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	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 Forty-seventh Session
Rome, 5 - 9 November 2012
Financial Position of the Organization as at 30 June 2012

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EXECUTIVE SUMMARY

The Report on the Financial Position of the Organization presents an overview of the unaudited results for the six months ended 30 June 2012. The main points highlighted in the report are:

- **Regular Programme Liquidity Position**. As at 30 June 2012, the balance of Regular Programme cash, cash equivalents and short term deposits increased to USD 110.4 million (USD 61.3 million at 31 December 2011), mainly due to the collection of 2011 arrears during the first quarter of 2012. The rate of receipts of Member Nation current assessments has however been extremely low in the first 6 months of 2012. Without payment of current assessments by FAO's largest contributors it is forecast that the Organization will require recourse to external borrowing by October 2012.
- **Unfunded Staff Related Liabilities**. The total liability of the four plans as at 30 June 2012 was USD 1,174.6 million of which USD 823.5 million was unfunded (After Service Medical Coverage accounted for USD 757.0 million of the unfunded liability, whilst the Terminal Payments Fund accounted for the remaining unfunded portion of USD 66.5 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 2011, in order to fully fund these plans, a funding source of USD 24.6 million per annum for 30 years would be required for the ASMC, and a funding source of USD 5.9 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 2012 amounted to USD 344.0 million (USD 326.9 million at 31 December 2011) which represents both a recovery in market value as well as additional Conference-approved funding of USD 4.0 million towards ASMC. Market volatility continues to be a concern of the Organization and the situation is being closely monitored.
- **General and Related Fund Deficit.** The General Fund deficit decreased from USD 641.3 million as at 31 December 2011 to USD 427.9 million due to full revenue recognition of 2012 Member Nation Assessments, whilst only 6 months of expenditures have been incurred to-date. It is expected that the General Fund deficit will increase to approximately USD 700 million by the end of 2012.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to note that while the liquidity position of the Organization at 30 June 2012 had improved compared to 31 December 2011 due to the payment of arrears, liquidity had significantly reduced when compared to the position at the same date in the prior year (USD 110.4 million at 30 June 2012 versus USD 213.8 million as at 30 June 2011). This reflected a decrease in the percentage of assessed contributions collected in the first six months of 2012 (45.43 percent) compared to the same period in 2011 (60.22 percent). Given the limited working capital reserves, the Organization continues to remain vulnerable to the timing of payments by major contributors.
- The Finance Committee is also invited to take note that the decrease in the deficit of the Organization to USD 429.4 million from USD 641.3 million as at 31 December 2011 was not indicative of improved performance, but reflected the fact that only 6 months of expenditures had been incurred against a full year of assessed contributions. It is forecast that by 31 December 2012, the General Fund deficit will reach approximately USD 700 million due to an additional 6 months' expenditures and the lack of funding available to offset charges for the After Service Medical Coverage Scheme and the Terminal Payments Fund.

Draft Advice

- **The Finance Committee noted that while the liquidity position of the Organization at 30 June 2012 had improved compared to December 2011 due to the collection of arrears, a significant decrease in the rate of collection of 2012 assessed contribution as compared to prior periods had had a negative impact on the Organization's liquidity position. The Committee urged all Member Nations to make timely and full payment of assessed contributions to ensure that FAO would continue to meet the operating cash requirements for the Programme of Work and avoid recourse to external borrowing.**
- **The Finance Committee noted the temporary reduction in the General Fund deficit, and acknowledged with concern that the forecast deficit as at 31 December 2012 was expected to go beyond the level of 31 December 2011, to approximately USD 700 million.**

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 six months ended 30 June 2012. The report is organized as follows:

