RESOURCES

66. The Committee took note of the information provided in the above-referenced document (FC 118/15).

**DECISIONS OF THE GENERAL ASSEMBLY ON RECOMMENDATIONS OF
THE INTERNATIONAL CIVIL SERVICE COMMISSION AND UN JOINT
STAFF PENSION BOARD (INCLUDING CHANGES IN SALARY SCALES AND
ALLOWANCES)**

67. The Committee took note of the information provided in the above-referenced document (FC 118/16).

RESOURCES OF HUMAN RESOURCES MANAGEMENT DIVISION

68. Pursuant to the request made by the Finance Committee at its Hundred and Fifteenth Session, the Human Resources Management Division (AFH) submitted a report on the impact of resource reductions on the programmes and work of AFH.

69. The Finance Committee welcomed the report and expressed concern at the impact of resource constraints on the ability of AFH to deliver some of the high priority programme areas, especially pro-active recruitment strategies, a new performance management system, review of general service staffing levels and GS/professional ratios, development and implementation of a new rotation policy, ability to support future redeployment and staff changes arising out of the PWB 2008-09 and the possible delay in implementation of the full HRMS functionality.

70. The Committee underscored the importance of the human resources function and drew attention to the fact that this was one area on which the Independent External Evaluation (IEE) was likely to be making recommendations and proposals for change in its final report.

71. The Committee further noted, however, that in the current budgetary climate it would be necessary, pending the receipt of the IEE report, for AFH to determine clear priorities and that it would not be possible for AFH to deliver on all its programmes in 2007, with the inevitable result that some areas of new programme development would need to be deferred to 2008.

72. The Committee noted the high priority that should be accorded to the human resource management function and, in particular, to the completion in 2008 of all the HRMS functionality and the review of GS staffing and GS/professional ratios.

Organizational Matters

**PROGRESS REPORT ON FAO ADMINISTRATIVE RESOURCES
MANAGEMENT SYSTEMS**

73. The Committee took note of the report and recognized that the Organization was focusing its effort on high priority issues. It noted that, after delays in the implementation of HRMS, rollout of some HRMS functionality would take place in the second half of 2007 and in 2008 and that a proposal for allocation of US\$1 million would be made in the PWB 2008-2009 capital budget.

74. With reference to an inquiry regarding methodology and inter-relationship among various systems implementation projects, the Secretariat explained that Prince2, an IT project management methodology endorsed by the UN Information and Communications Technology (ICT) Network, was in use. In addition, efforts were being made to adhere strictly to the target deployment plan to roll out both the HRMS and the new Field Accounting System to decentralized offices at the same time.

75. The Committee was informed by the External Auditor that it was not possible to conduct a total assessment of the HRMS project in 2007 and looked forward to the External Auditor's review of a complete system once all modules were rolled out in 2008.

ADOPTION OF RUSSIAN AS A LANGUAGE OF FAO

76. The Committee noted that, after becoming a Member of FAO in April 2006, the Russian Federation had requested that Russian be adopted as a language of the Organization. The request had legal as well as financial implications. The Committee on Constitutional and Legal Matters had reviewed the legal aspects at its April 2007 session and had determined that amendments would be needed to the Constitution and General Rules of the Organization if Russian were to become an FAO language, while the budgetary and financial implications would have to be reviewed by the Finance Committee. The Committee noted that incremental services and associated costs envisaged for the adoption of Russian amounted to US\$5.2 million in the biennium 2008-09 (comprised of US\$4.6 million in recurring costs, and US\$0.6 million in one time costs), based on the assumption of a staffing level for Russian similar to that of the other FAO languages.

77. In the ensuing discussion, it was pointed out that, at its first session in 1945, the FAO Conference had resolved that the rules governing the use of languages in FAO proceedings and documentation should be those adopted by the United Nations. Subsequently, Arabic and Chinese were added to the languages of the Organization, requiring amendments to the Basic Texts. It was recalled that implementation of the Conference decision to adopt Arabic as an FAO language had been facilitated by a trust fund financed by Arabic-speaking Members and the League of Arab States. It was emphasized that a similar trust fund would be of great assistance if Russian were to become an FAO language. Recalling the Conference decision of 1945 and the need for system-wide coherence in language rules, members of the Committee noted the cost implications of a sixth language in the present financial situation of the Organization. They forewarned that, without additional resources or extrabudgetary funds, the adoption of Russian could impact unfavourably on programme delivery and the availability of documentation in other languages.

78. The Committee, concerned about the substantive costs of adopting Russian as an FAO language, underlined the need for further information on various models for providing Russian language services and funding modalities for the incremental services involved, so that the relevant Governing Bodies could make an informed decision.

B.R. SEN AWARD – PROPOSAL FOR PRIZE INCREASE

79. The Committee was requested to consider the Secretariat's proposal to increase the amount of the cash prize of the B.R. Sen Award to US\$10 000, which had remained unchanged at US\$5 000 since 1983. The proposal was made in view of the decrease in monetary value since the Award's inception.

80. The Committee appreciated the useful role of the B.R. Sen Award in motivating field officers and also recognized both its symbolic value and the sense of honour attached to its receipt. The Committee noted and appreciated the change in the eligibility criteria opening the Award to deserving national professional officers. However, due to the severe financial crunch faced by the Organization this biennium, the Committee did not support the proposal for increasing the prize amount but was willing to reconsider the matter in a future biennium, once the financial situation permitted to do so.

