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September 2013

FAO FIAT PANIS	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	Продовольственная и сельскохозяйственная организация Объединенных Наций	Organización de las Naciones Unidas para la Alimentación y la Agricultura

FINANCE COMMITTEE

Hundred and Fifty-first Session
Rome, 11 - 15 November 2013
Financial Position of the Organization as at 30 June 2013

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EXECUTIVE SUMMARY

The Report on the Financial Position of the Organization presents an overview of the unaudited results for the eighteen months ended 30 June 2013. The main points highlighted in the report are:

- **Regular Programme Liquidity Position.** As at 30 June 2013, the balance of Regular Programme cash, cash equivalents and short term deposits increased to USD 176.4 million (USD 61.4 million at 31 December 2011). This increase occurred as liquidity at 31 December 2011 was significantly deflated due to the absence of a receipt from a major contributor. As at 30 June 2013, the percentage of 2013 assessed contributions collected by the Organization amounted to 53 per cent.
- **Staff Related Liabilities.** The total liability of the four plans as at 30 June 2013 was USD 1,270.9 million of which USD 861.8 million was unfunded (After Service Medical Coverage accounted for USD 786.5 million of the unfunded liability, whilst the Terminal Payments Fund accounted for the remaining unfunded portion of USD 75.3 million). The underfunding of the After Service Medical Coverage (ASMC) liability continues to be a cause of major structural deficit on the General Fund. Based on the Actuarial Valuation performed as at 31 December 2012, in order to fully fund these plans, a funding source of USD 26.8 million per annum for 30 years would be required for the ASMC, and a funding source of USD 6.5 million per annum for 15 years would be required for the TPF.
- **Available-for-sale Investments.** The value of available-for-sale investments at 30 June 2013 amounted to USD 384.8 million (USD 326.9 million at 31 December 2011). The increase compared to 31 December 2011 represents both a recovery in market value as well as additional Conference-approved funding of USD 11.6 million. Market volatility continues to be a concern of the Organization and the situation is being closely monitored.
- **Working Capital Fund and Special Reserve Account.** At its 148th Session in March 2013, the Finance Committee requested that a comprehensive review take place concerning the replenishment of the Working Capital Fund and the Special Reserve Account. The document presents the latest status of these funds, including the Governing Bodies prior considerations of these matters.

  The current level of Working Capital Fund amounts to USD 25.7 million, which is no longer sufficient to cover one month of current cash outflow. As the Organization’s liquidity position continues to be vulnerable to delays in the receipt of contributions, it is recommended that the balance be increased to cover approximately two months current cash outflow (USD 90.0 million).

  The balance on the Special Reserve Account (SRA) as at 30 June 2013 was USD 19.1 million. This is USD 31.2million less than the level specified by Conference Resolution 13/81, which states that it should be maintained at 5 per cent of the total effective working budget of the Organization. Based on a budget for 2014-15 of USD 1,005.6 million, the SRA balance of 5 per cent should total USD 50.3 million.
- **General and Related Fund Deficit.** The General Fund deficit increased from USD 641.3 million as at 31 December 2011 to USD 716.6 million as at 30 June 2013. This increase is the net result of the recognition of all actuarial losses on the Staff Related Liabilities as at 31 December 2012, offset by recognition of a full year of 2013 Member Nations assessments compared to six months of expenditure in 2013. The forecast deficit as at 31 December 2013 is expected to be approximately USD 948.0 million.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to note that the liquidity position of the Organization at 30 June 2013 had improved compared to 31 December 2011, driven by the timing of receipts of Member Nation assessments. The Organization’s liquidity position however remains extremely vulnerable to delays in collecting assessed contributions and any potential cash flow shortfalls are exacerbated by the limited working capital reserves of the Organization.
- The Finance Committee is further invited to consider the recommendations to replenish the Working Capital Fund in the amount of USD 64.3 million and the Special Reserve Account in the amount of USD 31.2 million, to provide financial stability to the Organization in the performance of its programme of work.
- The Finance Committee is also invited to note that as previously reflected in the Report of its 143rd Session[1], the increase in the deficit of the Organization to USD 716.6 million as at 30 June 2013 from USD 641.3 million as at 31 December 2011 reflected the fact that the Organization had implemented a change in accounting policy at the 2012 year end to fully recognize all actuarial losses on the defined benefit obligation of its staff related schemes