- **Financial Results for the six months ended 30 June 2012:**
    - i) **Statement of Assets, Liabilities, Reserves and Fund Balances** as at 30 June 2012 presented by source of funds and including comparative balances as at 31 December 2011.
    - ii) **Statement of Income and Expenditure and Changes in Reserves and Fund Balances** for the six months ended 30 June 2012 presented by source of funds and including comparative balances for the six months ended 30 June 2010.
- **Summary Comment on Financial Results for the six months ended 30 June 2012**
- **Cash Flow Forecast for 2012 to 31 December 2012**

Financial Results for the six months ended 30 June 2012

2. The unaudited financial results as at and for the six months ended 30 June 2012 are presented in the following tables:

- **Table 1** shows the assets, liabilities and reserves and fund balances for both the General and Related Funds and Trust and UNDP Fund activities.
- **Table 2** shows the income and expenditure for both the General and Related Funds and for Trust and UNDP Fund activities for the reporting period.

Table 1

STATEMENT OF ASSETS, LIABILITIES, RESERVES and FUND BALANCES
As at 30 June 2012
(USD 000)

	Funds		Total	
			UNAUDITED	AUDITED
	General and Related	Trust and UNDP	30 June 2012	31 December 2011
ASSETS				
Cash and cash equivalents	110,385	491,535	601,920	568,490
Investments - held for trading	-	351,022	351,022	367,168
Contributions Receivable from Member Nations and UNDP	291,386	6,586	297,972	117,668
less: Provision for Delays of Contributions	(13,196)	(6,290)	(19,486)	(18,919)
Accounts Receivable	47,854	-	47,854	51,101
Investments - available-for-sale	343,992	-	343,992	326,873
TOTAL ASSETS	**780,421**	**842,853**	**1,623,274**	**1,412,381**
LIABILITIES				
Contributions Received in Advance	37	728,137	728,174	723,483
Unliquidated Obligations	30,472	77,030	107,502	196,171
Accounts Payable	43,492	-	43,492	39,069
Deferred Income	108,350	-	108,350	73,440
Staff Related Schemes	935,073	-	935,073	906,060
TOTAL LIABILITIES	**1,117,322**	**805,270**	**1,922,592**	**1,938,223**
RESERVES AND FUND BALANCES				
Working Capital Fund	25,654	-	25,654	25,654
Special Reserve Account	19,302	-	19,302	20,043
Capital Expenditure Account	15,723	-	15,722	14,474
Security Expenditure Account	10,761	-	10,761	4,646