World Food Programme Matters

COSTS AND BENEFITS OF NEW INITIATIVES IN PROFILE RAISING

81. The External Auditor, in presenting the *Report on the Costs and Benefits of New Initiatives in Profile Raising*, explained that the report addressed wider issues of communications, fundraising and advocacy.

82. The Secretariat noted that the report had been received only recently and informed the Committee that a comprehensive response to the recommendations and to the issues raised by the Committee would be provided in the follow-up report on External Audit recommendations to be presented to the Executive Board at the Second Regular Session.

83. The Committee encouraged and commended WFP's efforts to broaden its donor base to attract new traditional and non-traditional donors. The Committee also endorsed the recommendations of the External Auditor as contained in the report.

PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS

84. The Secretariat introduced the report and informed the Committee that the current report contained information on the progress of implementation of recommendations that were ongoing as at end of December 2006. The report also included recommendations on the Treasury Management audit that were reported to the Board in February 2007.

85. The Secretariat responded to questions raised by the Committee on specific recommendations, the timing of implementation and on the presentation of the summary of recommendations.

86. The Committee noted the useful discussion on the issues and expressed its appreciation of the new base line of the current document as agreed with the External Auditor, where completed recommendations were no longer included.

ANNUAL ACCOUNTS 2006

87. The Secretariat introduced the 2006 Annual Accounts informing the Committee that these were an important step in the progress towards IPSAS implementation. The Accounts included a report by the External Auditor but did not include an audit opinion, which under the Financial Regulations, was only required for the Biennial Accounts for 2006-2007.

88. The Committee discussed a number of issues arising from the Accounts and in particular relating to the timing of IPSAS implementation, staff liabilities and accounting transaction errors noted by the External Auditor.

89. The Secretariat explained, and the External Auditor confirmed, that the Accounts were in full compliance with UNSAS⁴, and constituted a first step towards the goal of implementing IPSAS compliant reports in 2008. The accounts were consistent with current WFP accounting policies in respect of staff liabilities and that the accounting issues raised by the External Auditor had been corrected in the finalization of the Accounts.

90. The Committee expressed satisfaction on the explanations provided and its appreciation on the progress made by the Secretariat. The Committee also took note of the Secretariat's intention to review the implications of implementing IPSAS in 2008 and to inform the Board should a deferral become necessary and appropriate.

REPORT OF THE EXECUTIVE DIRECTOR ON THE UTILIZATION OF CONTRIBUTIONS AND WAIVERS OF COSTS (GENERAL RULES XII.4 AND XIII.4G)

91. The Secretariat introduced the report which was issued to the Board annually for information in accordance with General Rules XII.4 and XIII.4(g).

⁴ United Nations System Accounting Standards

92. The Committee discussed the report noting the reduced levels between 2005 and 2006 and received clarifications on the basis of recording in-kind staff services.

93. The Committee took note of the report.

UPDATE ON THE WFP MANAGEMENT PLAN (2006-07)

94. The WFP Secretariat presented the fifth *Update on the WFP Management Plan (2006-07)*, outlining that it was a regular document provided to the Executive Board. The Secretariat highlighted: a relatively small increase to the 2006-07 Programme of Work; that the forecasted funding level for the current biennium was unchanged from the last update note; and that the Indirect Support Cost (ISC) income forecast for the current biennium had been reduced by US\$20 million dollars to reflect actual ISC income generated in 2006. The request for Board approval of funding for the remainder of the WINGS II⁵ project was also outlined. Finally the potential impact of the PSA⁶ Equalization Account balance at the end of 2007 was discussed.

95. The Committee asked for, and received, clarification on a number of points and recommended that:

- a more up-to-date breakdown of the Programme of Work by cost component (outlined in paragraph 6 of the document) be included in this and future updates;
- that, in line with paragraph 11 of the document, future planning assumptions should consider the potential impact on ISC of: un-utilized and reprogrammed contribution balances; the lower rate of ISC income generated on Bilateral Operations and Trust Funds; and waivers under General Rule XIII.4.
- that the draft decision on the funding of WINGS II should be amended as follows: The Board:
 - i) takes note of the progress made on the WINGS II project and its current funding status, as outlined in paragraphs 14 – 19;
 - ii) approves that the US\$10 million advance approved by the Board in the First Regular Session 2007 from the WFP General Fund to the WINGS II Special Account be converted into a permanent transfer of funds to the Special Account;
 - iii) approves a further transfer of funds from the General Fund to the WINGS II Special Account to cover WINGS II expenditure up to a maximum of US\$24 million;
 - iv) looks forward to regular reports on the WINGS II project.

REPORT ON WFP'S INVESTMENT PERFORMANCE

96. The Committee took note of the information provided in document FC 118/27 – *Report on WFP's Investment Performance*.

FOURTH PROGRESS REPORT ON THE IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

97. The Secretariat presented the fourth progress report informing the Committee that the main focus of the report was to update the Board on the progress of IPSAS implementation with focus on the impact of three main areas: Inventories, Fixed Assets and Employee Benefits.

98. The report proposed an amendment to General Rule XIII.6, making it compatible with IPSAS requirements related to valuing in-kind contributions at fair value.

