



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  
Agricultura  
y la  
Alimentación

## COUNCIL

### Hundred and Thirty-seventh Session

Rome, 28 September – 2 October 2009

Report of the 128<sup>th</sup> Session of the Finance Committee  
Rome, 27 – 31 July 2009

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## **Matters requiring attention by the Council**

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### **Report of the Hundred and Twenty-eighth Session of the Finance Committee**

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REPORT OF THE HUNDRED AND TWENTY-EIGHTH SESSION OF THE  
FINANCE COMMITTEE

Rome, 27 – 31 July 2009

**Introduction**

1. The Committee submitted to the Council the following report of its Hundred and Twenty-eighth Session.
2. The following representatives were present:  
Chairperson: Mr Yasser A. R. Sorour (Egypt)  
Vice-Chairperson: Mr Christopher Hegadorn (United States of America)  
Members: Mr MOUNGUI MÉDI (Cameroon)  
H.E Li Zhengdong (China)  
Mr Søren Skafte (Denmark)  
Mr Jean-Jacques Soula (France)  
Mr Eckhard W. Hein (Germany)  
H.E. Jorge E. Chen Charpentier (Mexico)  
Sr. Don Horacio Maltez (Panama)  
Mr Robert Sabiiti (Uganda)
3. The Chairperson informed the Committee that Mr Christopher Hegadorn had been designated to replace Mr Lee Brudvig as the representative of the United States of America and Mr Horacio Maltez had been designated to replace His Excellency Don Eudoro Jaén Esquivel as the representative of Panama for the duration of the 128<sup>th</sup> Session. It was further noted that His Excellency Jorge E. Chen Charpentier (Mexico) would be replaced for part of the session by Ms Claudia Cecile de Mauleon Medina. A summary of the qualifications of Messrs. Hegadorn and Maltez, and Ms de Mauleon Medina is listed in the addendum to this report (CL 137/4-Add.1). It was further noted that Pakistan was not represented at this session.
4. The Committee decided, under Rule II.3 of the Rules of Procedure of the Finance Committee to open, without prejudice to Rule II.3, the deliberations of its 128<sup>th</sup> Session to silent observers from all Member Nations of the Organization.
5. In accordance with Rule I.1 of the Rules of Procedure of the Finance Committee, Mr Christopher Hegadorn (United States of America) was unanimously elected Vice-Chairperson for the duration of the 128<sup>th</sup> Session.
6. The Committee welcomed the attendance of the Chairman of the Commission on Audit of the Republic of the Philippines in his capacity as External Auditor of the Organization at the 128<sup>th</sup> Session.

## **Reform and Immediate Plan of Action**

### **REVIEW OF THE TERMS OF REFERENCE AND PROPOSED MEMBERSHIP OF THE ETHICS COMMITTEE**

7. The Committee examined document FC 128/2 - *Review of the Terms of Reference and Proposed Membership of the Ethics Committee* prepared in response to action 3.34 of the Immediate Plan of Action (IPA).
8. The Committee noted a proposal that the issue of the terms of reference and proposed membership of the Ethics Committee by the Finance Committee be addressed in the context of a United Nations system wide process in light of the United Nations General Assembly Resolution 63/250, and once the Ethics Officer had become operational.
9. While noting that it had been asked to review the terms of reference and proposed membership of the Ethics Committee by the IPA, the Committee decided to keep the issue open and to review the matter again at one of its forthcoming sessions, including in the light of the deliberations of the Committee on Constitutional and Legal Matters (CCLM).