Draft Advice

- **The Finance Committee noted that while the liquidity position of the Organization at 30 June 2013 has improved compared to December 2011, its on-going cash flow health is dependent on the timely payment of 2013 assessed contributions. The Committee urged all Member Nations to make timely and full payment of assessed contributions to ensure that FAO continues to meet the operating cash requirements for the Programme of Work.**
- **The Finance Committee noted that the levels of the Working Capital Fund and the Special Reserve Account are both below their optimal level to guarantee the financial stability of the Organization and acknowledged the amounts required to replenish both reserves.**
- **The Finance Committee noted that the significant increase in the General Fund deficit was due to the full recognition of the Staff Related Liabilities, and recognized the need to identify a funding source or alternative solution to mitigate the Organization's financial exposure to this liability.**

[1] CL 146/3, para 8d

Introduction and Contents

1. The Report on the Financial Position of the Organization presents an overview of the unaudited results as at and for the eighteen months ended 30 June 2013. The report is organized as follows:

- **Financial Results for the eighteen months ended 30 June 2013:**
    i) **Statement of Assets, Liabilities, Reserves and Fund Balances** as at 30 June 2013 presented by source of funds and including comparative balances as at 31 December 2011- Table 1.

    ii) **Statement of Income and Expenditure and Changes in Reserves and Fund Balances** for the eighteen months ended 30 June 2013 presented by source of funds and including comparative balances for the eighteen months ended 30 June 2011 - Table 2.
- **Summary Comment on Financial Results for the eighteen months ended 30 June 2013**
- **Cash Flow Forecast for 2013 to 31 December 2013**

Table 1

STATEMENT OF ASSETS, LIABILITIES, RESERVES and FUND BALANCES
As at 30 June 2013
(USD 000)

	Funds		UNAUDITED Total	AUDITED Total
	General and Related	Trust and UNDP	30 June 2013	31 December 2011
ASSETS				
Cash and Cash Equivalents	176,391	471,254	647,645	568,490
Investments - Held for Trading	-	382,428	382,428	367,168
Contributions Receivable from Member Nations and UNDP	264,386	8,255	272,642	117,668
less: Provision for Delays of Contributions	(12,967)	(7,930)	(20,897)	(18,919)
Accounts Receivable	50,755	-	50,755	51,101
Investments - Available for Sale	384,835	-	384,835	326,873
TOTAL ASSETS	**863,401**	**854,007**	**1,717,408**	**1,412,381**
LIABILITIES				
Contributions Received in Advance	37	725,735	725,771	723,483
Unliquidated Obligations	42,944	96,676	139,620	196,171
Accounts Payable	65,021	-	65,021	39,069
Deferred Income	105,809	-	105,809	73,440
Staff Related Schemes	1,270,857	-	1,270,857	906,060
TOTAL LIABILITIES	**1,484,667**	**822,411**	**2,307,078**	**1,938,223**
RESERVES AND FUND BALANCES				
Working Capital Fund	25,745	-	25,745	25,654
Special Reserve Account	19,094	-	19,094	20,043
Capital Expenditure Account	11,723	-	11,723	14,474
Security Expenditure Account	12,029	-	12,029	4,646
Special Fund for Emergency and Rehabilitation Activities	-	31,596	31,596	43,329
Unrealised Gains / (Losses) on Investments	26,784	-	26,784	7,288
Fund Balances (deficit) , End of Period	(716,641)	-	(716,641)	(641,276)
TOTAL RESERVES AND FUND BALANCES	**(621,266)**	**31,596**	**(589,671)**	**(525,841)**
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	**863,401**	**854,007**	**1,717,408**	**1,412,381**