⁵ WFP Information Network and Global System

⁶ Programme Support and Administrative

99. The Secretariat provided clarifications to questions related to contributions, fair value, recognition and funding of Employee Benefits liabilities, and governance added value resulting from IPSAS adoption.

100. The Committee welcomed the report and agreed with the draft decision regarding the proposed amendment of General Rule XIII.6.

FUNDING OF EMPLOYEE TERMINATION PAYMENTS

101. The Secretariat presented the report informing the Committee that funding was needed to provide for employee termination payments. The report proposed the establishment of a reserve and funding source for this purpose.

102. The report proposed an initial amount be utilized for such payments with progress on utilized amount and potential further funding requirement being brought to the Board for decision when appropriate.

103. The Secretariat provided clarifications on questions raised by the Committee related to staff rules and regulations, differing staff contractual arrangements and the operational imperatives which required WFP to have sufficient flexibility and resources to adjust staffing levels.

104. The Committee recognized and supported the logic of establishing a reserve for termination payments for which there was clear authority to pay. It further advised that there should be clear and transparent criteria for approving termination payments for SSA, SC and ALD⁷ contracts holders and that such criteria should be approved by the Executive Board.

105. The Committee noted that WFP operated under UNDP and FAO staff rules for administrating different categories of staff and recommended that the Board review this issue.

UPDATE ON CAPACITY BUILDING (STRATEGIC OBJECT 5)

106. The Committee received document FC 118/30 – *Update on Capacity Building (Strategic Object 5)*, but given its late arrival, offered no comment.

STATUS REPORT ON THE WINGS II PROJECT

107. The Committee took note of the information provided in document FC 118/32 – *Status Report on the WINGS II Project*.

Other Matters

DATE AND PLACE OF THE HUNDRED AND NINETEENTH SESSION

108. The Committee was informed that the 119th Session was tentatively scheduled to be held in Rome from 3 to 7 September 2007. The final dates of the session would be decided in consultation with the Chairperson.

ANY OTHER MATTERS STATUS OF FAO'S ENGAGEMENT IN THE UNITED NATIONS SYSTEM REFORMS

109. The Committee took note of the information provided in doc. CL 132/INF/9 – *Status of FAO's Engagement in the United Nations System Reforms*.

⁷ Special Services Agreement, Service Contract, Appointment of Limited Duration

**CONDUCT AND RESOURCING OF INDEPENDENT EVALUATION OF
EXTRA-BUDGETARY WORK**

110. The Committee took note of the information provided in the above-referenced document (PC 97/4(f)).

**REQUEST FOR SPECIFIC AUDIT EXAMINATION UNDER FINANCIAL
REGULATION 12.6 OF PROJECTS UNDER NEGOTIATION FOR THE
FAO/WB-FUNDED AVIAN INFLUENZA CONTROL PROGRAM**

111. The Finance Committee considered document FC 118/34c) regarding the request to the External Auditor of a specific examination of projects under negotiation for the World Bank funded Avian Influenza Control Program to be executed by FAO.

112. In accordance with the provisions of Financial Regulation 12.6, the Finance Committee requested the External Auditor to perform special audits, as required, of the World Bank financed Avian Influenza projects, described in the Annex to Finance Committee document FC 118/34c), which would be implemented in accordance with the Organization's rules and regulations. Reports of the special audits would be provided to the Committee and to the World Bank and all costs arising from the special audits would be covered by the relevant projects.

113. In this connection, the Committee emphasized that the Organization should continue to pursue the matter with the World Bank with the aim to ensuring acceptance of the FAO audit framework, and consequently the elimination of the requirement for special audits, as per the Financial Management Framework Agreement (FMFA).

114. The Finance Committee drew attention to the risks of a possible multiplication of similar requests and emphasized that special audits by the External Auditor should remain of an exceptional nature.

Annex I

ANNUAL REPORT ON BUDGETARY PERFORMANCE AND PROGRAMME AND BUDGETARY TRANSFERS

Highlights

The Committee is requested to take note of under-budgeted items, totalling approximately US\$ 39 million, affecting the forecasted 2006-07 Regular Programme performance. These include a significant forecasted unfavourable staff cost variance (US\$ 19 million⁸) and redeployment costs for incumbents of abolished posts (US\$ 11 million).

Under-budgeted items are being managed within the Regular Programme appropriation of US\$ 765.7 million approved by the Conference. The budgetary expenditure in 2006 amounted to US\$ 377.2 million⁹ (49% of the 2006-07 net appropriation) and forecasted expenditure for the biennium foresees full utilization of the appropriation. Based on these estimates of biennial performance, resources may need to be transferred from Chapters 2 (US\$ 0.7 million) and 4 (US\$ 5 million), in favour of Chapters 1 (US\$ 0.3 million), 3 (US\$ 1.1 million), 5 (US\$ 2.0 million) and 8 (US\$ 2.3 million). A formal request for transfers between chapters will be submitted at the next session in September 2007 in the light of the Committee's guidance.

Attention is drawn to two additional items where expenditures in 2006-07 will exceed the amounts budgeted, namely terminal payments and a portion of current service costs of After-service Medical Coverage (ASMC). The Committee's guidance is sought on two alternative courses of action to cover these under-budgeted costs totalling US\$ 21 million:

- allow the charges to remain against the General Fund, increasing the deficit; or
- identify a source of funding from within the Regular Programme appropriation, which will translate into programme reductions.