### **UPDATE ON THE ESTIMATED COSTS, SAVINGS AND FUNDING MODALITIES OF THE IMMEDIATE PLAN OF ACTION & ELEMENTS OF THE ROOT AND BRANCH REVIEW**

10. The Committee agreed to consider these two items together in view of their close inter-relationship within the context of the mandate of the Committee.
11. In taking note of both documents<sup>1</sup>, the Committee expressed its appreciation for the presentation by the Secretariat.
12. The Committee noted the inclusion of the costs and savings estimates within the IPA as a positive indication that the underlying Root and Branch Review (RBR) proposals had been accepted and would be pursued.
13. The Committee was informed of the basis of some of the costed actions. It recognized that certain costs would need to be adjusted and requested Management to do so if the assumptions, scope, or timing behind the costs changed. It noted in particular the cost assumption of 80 rotations per year under the rotation policy item, and the costs for the Enterprise Risk Management project.
14. The Committee welcomed Management's commitment to carefully re-examine in the light of discussions all cost items before the next session of the Committee, including the provisions for management follow-up arrangements and culture change. The Committee noted the explanations of the Secretariat regarding costing of proposed redeployment actions, and proposals for financing them. The Committee also noted that the implementation method and cost of the Enterprise Risk Management exercise would be discussed under agenda item 8.
15. The Committee noted that the funding modality for the IPA in 2010-2011 (which in the draft Programme of Work and Budget 2010-2011 was shown as USD 12.0 million under the Net Appropriation and USD 47.7 million under Core Voluntary) would be discussed under agenda item 11.

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<sup>1</sup> Documents FC 128/5 and FC 128/7

## **REVIEW OF THE TRUST FUND FOR THE IMMEDIATE PLAN OF ACTION**

16. The Committee expressed its appreciation for the presentation provided by the Secretariat, and the responses to questions raised. It noted that the cash contributions to the Trust Fund as at 7 July 2009 amounted to USD 4.94 million against pledges of USD 7.59 million.

17. The Committee welcomed the increase in receipts, and in the number of pledges of voluntary contributions toward the IPA in 2009. The Committee expressed concern that the level of voluntary funding had not reached the targeted 2009 level of USD 14.27 million (USD 15.27 million including support costs). The Committee took note of the positive actions reported by the Chairperson of the Conference Committee on Follow-up to the Independent External Evaluation of FAO (CoC-IEE) to mobilize resources in 2009 for the IPA through the establishment of a group of *co-champions* consisting of nominees of each of the regional groups and the officers of the CoC-IEE. The Committee urged all Members to continue to support the work of Reform through the IPA. The Committee noted that cash contributions could be made to the Trust Fund in any freely-convertible currency.

18. Recognizing that discussion would take place under agenda item 11 regarding the draft Programme of Work and Budget (PWB) 2010-11, some members anticipated their concerns about the proposed treatment of the funding of the IPA under the Core Voluntary contributions within the draft PWB.

## **ENTERPRISE RISK MANAGEMENT STUDY: ASSESSMENT OF THE ORGANIZATION'S APPROACH TO RISK MANAGEMENT**

19. The Committee thanked the Inspector-General and the external consultant Deloitte for the summary of the preliminary results of their joint review of how the Organization was currently managing its key risks.

20. The Committee affirmed the importance of Enterprise Risk Management (ERM) in supporting the Reform process and endorsed the revised approach to implementing an Organization-wide ERM proposed by the Inspector-General and Deloitte. The new approach called for an internally-led project supported by specialized risk management consultants as needed, rather than a consultant-led approach as included under the IPA.

21. The Committee also expressed satisfaction with Management's commitment to implementing ERM, including mainstreaming risk management in the future performance evaluation system, as also confirmed by the Deputy Director-General. Furthermore, the Committee did not yet have terms of reference, roadmap or a detailed costing of the new approach and requested that Management supply this information at its next regular session. The Committee noted the statements of both the Inspector-General and Deloitte that the cost of consultancies in an internally-led project would be lower than the USD 2.5 million provision for the period 2009-11 in the IPA plan for a consultant-led project.

22. In closing, the Committee noted the importance for the Organization to continue the ERM process and the Committee's responsibility to follow-up on the matter. Committee members as a starting point put particular emphasis on the importance of proper financial prudence throughout the Organization in line with recommendations of the IEE and the IPA.