Table 2

INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES

for the eighteen months ended 30 June 2013

(USD 000) **UNAUDITED**

	Funds		Total	
	General and Related	Trust and UNDP	30 June 2013	30 June 2011
INCOME:				
Assessment on Member Nations	995,189	-	995,189	1,004,339
Voluntary Contributions	73,367	949,920	1,023,287	1,234,313
Funds Received Under Inter-Oganizational Arrangements	412	3,526	3,938	12,310
Jointly Financed Activities	27,542	-	27,542	26,971
Miscellaneous	12,620	758	13,378	10,099
Return on Investments - Long-Term	26,993		26,993	36,223
Net Other Sundry Income	15,862	-	15,862	12,463
(Loss) / Gain on Exchange Differences	(6,457)	-	(6,457)	(11,365)
TOTAL INCOME	**1,145,528**	**954,204**	**2,099,732**	**2,325,353**
EXPENDITURE:				
Regular Programme	802,584	-	802,584	762,506
Projects	-	953,446	953,446	1,161,973
TOTAL EXPENDITURE	**802,584**	**953,446**	**1,756,030**	**1,924,479**
EXCESS OF INCOME OVER EXPENDITURE	**342,944**	**758**	**343,702**	**400,874**
Actuarial Gains or Losses	(14,537)	-	(14,537)	(29,466)
Interest Cost of Staff Related Liabilities	(70,329)	-	(70,329)	(86,812)
Provision for Contributions Receivable and Other Assets	(1,376)	-	(1,376)	783
Deferred Income	(32,369)	-	(32,369)	(46,859)
Net Movement in Capital Expenditure Account	2,752	-	2,752	(9,803)
Net Movement in Utilisation of Security Expenditure Account	(7,383)	-	(7,383)	(9,289)
NET EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE	**219,702**	**758**	**220,461**	**219,427**
Transfer of Interest to Donor Accounts	-	(758)	(758)	(1,794)
Net Transfers from/(to) Reserves				
Working Capital Fund	-	-	-	
Special Reserve Account	950	-	950	(14)
Change in Accounting Policy with respect to:				
Staff Related Liabilities	(296,017)		(296,017)	-
Fund Balances, Beginning of Period (as previously reported)	(641,276)	-	(641,274)	(558,992)
FUND BALANCES, END OF PERIOD	**(716,641)**	**-**	**(716,638)**	**(341,373)**

Summary Comment on Preliminary Financial Results of the eighteen months ended 30 June 2013

Liquidity position and outstanding contributions

2. The liquidity of the Organization under the General Fund as represented by cash and cash equivalents totalled USD 176.4 million at 30 June 2013 (USD 61.4 million as at 31 December 2011). The increase in liquidity is a result of the payment pattern of receipts of Member Nation assessments, which at the 31 December 2011 biennium-end caused liquidity to be deflated as a major contributor had not paid their 2011 assessment. As at 30 June 2013 the rate of collections of Member Nation assessments was in line with expectations and requirements.