Introduction

1. Financial Regulation (FR) 4.1 authorises the Director-General to incur obligations up to the budgetary appropriation voted by the Conference. Overall expenditure to execute the regular programme of work must therefore be managed within the biennial Regular Programme appropriation.

2. The Conference-approved appropriation is a fixed amount, while the resources required to deliver the programme of work are subject to variation broadly on account of two factors:

- Firstly, the programme of work can be affected by decisions of the governing bodies (e.g. progressive decisions concerning the implementation of the Director-General's reform proposals) or by other programmatic adjustments during the biennium (e.g. to improve FAO's response to Avian Influenza or provide for more effective participation in United Nations system-wide reform activities);
- Secondly, the costs of executing the programme of work can be affected by difficulties in forecasting the related input costs. A prime example that was brought to the attention of

⁸ This excludes the GS salary increase of US\$ 13.9 million which is covered by Russia's assessed contribution and the Special Reserve Account.

⁹ Assuming TCP expenditure of 50% of the biennial TCP appropriation and before the distribution of the unfavourable staff cost variance and the adjustment of expenditure to budget rate.

the Finance Committee in May 2006¹⁰ is the staff cost variance, which is the difference between the actual unit costs of staff incurred during the biennium and the standard unit costs developed at the time of PWB preparation. In the past three biennia the staff cost variance has spanned from a US\$ 21.3 million favourable staff cost variance in 2000-01 (contributing to fortuitous savings) to a US\$ 16 million unfavourable staff cost variance in 2004-05 (triggering enforced programme reductions).

3. 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, without concentrating obligations and expenditures in any one calendar year. The Finance Committee reviews annually the Director-General's management of the Regular Programme budgetary appropriations and this Fortieth Annual Report on Budgetary Performance summarises, for discussion, the budgetary aspects of the Regular Programme performance for 2006-07 as at end 2006.

4. Financial Regulation 4.5 (a) calls for the Finance Committee to be notified of certain transfers between divisions and Financial Regulation 4.5 (b) requires transfers from one chapter to another to be approved by the Finance Committee. This report provides an advance indication of the likely magnitude of budgetary transfers arising from the implementation of the 2006-07 programme of work. A formal request for transfers between chapters will be submitted at the next session in September 2007 in the light of the Committee's discussions and guidance.

2006-07 Budgetary Appropriations and Basis for Adjustments

5. Conference Resolution 7/2005 on the Budgetary Appropriations for 2006-07 approved a budget of US\$ 765.7 million. The approved budget level entailed resource cuts totalling US\$ 38.6 million (i.e. a 5.2% average reduction) from the ZRG scenario presented to the Conference. The approved budget by chapter contained in Conference Resolution 7/2005 was therefore not based on a fully articulated and substantiated programme of work.

6. Accordingly, the second operative paragraph of Resolution 7/2005 requested the Director-General "*to make proposals to adjust the approved Programme of Work ... to the next meetings of the Programme and Finance Committees and to their Joint Meeting for their approval ...*".

7. The Revised Programme of Work and Budget 2006-07¹¹ was presented to the Programme and Finance Committees at their May 2006 session. Following the deliberations of the Joint Meeting of the Programme and Finance Committees, the latter approved the transfers between budgetary chapters necessary to arrive at the budgetary distributions as follows:

¹⁰ FC 113/10 refers.

¹¹ PC 95/3 – FC 113/14

Table 1.

Approved Budget Level (in US\$ 000)			
Chapter	Conference Resolution	Revised Budget approved by Joint Meeting	Transfers approved by FC 113
1 Corporate Governance	17,489	18,109	620
2 Sustainable Food and Agricultural Systems	203,926	209,583	5,657
3 Knowledge Exchange, Policy and Advocacy	189,929	189,137	-792
4 Decentralization, UN Cooperation and Programme Delivery	213,114	212,679	-435
5 Management and Supervision Services	115,474	110,425	-5,049
6 Contingencies	600	600	0
8 Capital Expenditure	4,724	4,724	0
9 Security Expenditure	20,444	20,444	0
Total Appropriation (Net)	765,700	765,700	0

8. At the Joint Meeting of the Programme and Finance Committees in May 2006, the Committees also noted the “*Advance indications of further changes to be proposed by the Director-General and ... recognized that substantive discussions on further changes were not possible until after they receive a specific and complete proposal*”¹². Further proposals from the Director-General were reviewed by the Committees in September 2006 and approved by the Council in November 2006. At its September 2006 session, the Finance Committee also requested detailed and updated projections of costs and related funding requirements in view of the accumulation of unbudgeted costs in 2006-07¹³ and the Council requested the Finance Committee at its May 2007 Session to review and report on the matter¹⁴. In light of these developments, and following an assessment of actual 2006 expenditure and the estimated requirements for 2007, budgetary chapter transfers will be required for the 2006-07 biennium.

Overview of total under-budgeted items and funding

9. The 2006-07 biennium is affected by several under-budgeted items and programme adjustments, and in compliance with Financial Regulation 4.1 (a), such costs are being managed within the Regular Programme appropriation of US\$ 765.7 million approved by the 2005 Conference. In 2006-07, the under-budgeted costs are funded partially through the re-allocation or adjustment of budgeted resources presented to the governing bodies and partially through imposed reductions to the Regular Programme allotments.

10. Table 2 below provides an overview of the under-budgeted items affecting the Regular Programme performance in 2006-07 with their sources of funding.