Special Fund for Emergency and Rehabilitation Activities	-	37,583	37,583	43,329
Unrealised Gains / (Losses) on Investments	19,516	-	19,516	7,288
Fund Balances (deficit) , End of Period	(427,857)	-	(427,857)	(641,276)
TOTAL RESERVES AND FUND BALANCES	**(336,901)**	**37,583**	**(299,318)**	**(525,841)**
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	**780,421**	**842,853**	**1,623,274**	**1,412,381**

Table 2

INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES

for the six months ended 30 June 2012

(USD 000)	Funds		UNAUDITED Total	
	General and Related	Trust and UNDP	30 June 2012	30 June 2010 Restated
INCOME:				
Assessment on Member Nations	494,304	-	494,304	515,636
Voluntary Contributions	21,801	275,516	297,317	311,686
Funds Received Under Inter-Oganizational Arrangements	134	1,003	1,137	5,014
Jointly Financed Activities	11,485	-	11,485	7,136
Miscellaneous	1,120	196	1,316	3,580
Return on Investments - available-for-sale	1,199		1,199	3,930
Net Other Sundry Income	4,300	-	4,300	4,335
(Loss) / Gain on Exchange Differences	(7,401)	-	(7,401)	(33,800)
TOTAL INCOME	**526,942**	**276,715**	**803,657**	**817,517**
EXPENDITURE:				
Regular Programme	240,541	-	240,541	207,929
Projects	-	276,519	276,519	294,994
TOTAL EXPENDITURE	**240,541**	**276,519**	**517,060**	**502,923**
EXCESS OF INCOME OVER EXPENDITURE	**286,401**	**196**	**286,597**	**314,594**
Actuarial Gains or Losses	(6,600)	-	(6,600)	(9,916)
Interest Cost of Staff Related Liabilities	(24,314)	-	(24,314)	(29,336)
Provision for Contributions Receivable and Other Assets	(442)	-	(442)	(252)
Deferred Income	(34,910)	-	(34,910)	(38,906)
Net Movement in Capital Expenditure Account	(1,248)	-	(1,248)	(9,726)
Net Movement in Security Expenditure Account	(6,115)	-	(6,115)	(7,637)
NET EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE	**212,772**	**196**	**212,969**	**218,821**
Transfer of Interest to Donor Accounts	-	(196)	(196)	-
Net Transfers from/(to) Reserves				-
Working Capital Fund	-	-	-	-
Special Reserve Account	742	-	742	18,960
Change in Accounting Policy with respect to:				
Classification of Short Term Investment Income			-	(2,173)
Fund Balances, Beginning of Period (as previously reported)	(641,371)	-	(641,371)	(558,992)
FUND BALANCES, END OF PERIOD	**(427,857)**	**0**	**(427,856)**	**(323,384)**