## **PROGRESS REPORT ON IMPLEMENTATION OF HUMAN RESOURCES MANAGEMENT STRATEGY AND POLICY FRAMEWORK**

23. The Finance Committee noted with appreciation the revised format of the Human Resources Management Strategy & Policy Framework and welcomed the measures taken to integrate the recommendations emanating from the Human Resources workstream of the RBR into the framework.

24. The Committee endorsed the proposed alignment of the aforementioned RBR recommendations and the principal HR initiatives to the respective corporate Organizational Result under Functional Objective Y developed for the Medium-Term Plan (MTP) 2010-13 and acknowledged that the underlying matrices of indicators and targets contributed to enhancing Results-based Management.

25. In recognition of the importance of the HR function within the Organization, the Committee reaffirmed that the review of the implementation of the HR strategy framework should continue to be a standing item on the agenda of its future regular sessions. With a view to strengthening its oversight of the implementation of the principal HR initiatives, the Committee requested that the framework be complemented by regular progress reports on the implementation of each of the initiatives, and an assessment of the impact of completed activities, where appropriate.

26. In its review of the principal HR initiatives, the Committee noted with satisfaction the progress achieved in the implementation of the activities underpinning these initiatives. In response to a query from the Committee, it was informed of two delays in the activities, one regarding the finalisation of user requirements in the management information reporting project had been completed by end of July 2009. The other delay regarding restructuring resulted from difficulties encountered in undertaking a timely evaluation of the innovative approaches being tested in pilot exercises with a view to determining appropriate organizational designs. As for the training programmes reported in the framework, the Committee requested additional details on the new management development programmes at an upcoming session.

27. The Committee welcomed the business partner approach envisaged with a view to transforming the HR function into a more strategic and advisory function. It endorsed the measures being undertaken to develop supporting tools such as the HR management information reporting system and noted the importance of providing streamlined and effective HR service to improve operational efficiency and client satisfaction.

28. Given the fundamental role of the HR function in the effective management and renewal of the Organization, the Committee called for strengthened collaboration with other organizations of the UN common system in developing appropriate Human Resources management policies and welcomed in this regard FAO's active participation in the UN Chief Executive Board's (CEB) Human Resources Network.

## **Financial and Budgetary Matters**

### **PROGRAMME AND BUDGETARY TRANSFERS IN THE 2008-09 BIENNIUM**

29. In accordance with Financial Regulation 4.5(b), the Committee reviewed document FC 128/3 *Programme and Budgetary Transfers in the 2008-09 Biennium*.

#### ***Budgetary Transfers – Efficiency savings***

30. The Committee considered a detailed account on Management's efforts to reach the required efficiency savings of USD 22.1 million for the 2008-09 biennium that were not identified in the PWB 2008-09, and an update on their distribution among Chapters, as had been requested at its last session. The Committee was concerned that it had not been possible so far to fully comply with the Conference's expectation of identification of further savings and efficiency gains of USD 22.1 million. The Committee was also concerned that the identified one-time savings of USD 6.0 million still needed to be achieved in 2008-09 and encouraged Management to take the necessary measures to achieve that amount by the end of the biennium. The Committee approved the resulting transfers between Chapters as shown in Table 1 of document FC 128/3.



***Budgetary Transfers based on Forecasted Biennial Performance***

31. The Committee noted that forecasted expenditure for the biennium foresaw full utilization of the appropriation, including Contingencies (*Chapter 6*), and that any year-end surpluses under Capital Expenditure (*Chapter 8*), Security Expenditure (*Chapter 9*) and Technical Cooperation Programme (TCP), would be carried over to the next biennium in accordance with the relevant Financial Regulations<sup>2</sup>

32. The Committee recalled that it had tentatively approved forecasted transfers between budgetary Chapters at its session in May 2009. It noted that the variance from the original forecast was mainly due to the revised distribution of savings and efficiency gains, the higher than anticipated unfavourable staff cost variance, an unfunded liability from prior biennia for a negotiated settlement for the garbage disposal service at Headquarters, and emergency income earnings. Taking these adjustments into account, the Committee authorized transfers from budgetary Chapters 3, 4 and 6 in favour of Chapters 1 (USD 0.9 million), 2 (USD 0.6 million) and 5 (USD 1.0 million), as shown in Table 3 of document FC 128/3.