¹² CL 131/13, Para 11

¹³ CL 131/7, Para 31

¹⁴ CL 131/REP, para 31

Table 2.

2006-07 Under-budgeted Costs		
Under-budgeted items affecting the Regular Programme performance	Amount in US\$ 000	Principal Funding Source
Items covered from within the RP appropriation of US\$ 765.7 million		
1 Staff Cost Variance (excluding under-budgeted headquarters General Service salary increase – see item 8 below)	18,000	Savings from vacancies, allotment reductions and other miscellaneous adjustments
2 Redeployment costs for staff awaiting placement in reformed decentralized offices or separation from the organization on agreed terms	6,000	Unutilised budgeted decentralized resources due to progressive implementation of new decentralized structures
3 Redeployment costs arising from the reduced budget level	5,000	Savings from vacancies and allotment reductions
4 Funding of headquarters SSC and Regional Office MSUs in 2007 to take account of phased implementation of the SSC	4,000	Savings from vacancies and allotment reductions
5 Shortfall versus budget of TCP Project Servicing Cost due to lower TCP delivery	3,000	Holdback from TCP appropriation
6 HRMS costs related to postponed implementation and additional post-implementation requirements	2,000	Savings from vacancies and allotment reductions
7 One-time staff relocation costs related to Reform ¹⁵	1,000	Unutilised budgeted decentralized resources due to progressive implementation of new decentralized structures
Subtotal	39,000	
Item covered outside the RP appropriation of US\$ 765.7 million		
8 Staff Cost Variance arising from GS Salary Increase (2006-07 cost)	13,900	Russia's assessed contribution and Special Reserve Account

11. As shown above, the US\$ 39 million of under-budgeted costs covered from within the Regular Programme appropriation are funded primarily as follows:

- savings versus the budgeted level of decentralized resources (the new reform structures were budgeted on a biennialized basis, while the implementation of the offices took place progressively during the biennium);
- the re-allocation of US\$ 3 million of TCP resources to cover the shortfall in TCP PSC income; and
- imposed reductions to the Regular Programme allotments and savings arising from vacant posts during the finalization of the Director-General's reform proposals (US\$ 24 million).

¹⁵ This item will be accounted under the Staff Cost Variance.

12. The section below describes the under-budgeted items as well as the methodology and impact of the allotment reductions.

Staff Cost Variance (Items 1, 7 and 8 in Table 2)

13. During the biennium, all charges for staff costs against divisional budgets are made at standard rates that take account of the grade and duty station of the staff member. The standard rates for the PWB 2006-07 were established in July 2005.

14. Most of the underlying causes of difference between the actual and standard unit costs of staff, such as exchange rate fluctuations in decentralized offices or decisions of the International Civil Service Commission, are beyond the control of FAO managers or indeed, the Organization. The monitoring of the staff cost variance is, therefore, done centrally and any surplus or deficit is charged at the end of the biennium across all programmes in proportion to the staff costs incurred at standard rates.

15. Based on actual staff cost trends until end 2006, an unfavourable staff cost variance of approximately US\$ 33 million is estimated for the biennium, comprising the sum of items 1, 7, and 8 in Table 2 above.

16. The unfavourable variance tabulated as item 1 (US\$ 18 million), i.e. the amount in addition to that resulting from the General Service salary increase, was previously drawn to the attention of the Programme and Finance Committees, and is mainly due to the strengthening of local currencies against the US dollar in decentralized offices, increases in Professional salaries at headquarters, and unanticipated increases in education grant payments. Consistent with the explanations previously provided to the Committees¹⁶, US\$ 18 million has been taken into consideration in the annual allotment setting¹⁷.

17. One-time staff relocation costs related to Reform (Item 7) are covered through the re-allocation of budgeted decentralized resources, which were not immediately required due to the progressive implementation of the offices. The General Service salary increase (Item 8), estimated at US\$ 13.9 million, is covered by Russia's assessed contribution and the Special Reserve Account, as supported by the Council at its November 2006 Session¹⁸.

Redeployment Costs (Items 2 and 3 in Table 2)

18. Redeployment costs comprise the ongoing salary costs of an incumbent of an abolished post pending resolution of the situation (i.e. transfer to another post or separation from the organization). A total of US\$ 11 million in redeployment costs is expected in the 2006-07 biennium. The redeployment costs associated with the reformed decentralized structures amount to approximately US\$ 6 million (Item 2). This group consists both of staff members waiting to transfer to new offices which were not yet implemented, and decentralized staff members whose posts were abolished within the new framework. The cost of these cases is fully offset by savings obtained from unutilised budgeted resources due to the progressive implementation of the new decentralized structures. Redeployment costs totalling a further US\$ 5 million result from the abolition of posts in the Revised PWB 2006-07 due to the reduced budget level (item 3). These costs were taken into consideration in the allotment setting process.

Shared Services Centre (Item 4 in Table 2)

19. Due to the phased implementation of the Shared Services Centre (SSC) configuration comprising three hubs and a coordination centre at headquarters, the longer-term savings of US\$ 8 million per biennium foreseen in the budget will be fully achievable by the end of 2009.

¹⁶ JM 06.03 para 24 and 26

¹⁷ Explained further in the section entitled *Methodology and Impact of Imposed Allotment Reductions*.

¹⁸ CL 131/REP, para 37.