Summary Comment on Financial Results of the six months ended 30 June 2012

Liquidity position and outstanding contributions

3. The liquidity of the Organization under the General Fund as represented by cash and cash equivalents totalled USD 110.4 million at 30 June 2012 which had increased by USD 49.0 million from the 31 December 2011 amount of USD 61.4 million, mainly due to the collection of 2011 arrears in Q1 2012. However, it should be noted that it was significantly less than the cash and cash equivalents at the same period of the previous year (USD 110.4 million versus USD 213.8 million as at 30 June 2011), and by October 2012 the Organization may require recourse to external borrowing unless overdue payments are made by major contributors. See below for further discussion on the projected cashflow of the Organization.

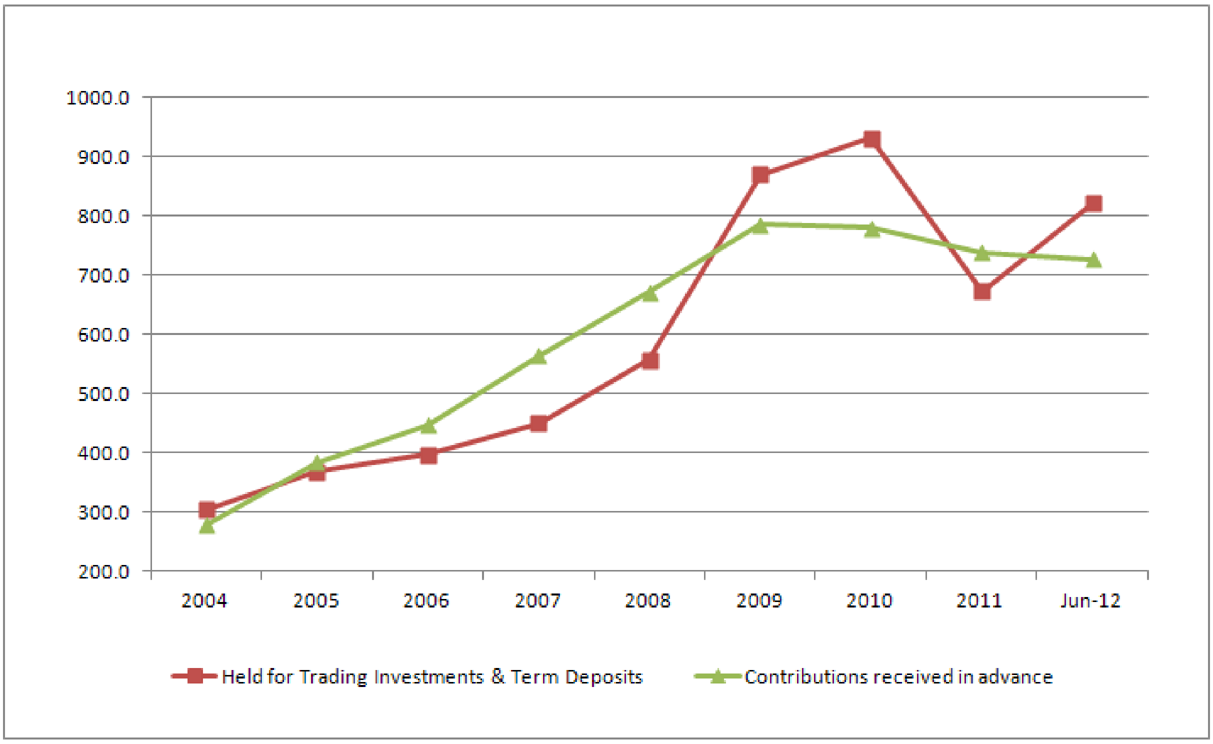
Investments - held for trading

4. The value of Investments - held for trading as at 30 June 2012 amounted to USD 351.0 million, and together with Term deposits (USD 471.0 million) reported within Cash and Cash Equivalents, represent mainly unspent Trust Fund balances held pending disbursements on project implementation.

5. FAO's prudent, conservative, low risk investment style and the continuing near zero interest rate environment in 2012 kept the returns on the held for trading investment portfolio very low, with an annualised return of 0.13% for the six months. However, this exceeded the benchmark return of 0.035 %. In 2011 the return figures were at 0.15 % compared to a benchmark return of 0.05 %.

6. 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 2012.

Table 3



Investments - available-for-sale

7. 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 344.0 million as at 30 June 2012. The increase was due to several factors including:

- additional funding totalling USD 4.0 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 six months ended 30 June 2012, the return on the available-for-sale portfolio of investments generated a net gain of USD 13.2 million, despite a negative impact on foreign exchange translation of Euro denominated investments. Overall, the gain was due to favourable market conditions and comprised USD 4.0 million of interest income, USD 12.2 million of net unrealised gains, offset by net realised losses of USD 2.0 million and USD 1.0 million of management fees charged by the Organization’s investment portfolios managers.

Staff Related Schemes

8. 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)

9. The results of the latest actuarial valuation and related funding requirements and issues were presented in detail at the 143rd Session of the Finance Committee in document FC 143/4 - *2011 Actuarial Valuation of Staff-Related Liabilities*. The next valuation will be carried out at 31 December 2012.