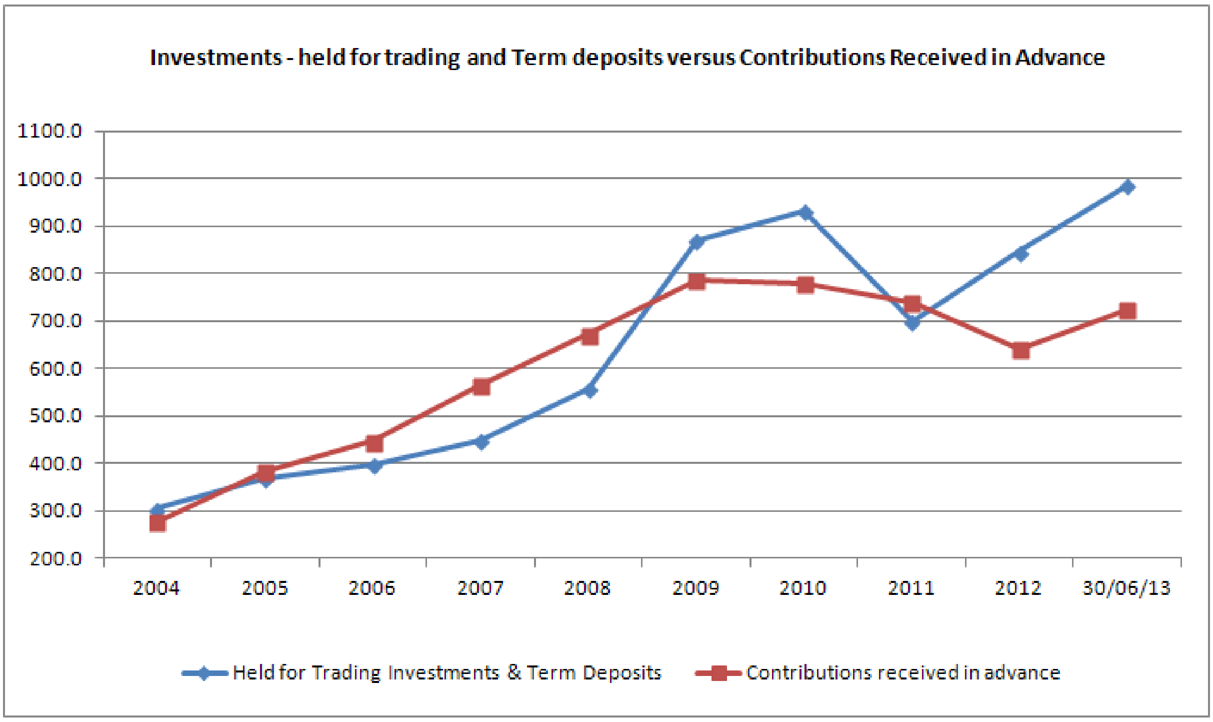
Investments - held for trading

3. The value of Investments - held for trading as at 30 June 2013 amounted to USD 382.4 million and together with term deposits of USD 603.2 million, disclosed with cash and cash equivalents, represented mainly unspent Trust Fund balances held pending disbursements on project implementation. Term deposits and investments - held for trading combined as at 31 December 2011 amounted to USD 698.9 million. During the eighteen months since 31 December 2011, the combined term deposits and investments - held for trading increased by USD 286.7 million due to a higher proportion of liquidity being invested in to term deposits instead of being held as cash at bank.

4. FAO’s prudent, conservative, low risk investment style and the continuing near zero interest rate environment in 2013 kept the returns on the held for trading investment portfolio very low, with an annual return of 0.083%. However, this exceeded the benchmark return of 0.037%. In 2012 the return figures were at 0.27 % compared to a benchmark return of 0.05 %.

5. Table 3 presents information on balances of the Trust Fund portion of Investments - held for trading and term deposits, and the correlation with contributions received in advance at the end of each year from 2004 to 30 June 2013.

Table 3



Investments - available-for-sale

6. Available-for-sale investment portfolios, which represent those investments set aside to fund the Organization's Staff Related Schemes, increased in value from USD 326.9 million at 31 December 2011 to USD 384.8 million as at 30 June 2013. The increase was due to several factors including:

- additional funding totalling USD 11.6 million was injected into the portfolio in line with the receipt of contributions which include specific Conference-approved funding towards the ASMC liability;
- during the eighteen months ended 30 June 2013, the return on the available-for-sale portfolio of investments generated a net gain of USD 46.3 million. Overall, the gain was due to favourable market conditions, and comprised USD 11.9 million of interest income, USD 19.0 million of net unrealised gains, net realised gains of USD 18.0 million, and offset by USD 2.6 million of management fees charged by the Organization’s investment portfolios managers.

Staff Related Schemes

7. 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)

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

9. The total liability of the Plans at 30 June 2013 amounted to USD 1,270.9 million, an increase of USD 118.8 million compared to the balance of USD 1,152.1 million as at December 2011.