For the present biennium, an adjustment of US\$ 4 million is necessary to increase the allotment for AF Department to adequately fund the SSC at headquarters and the Regional Office Management Support Units.

TCP Project Servicing Cost (Item 5 in Table 2)

20. A slowdown in TCP project delivery is required in the biennium to manage the cash flow situation of the Organization. This will create a shortfall of US\$ 3 million versus budgeted levels of TCP project servicing cost reimbursements available to organizational units that provide operational and administrative support for TCP projects. This shortfall would be covered through the utilisation of US\$ 3 million of TCP resources.

HRMS (Item 6 in Table 2)

21. During the last quarter of 2006, extensive testing of the HRMS system took place by development teams and future users of the system. In this period, solutions to system shortcomings were developed and retested. This led to a delay in implementation from December 2006 to March 2007 and the system has now been successfully implemented. The delay increased costs by US\$ 1.3 million, and provisions for post-implementation support are under-funded in the region of US\$ 0.7 million.

Methodology and Impact of Imposed Allotment Reductions

22. It is recalled that the Director-General implemented a recruitment freeze from August 2005 pending the preparation and deliberation of his reform proposals. The US\$ 24 million of imposed allotment reduction was achieved through a combination of priority-based reductions, which sought to give the greatest protection to the allotments for programmes that have been explicitly expressed as being of high-priority.

23. As reported by the Joint Meeting of May 2006, the Programme Committee expressed concern that certain high-priority items, namely support to the IPPC, plant and animal genetic resources, food safety, agricultural water management, GIEWS, support to implementation of the Code of Conduct for Responsible Fisheries, and the corporate statistical database FAOSTAT, might not be funded at the level necessary to ensure full implementation of expected outcomes and requested that allotments to these priorities not fall below the budgeted amounts¹⁹. These priority items identified by the Programme Committee, as well as Programme 4E: *Technical Cooperation Programme*, Chapter 8: *Capital Budgeting*, and Chapter 9: *Security Expenditure*, were protected from reductions in the allotment setting process.

24. Given the extent of the under-budgeted costs in 2006-07, reductions ranged on average, from 0.3% for the high-priority items in paragraph 23, to 3.2% for identified high-priority programmes, including financial services and controls, to 5.3% for other programmes.

2006-07 Budgetary Projections and tentative Forecast of Budgetary Transfers between Chapters

25. The forecasted budgetary performance in 2006-07 by Chapter is shown in Table 3 below. The actual expenditure in 2006 amounted to US\$ 377.2 million²⁰ (49% of the 2006-07 net appropriation). Forecasted expenditure for the biennium foresees full utilization of the appropriation, including Contingencies.

¹⁹ CL 131/13, para 8.

²⁰ Assuming TCP expenditure of 50% of the biennial TCP appropriation and before the distribution of the unfavourable staff cost variance and the adjustment of expenditure to budget rate.

Table 3.

	2006-07 Forecasted Budgetary Performance (in US\$ 000)	Revised Budget	Forecasted Expenditure	Surplus/ (Deficit)
1	Corporate Governance	18.1	18.4	(0.3)
2	Sustainable Food and Agricultural Systems	209.6	208.9	0.7
3	Knowledge Exchange, Policy and Advocacy	189.1	190.2	(1.1)
4	Decentralization, UN Cooperation and Programme Delivery	212.7	207.7	5.0
5	Management and Supervision Services	110.5	112.5	(2.0)
6	Contingencies	0.6	0.6	0
8	Capital Expenditure	4.7	7.0	(2.3)
9	Security Expenditure	20.4	20.4	0
	Total Appropriation (Net)	765.7	765,700	0

26. Based on these early estimates of biennial performance, resources may need to be transferred from Chapters 2 (US\$ 0.7 million) and 4 (US\$ 5 million), in favour of Chapters 1 (US\$ 0.3 million), 3 (US\$ 1.1 million), 5 (US\$ 2.0 million) and 8 (US\$ 2.3 million). The tentative budgetary transfers result from accommodating the US\$ 39 million in under-budgeted items described above (Table 2). The amount proposed for transfer represent 0.7% of the biennial budget, compared with 0.8% proposed at the mid-point of 2004-05 and 1.4% for 2002-03.

27. As many items, in particular the forecasted staff cost variance, remain subject to fluctuations outside the Organization's control, a formal request for transfers between chapters will be submitted at the next session in September 2007, based on updated information.

Transfers between Divisions within the same Chapter

28. Financial Regulation 4.5(a) requires transfers between divisions within the same chapter to be reported. In this context, it is recalled that the Council, at its November 2006 Session, authorised the Director-General to implement the restructuring at headquarters²¹ as described in Section V of document CL 131/18, Implementation of Conference Decisions and Proposals from the Director-General. As a result, 2006 expenditures are recorded against the headquarters structure presented in Annex V of the Revised Programme of Work and Budget, while 2007 expenditures are recorded under the new headquarters structure shown in Annex VI of CL 131/18.

Alternative Proposal for handling two additional under-budgeted Items

29. The 2006-07 forecasted budgetary performance presented above takes into account all under-budgeted items which will be covered under the 2006-07 Regular Programme appropriation. However, the Finance Committee's attention is drawn to two additional items where expenditures in 2006-07 will exceed the amounts budgeted, namely:

- terminal payments; and
- current service costs of After-service Medical Coverage (ASMC).