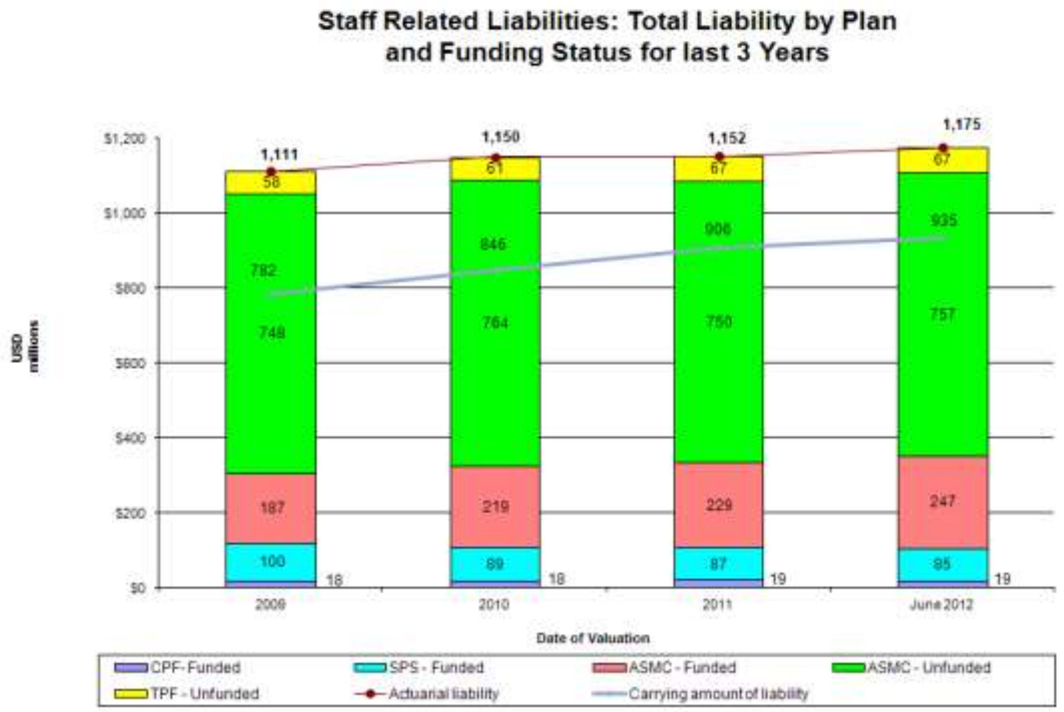
10. The total liability of the Plans at 30 June 2012 amounted to USD 1,174.6 million (USD 1,152.1 million as at December 2011). The balance of USD 935.1 million in the Statement of Assets, Liabilities, Reserves and Fund Balances at 30 June 2012 represents the recorded liability of the Plans as per the 2011 actuarial valuation, plus costs incurred and payments made during the six months ended 30 June 2012. Unrecorded liabilities as at 30 June 2012 amounting to USD 239.5 million reflect the adoption of the corridor method[1] for recognizing actuarial gains and losses available under IPSAS.

11. During the six months to 30 June 2012, the Organization recorded for all the Plans in the Income and Expenditure statement a current service cost (included in Regular Programme Expenditure) of USD 19.5 million, amortization of actuarial losses of USD 6.6 million and interest cost of USD 24.3 million. 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 23.1 million.

12. As at 30 June 2012 unfunded staff related liabilities amounted to USD 823.5 million of which After Service Medical Coverage (ASMC) accounts for USD 757.0 million and the Terminal Payments Fund (TPF) accounts for USD 66.5 million. Table 4 presents the analysis of the total actuarial liability by plan by funding status.

[1] Under the corridor method, actuarial gains and losses that exceed 10 per cent of the value of the actuarial liability are deferred and recognized over the expected average remaining working lives of the employees participating in the plan.

Table 4



General and Related Fund Balance

13. The General Fund deficit decreased from USD 641.3 million as at 31 December 2011 to USD 427.9 million as at 30 June 2012. The decrease in the deficit is due to full recognition of 2012 Member Nation Assessments against only six months of expenditure in the same period. This position is not indicative of the 2012 out-turn which, based on an additional 6 months' expenditures, and a limited increase in other income components, is forecast to arrive at a General Fund deficit of approximately USD 700 million.

TCP Expenditure and Available Appropriation

14. During the six months ended 30 June 2012, TCP expenditure charged against the 2012 appropriation amounted to USD 1.5 million whilst that against the 2010-11 appropriation amounted to USD 17.2 million. The average monthly TCP expenditure during the period was USD 3.1 million, which represents an increase from the average expenditure during the comparative period ended 30 June 2010 of USD 2.4 million. As at 30 June 2012, the total TCP deferred income (i.e. the available appropriation) amounted to USD 101.7 million.