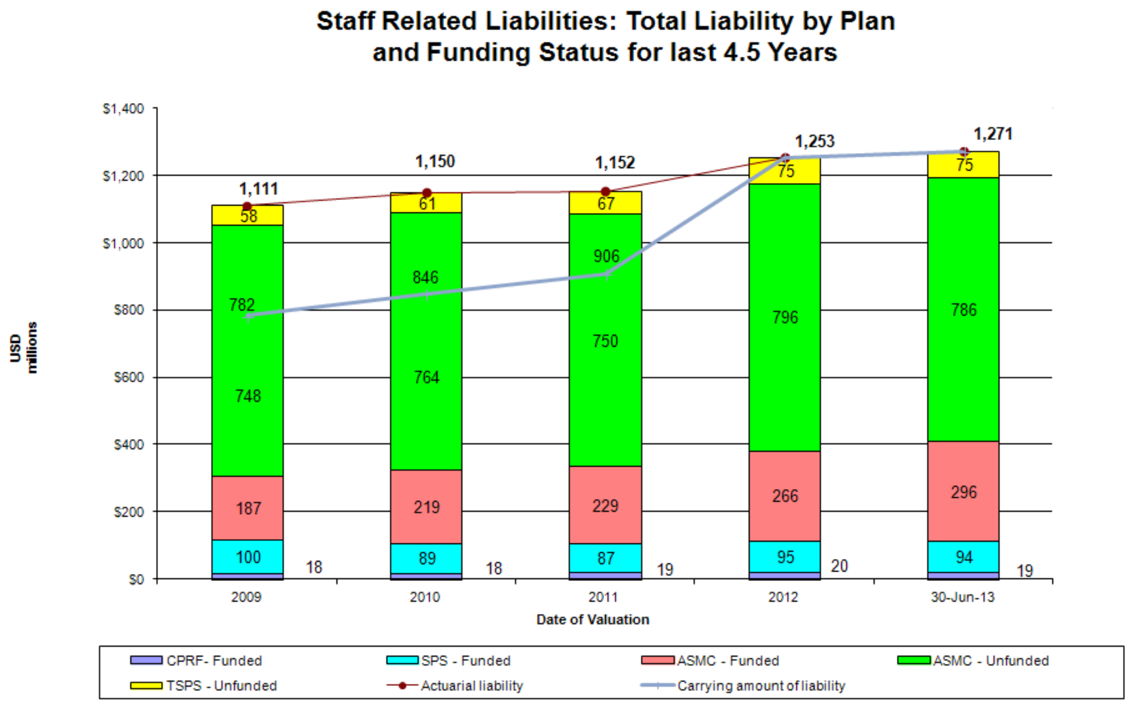
10. During the eighteen months ended 30 June 2013, the Organization recorded a current service cost (included in Regular Programme Expenditure) for all the Plans of USD 59.3 million and interest cost of USD 70.3 million. On the ASMC, TPF and CPRF plans a total actuarial loss of USD 14.5 million was also recognised in the Income and Expenditure statement prior to the change in accounting treatment discussed below. Returns on the available-for sale Investment portfolios are intended to be used to address the interest cost associated with the accretion in present value of the staff liabilities. As the liability is not fully funded, the realised returns on the available-for sale portfolio fall short of the interest costs by some USD 58.4 million.

11. As previously reported to the Committee at its 148th Session in March 2013 the Organization had implemented a change in accounting policy at the end of 2012 to fully recognize all actuarial losses on the defined benefit obligation of its staff related schemes. [2]The change in relation to the first three plans resulted in the recognition of USD 296.0 million of actuarial losses as at 31 December 2012 directly in retained earnings.

12. As at 30 June 2013 unfunded staff related liabilities amounted to USD 861.8 million of which After Service Medical Coverage (ASMC) accounts for USD 786.5 million and the Terminal Payments Fund (TPF) accounts for USD 75.3 million. Table 4 presents the analysis of the total actuarial liability by plan by funding status.

[2] FC 148/3, para 10

Table 4



13. In reviewing the proposals to improve FAO's financial health, liquidity and reserves presented in the proposed Programme of Work and Budget 2014-15 at its 148th Session in March 2013, the Finance Committee requested that a comprehensive review take place at its next regular session concerning the replenishment of the Working Capital Fund and the Special Reserve Account. Paragraphs 14-18 below present the latest status of these funds and the Governing Bodies prior considerations of related recommendations on this subject.

Replenishment of the Working Capital Fund

14. The level of authorized Working Capital Fund (WCF) was established in 1991 to safeguard the Organization's Regular Programme programme of work in periods of liquidity difficulties. The existence of the WCF, plus any available balance of the Special Reserve Account, has meant that the Organization's recourse to external borrowings to cover liquidity shortfalls has been a last resort. At the time the reserve was created, the level of the WCF represented approximately one month of Regular Programme cash outflow.