²¹ CL 131/REP, para 63.

Terminal Payments Fund

30. The Terminal Payments Fund (TPF) records payments made to staff members when they separate from the Organization. The budgeted level of the Regular Programme contribution is determined by actuarial valuation and US\$ 12 million was provided in the budget for 2006-07. In view of the large number of staff separations following the decisions of the governing bodies (including the approval of a reduced budget level in real terms), it is estimated that 2006-07 terminal payments will total approximately US\$ 18.8 million, leaving US\$ 6.8 million unfunded. At the end of the past two biennia, payments in excess of the Regular Programme contributions amounting to US\$ 9.4 million in 2002-03 and US\$ 2.9 million in 2004-05 were charged to the General Fund without matching funding. Earlier, in 1998-99 and 2000-01, an excess of terminations had been forecasted and governing bodies' approval obtained to utilise arrears funding from the major contributor which was available.

After-Service Medical Coverage Current Service Costs

31. The current service cost for ASMC is a standard component of staff costs and arises each year as active staff members provide their services in exchange for these benefits to be paid in the future. In 1997 the governing bodies recognised that current service cost be funded each biennium from the RP budgetary appropriation and expensed in the official accounts. The current service cost of the ASMC was budgeted at US\$ 13 million for 2006-07, based on the actuarial valuation of 2003. An updated valuation requested by the Finance Committee and completed in mid-2005 set the current service cost US\$ 14.2 million higher than the amount budgeted in the PWB 2006-07. The Finance Committee, in September 2005, accepted that this additional amount did not need to be reflected in the cost increase estimates in the PWB 2006-07 and was informed that the charges against the budgetary appropriation would be aligned to the budgeted amount²². Such a step represents a departure from FAO's established practice since 1998, as reflected in the Audited Accounts of previous biennia.

Guidance Sought from the Finance Committee

32. The following alternative courses of action to cover under-budgeted terminal payments and current service costs of ASMC are proposed:

33. *Option 1:* In the absence of the provision of additional funding towards the excess 2006-07 expenditure over budgeted amounts, an amount totalling US\$ 21 million would be charged against the General Fund, increasing the General Fund deficit.

34. *Option 2:* Alternatively, a funding source must be identified from within the Regular Programme appropriation to cover this additional forecasted but under-budgeted amount of US\$ 21 million. This would include programme reductions in areas that have hitherto been protected from budgetary reductions in 2006-07, including high-priority normative activities and TCP and security resources.

35. The Committee is requested to:

- take note of the under-budgeted items affecting the forecasted 2006-07 performance;
- take note of the tentative forecast of the projected transfers between chapters;
- provide its guidance on the alternative courses of action to cover under-budgeted terminal payments and current service costs of ASMC; and
- endorse this report for transmission to the Council.

²² CL 129/4, para 73.

Annex II

PROPOSED SCALE OF CONTRIBUTIONS 2008-2009

(2006-2007 Scale shown for comparative purposes)

Member Nations	Proposed Scale	Scale
	2008-9 ²³	2006-7 ²⁴
	%	%
Afghanistan	0.001	0.002
Albania	0.006	0.005
Algeria	0.086	0.078
Angola	0.003	0.001
Antigua and Barbuda	0.002	0.003
Argentina	0.327	0.975
Armenia	0.002	0.002
Australia	1.796	1.624
Austria	0.892	0.876
Azerbaijan	0.005	0.005
Bahamas	0.016	0.013
Bahrain	0.033	0.031
Bangladesh	0.010	0.010
Barbados	0.009	0.010
Belarus	0.020	0.018
Belgium	1.108	1.090
Belize	0.001	0.001
Benin	0.001	0.002
Bhutan	0.001	0.001
Bolivia	0.006	0.009
Bosnia and Herzegovina	0.006	0.003
Botswana	0.014	0.012
Brazil	0.880	1.554
Bulgaria	0.020	0.017
Burkina Faso	0.002	0.002
Burundi	0.001	0.001
Cambodia	0.001	0.002
Cameroon	0.009	0.008
Canada	2.992	2.869
Cape Verde	0.001	0.001
Central African Republic	0.001	0.001

²³ Derived directly from the UN Scale of Assessments for 2007-2009 as adopted by General Assembly Resolution 61/237 of 22 December 2006.

²⁴ Derived directly from the UN Scale of Assessments for 2004-2006 as adopted by General Assembly Resolution 58/1B of 23 December 2003.

Member Nations	Proposed Scale	
	2008-9 ²³	Scale
	%	2006-7 ²⁴
	%	%
Chad	0.001	0.001
Chile	0.162	0.228
China	2.681	2.094
Colombia	0.106	0.158
Comoros	0.001	0.001
Congo	0.001	0.001
Congo, Democratic Rep. of	0.003	0.003
Cook Islands	0.001	0.001
Costa Rica	0.032	0.031
Côte d'Ivoire	0.009	0.010
Croatia	0.050	0.038
Cuba	0.054	0.044
Cyprus	0.044	0.040
Czech Republic	0.283	0.187
Democratic People's Republic of Korea	0.007	0.010
Denmark	0.743	0.732
Djibouti	0.001	0.001
Dominica	0.001	0.001
Dominican Republic	0.024	0.036
Ecuador	0.021	0.019
Egypt	0.089	0.122
El Salvador	0.020	0.023
Equatorial Guinea	0.002	0.002
Eritrea	0.001	0.001
Estonia	0.016	0.012
Ethiopia	0.003	0.004
Fiji	0.003	0.004
Finland	0.567	0.544
France	6.333	6.151
Gabon	0.008	0.009
Gambia	0.001	0.001
Georgia	0.003	0.003
Germany	8.620	8.835
Ghana	0.004	0.004
Greece	0.599	0.541
Grenada	0.001	0.001