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

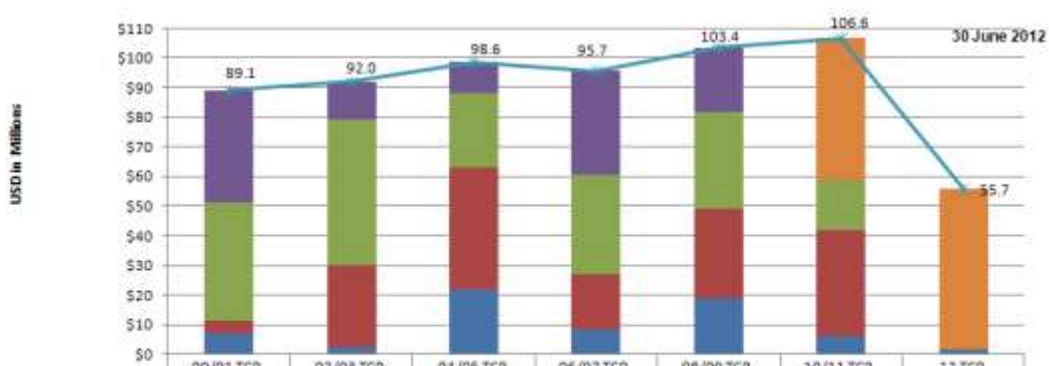
Table 5

	Time period					
	6m 2012	*2010-11*	*6m 2010*	*2008-09*	*2006-07*	*2004-05*
Average monthly expenditure	3.1	4.0	2.4	4.9	2.5	5.2

16. 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 2000 to 30 June 2012. The expenditure incurred year-to-date against the 2012 appropriation represents only 2.7% of the available appropriation, whilst the expenditure incurred to-date against the brought forward balance on the 2010-11 appropriation represents 26.6% 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 TCP
Unspent Approp	0.0	0.0	0.0	0.0	0.0	47.5	54.2
Yr 4 Exp	37.9	12.8	10.6	35.0	21.7	0.0	0.0
Yr 3 Exp	39.8	49.2	25.0	33.6	32.4	17.2	0.0
Yr 2 Exp	4.3	27.7	41.2	18.8	30.5	35.5	0.0
Yr 1 Exp	7.0	2.3	21.9	8.3	18.8	6.4	1.5
Biennial Approp	89.1	92.0	98.6	95.7	103.4	106.6	55.7

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 2012.

Immediate Plan of Action Deferred Income

17. As at 31 December 2011, as authorised by Conference Resolution 5/2001, 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. As at 30 June 2012, USD 2.1 million of the carry forward has been spent, of which USD 1.3 million was used to fund specialist working groups of the IPA Programme Management Unit, USD 0.3 million on IPA Communications and USD 0.2 million to strengthen Programming, budgeting and Results Based Monitoring.

Losses on Exchange Differences

18. During the six months ended 30 June 2012 the Organization recorded a net loss of USD 7.4 million. Of the USD 7.4 million Foreign Exchange losses, the majority of the gross losses of the Organization were generated on the Euro portion of the Assessments on Member Nations[2] . Actual cash backed foreign exchange differences incurred by the Organization amounted to USD 0.7 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.

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[2] 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.

2012 Cash Flow Forecast (Regular Programme)

19. Table 7 below presents the Organization's consolidated Regular Programme month end short term liquidity position (which includes cash and cash equivalents and short term investments) from 1 January 2012 through 30 June 2012 and a forecast through 31 December 2012. All figures are expressed in millions of USD. The main points arising and assumptions included in the forecast data are as follows:

- The percentage of assessed 2012 contributions paid to the Organization by Member Nations in the first six months of the year was 45.43 percent, a rate of receipt significantly lower than at the end of June 2011 (60.22 percent).
- It should be noted that 2011 was a Conference year when receipt rates are typically higher. This is consistent with the recent past (59.34 percent in 2009, a Conference year, and 45.24 percent in 2010).
- The lower collection rate is largely explained by the fact that some major contributors did not pay as expected.

20. Based on the latest information from Member Nations regarding the expected payment dates, the Regular Programme cash level for 2012 is expected to be sufficient to cover operational needs in September 2012. However, it is likely that Regular Programme cash balances will be depleted in October and the Organization will require external borrowing, unless significant payments are received by early October 2012.

21. The accuracy of the forecast in Table 7 below is dependent on the actual timing of the receipts of the most significant contributions in 2012.

Table 7