15. Nevertheless, in prior years, the level of these reserves has proven insufficient to avoid recourse to external borrowing, and the current balance of USD 25.7 million no longer represents one month of Regular Programme operating cash outflow. The Finance Committee has been previously advised that to cope with the operating cash requirements in the face of persistent delays in Members' contributions, the WCF should be increased to an amount equivalent to approximately two months of Regular Programme cash outflow, currently equal to USD 90 million.

16. Recent Conference Resolutions, including the 38th session in 2013, have deferred the replenishment of the WCF to future biennia.

Replenishment of the Special Reserve Account

17. Conference Resolution 13/81 specifies that the Special Reserve Account (SRA) should be maintained at a level equivalent to 5 per cent of the total effective working budget of the Organization. The budget for 2014-15 is USD 1,005.6 million and the SRA balance of 5 per cent would total USD

50.3 million. Given the SRA balance as at 30 June 2013 was USD 19.1 million, a replenishment of USD 31.2 million would be required to restore the SRA to its authorised level.

18. The 2009 Conference recalled that, following endorsements of proposals by the Director-General to the Finance Committee and Council, the SRA had been drawn down by USD 6.4 million in 2006 in order to charge a portion of an unforeseen and unbudgeted general service (GS) salary increase at headquarters on the understanding that the SRA would be replenished by the same amount. Recent Conference Resolutions, including the 38th session in 2013, have deferred the replenishment of the SRA to future biennia.

General and Related Fund Balance

19. The General Fund deficit increased by USD 75.4 million from USD 641.3 million as at 31 December 2011 to USD 716.6 million as at 30 June 2013. The net increase in the deficit is due to a combination of the increase of USD 296.0 million as a result of fully recognizing the liability for the Staff Related Schemes as at 31 December 2013, offset by the recognition in 2013 of the full year income from Member Nation assessments, whilst only six months of expenditures have been incurred as at 30 June 2013. It is anticipated that by 31 December 2013 the deficit will have further increased to approximately USD 948 million.

TCP Expenditure and Deferred Income

20. During the 2012-13 biennium, TCP expenditure charged against the 2012-13 appropriation amounted to USD 25.5 million whilst that against the 2010-11 appropriation amounted to USD 47.5 million. The average monthly TCP expenditure remained steady during the period at USD 4.1 million as at 30 June 2013 compared to an average of USD 4.0 million during the 2010-11 biennium. Compared to the average expenditure during the comparative period ended 30 June 2011 of USD 3.3 million, monthly TCP expenditure has increased. As at 30 June 2013, the total TCP deferred income (i.e. the available appropriation) amounted to USD 102.6 million.

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

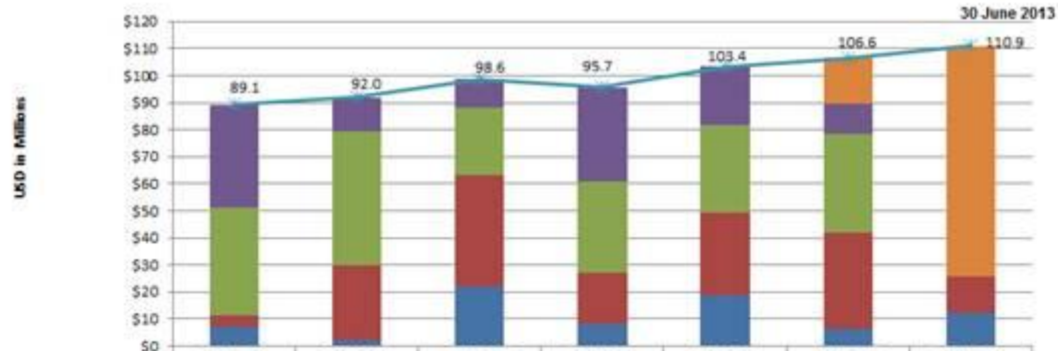
Table 5

Average monthly expenditure	Average monthly TCP expenditure Time period					
	30-Jun-13 18 months	*2010-11 24 months*	*30-Jun-11 18 months*	*2008-09 24 months*	*2006-07 24 months*	*2004-05 24 months*
	4.1	4.0	3.3	4.9	2.5	5.2

22. Table 6 presents the TCP expenditure (including accruals) for all appropriation periods and TCP available appropriation (i.e. deferred income) for each year from 1 January 2004 to 30 June 2013. The expenditure incurred against the 2012-13 appropriation represents 23.0% of the available appropriation. The balance will be available for expenditure through 31 December 2015, together with the new appropriation for each calendar year. The expenditure incurred during 2012-13 as at 30 June 2013 against the brought forward balance on the 2010-11 appropriation represents 73.4% and is in line with the expectation of full utilisation by the end of the 2012-13 biennium.