Member Nations	Proposed Scale	
	2008-9 ²³	Scale
	%	2006-7 ²⁴
	%	%
Guatemala	0.032	0.031
Guinea	0.001	0.003
Guinea-Bissau	0.001	0.001
Guyana	0.001	0.001
Haiti	0.002	0.003
Honduras	0.005	0.005
Hungary	0.245	0.129
Iceland	0.037	0.035
India	0.452	0.430
Indonesia	0.162	0.145
Iran, Islamic Republic of	0.181	0.160
Iraq	0.015	0.016
Ireland	0.447	0.357
Israel	0.421	0.476
Italy	5.105	4.983
Jamaica	0.010	0.008
Japan	16.708	19.858
Jordan	0.012	0.011
Kazakhstan	0.029	0.026
Kenya	0.010	0.009
Kiribati	0.001	0.001
Korea, Republic of	2.184	1.832
Kuwait	0.183	0.165
Kyrgyzstan	0.001	0.001
Lao People's Democratic Republic	0.001	0.001
Latvia	0.018	0.015
Lebanon	0.034	0.025
Lesotho	0.001	0.001
Liberia	0.001	0.001
Libyan Arab Jamahiriya	0.062	0.135
Lithuania	0.031	0.025
Luxembourg	0.086	0.079
Madagascar	0.002	0.003
Malawi	0.001	0.001
Malaysia	0.191	0.207
Maldives	0.001	0.001

Member Nations	Proposed Scale	
	2008-9 ²³	Scale
	%	2006-7 ²⁴
	%	%
Mali	0.001	0.002
Malta	0.017	0.014
Marshall Islands	0.001	0.001
Mauritania	0.001	0.001
Mauritius	0.011	0.011
Mexico	2.268	1.921
Micronesia, Federated States of	0.001	0.001
Moldova	0.001	0.001
Monaco	0.003	0.003
Mongolia	0.001	0.001
Morocco	0.042	0.048
Mozambique	0.001	0.001
Myanmar	0.005	0.010
Namibia	0.006	0.006
Nauru	0.001	0.001
Nepal	0.003	0.004
Netherlands	1.883	1.724
New Zealand	0.257	0.226
Nicaragua	0.002	0.001
Niger	0.001	0.001
Nigeria	0.048	0.043
Niue	0.001	0.001
Norway	0.786	0.693
Oman	0.073	0.071
Pakistan	0.059	0.056
Palau	0.001	0.001
Panama	0.023	0.019
Papua New Guinea	0.002	0.003
Paraguay	0.005	0.012
Peru	0.078	0.094
Philippines	0.078	0.097
Poland	0.504	0.470
Portugal	0.530	0.479
Qatar	0.086	0.065
Romania	0.070	0.061
Russian Federation	1.206	
Rwanda	0.001	0.001

Member Nations	Proposed Scale	
	2008-9 ²³	Scale
	%	2006-7 ²⁴
	%	%
Saint Kitts and Nevis	0.001	0.001
Saint Lucia	0.001	0.002
Saint Vincent and the Grenadines	0.001	0.001
Samoa	0.001	0.001
San Marino	0.003	0.003
Sao Tome and Principe	0.001	0.001
Saudi Arabia	0.752	0.727
Senegal	0.004	0.005
Serbia	0.021	0.019
Seychelles	0.002	0.002
Sierra Leone	0.001	0.001
Slovakia	0.063	0.052
Slovenia	0.097	0.084
Solomon Islands	0.001	0.001
Somalia	0.001	0.001
South Africa	0.292	0.298
Spain	2.983	2.571
Sri Lanka	0.016	0.017
Sudan	0.010	0.008
Suriname	0.001	0.001
Swaziland	0.002	0.002
Sweden	1.076	1.018
Switzerland	1.222	1.221
Syrian Arab Republic	0.016	0.039
Tajikistan	0.001	0.001
Tanzania, United Republic of	0.006	0.006
Thailand	0.187	0.213
The Former Yugoslav Republic of Macedonia	0.005	0.006
Timor Leste	0.001	0.001
Togo	0.001	0.001
Tonga	0.001	0.001
Trinidad and Tobago	0.027	0.023
Tunisia	0.031	0.033
Turkey	0.383	0.380
Turkmenistan	0.006	0.005
Tuvalu	0.001	0.001
Uganda	0.003	0.006

Member Nations	Proposed Scale	Scale
	2008-9 ²³	2006-7 ²⁴
	%	%
Ukraine	0.045	0.040
United Arab Emirates	0.304	0.240
United Kingdom	6.675	6.250
United States of America	22.000	22.000
Uruguay	0.027	0.049
Uzbekistan	0.008	0.014
Vanuatu	0.001	0.001
Venezuela, Bolivarian Republic of	0.201	0.174
Viet Nam	0.024	0.021
Yemen	0.007	0.006
Zambia	0.001	0.002
Zimbabwe	0.008	0.007
	100.000	100.000