Table 6

TCP Annual Expenditure for each Biennial Appropriation



	00/01 TCP	02/03 TCP	04/05 TCP	06/07 TCP	08/09 TCP	10/11 TCP	12/13 TCP
Unspent Approp	0.0	0.0	0.0	0.0	0.0	17.2	85.4
Yr 4 Exp	37.9	12.8	10.6	35.0	21.7	10.8	0.0
Yr 3 Exp	39.8	49.2	25.0	33.6	32.4	36.7	0.0
Yr 2 Exp	4.3	27.7	41.2	18.8	30.5	35.5	13.2
Yr 1 Exp	7.0	2.3	21.9	8.3	18.8	6.4	12.3
Biennial Approp	89.1	92.0	98.6	95.7	103.4	106.6	110.9

Notes:

Biennial Appropriation Source: Conference Budget Resolution for relevant biennium

Expenditure Source: Audited Financial Statements for periods 00/01 to 10/11; unaudited financial statements for period to 30 June 2013

Immediate Plan of Action Deferred Income

23. As at 31 December 2011, as authorised by Conference Resolution 5/2011, the Organization carried forward USD 8.7 million of unspent balance on the 2010-11 appropriation for full implementation of the IPA, including one time IPA investment costs to be incurred during 2012-13 financial period. Of this amount, USD 0.5 million is for deferred 2010-11 one-time IPA investment costs and the remainder, USD 8.2 million, offsets 2012-13 IPA investment costs and contributes to further efficiency gains and one-time savings as authorized by the July 2011 Conference.

Losses on Exchange Differences

24. During the eighteen months ended 30 June 2013 the Organization recorded a net loss of USD 6.5 million, of which, the majority of the losses of the Organization were generated on the Euro portion of the Assessments on Member Nations[3] . Actual cash backed foreign exchange differences incurred by the Organization amounted to USD 1.0 million loss during the period. This loss was transferred to the Special Reserve Account, in line with the agreement reached by Member Nations to cease transfer of Euro-to-Dollar translation differences (non-cash) to the SRA during the Finance Committee's 135th session and reported in document FC 135/2.

[3] The exchange differences are generated both as Assessments are received and also on the translation of the outstanding balance of Assessments at the period end.

2013 Cash Flow Forecast (Regular Programme)

25. Table 7 below presents the Organization's consolidated Regular Programme month end short term liquidity position (which includes cash and cash equivalents) from 1 January 2013 through 30 June 2013 and a forecast through 31 December 2013. All figures are expressed in millions of USD. The opening cash flow position of USD 105.0 million as at 31 December 2012 is higher than in previous years due to significant receipts of assessments and arrears in the latter stages of 2012. The main points arising and assumptions included in the 2013 forecast data are as follows:

- The percentage of 2013 assessed contributions paid to the Organization by Member Nations as at 30 June 2013 was 53 percent, a higher rate of receipts than the equivalent figure of 45 percent for the previous year.
- The majority of the major contributors have been paying their current year assessments in line with the previous year's payment pattern. The increase in collection rate compared to the previous year is due to several additional countries having settled their current year assessments earlier in 2013 than in 2012.

26. Based on Members' past payment patterns and the Regular Programme cash level as at 30 June 2013, the Organization's liquidity is expected to be sufficient to cover operational needs though the end of the end of 2013. The current forecast reflects the 2012 payment patterns of the largest contributors and is subject to change upon receipt of confirmation from the Members of their expected payment dates. In the event that the major contributor does not pay its contributions as expected during the remainder of 2013, the liquidity of the Organization may be at risk in the final months of the year. Consequently, the accuracy of the forecast in Table 7 below is dependent on the actual timing of the receipts of the most significant contributions in 2013.

Table 7