33. The Committee noted that the required transfers were partially influenced by external factors such as exchange rate movements, and that the Director-General would report to the Committee the precise amounts transferred at its May session in 2010.

**DRAFT STRATEGIC FRAMEWORK, DRAFT MEDIUM TERM PLAN 2010-13  
AND PROGRAMME OF WORK AND BUDGET 2010 – 11**

34. The Committee reviewed the proposals for the *Draft Medium Term Plan 2010-13 and the Programme of Work and Budget 2010-11*, contained in document PC 102/3 – FC 128/11 a) Rev.1. It concentrated its examination on the PWB part of the document, covering the integrated presentation of resources in the Programme of Work, the administrative budget, the incremental budgetary requirements, efficiency savings, treatment of the IPA, the Organizational structure, the proposed Chapter structure and Conference Resolution, and elements for improving financial health.

35. The Committee appreciated the application of the new funding model, as mandated by the IPA, as an important step towards presenting assessed and voluntary contributions in an integrated Results-based Programme of Work. The Committee noted that the integrated budget provided a more holistic view of resources at the disposal of the Organization, which highlighted the important role of voluntary contributions.

36. The Committee recognized that the foundations of the new planning framework had fundamentally changed, being driven by 13 new Strategic and Functional Objectives (comprising 56 Organizational Results) rather than the 43 Programmes (with 183 Programme Entities) of the previous biennium. Following a request from the Committee, the Secretariat agreed to provide additional information to enable a programmatic comparison of the regular budgets for the 2008-09 and 2010-11 biennia, to help in their further understanding and deliberation of the proposals.

37. The Committee sought further clarification on the category of Core Voluntary contributions, noting that the elements therein (such as projects in support of the Regular Programme) were not necessarily new but were made more evident by the integrated planning and funding presentation. The Committee was reassured that about 63% of the estimated Core Voluntary contributions were linked to projects currently operational or under preparation with budgets in 2010-11. The Secretariat agreed to the request of the Committee to provide additional information on the category of Core Voluntary contributions to assist in its future deliberations.

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<sup>2</sup> Financial Regulations **6.11** (Capital Expenditure), **6.12** (Security Expenditure) and **4.3** (TCP)

38. The Committee noted that the proposed level of the Net Appropriation was aimed at maintaining the same purchasing power through updating cost increases but in addition including critical incremental requirements under Capital and Security Expenditure. The Committee took note that the proposed cost increases of USD 54.9 million had been calculated using the methodology approved by the Governing Bodies. Some Members were concerned at the resulting increase in assessments.

39. The Committee underlined the need to continually seek and achieve efficiency savings. While it accepted that the USD 17.4 million in savings for delayering in 2010-11 would be reinvested in programmes, some Members noted this should not set a precedent for the use of future savings whether from the continued reform process or from other initiatives.

40. The Committee discussed in some detail the treatment of the funding proposal for the IPA under the draft PWB 2010-11. It recalled the shared commitment of Members and management to the importance of implementing reforms in the Organization. The Committee discussed ways and means to ensure the safeguarding of the reform process and its funding while also ensuring sufficient means to implement the Programme of Work.

41. The Committee stressed the importance of the implementation of the IPA as a critical area of the FAO reform and, with reference to Conference Resolution 1/2008, underlined the necessity of securing guaranteed funds for its financing within PWB 2010-11. Some Members believed that the IPA should be brought fully into the Net Appropriation, while other Members felt that the matter required further deliberation.

42. Members also sought and received clarification on the costs included in the IPA, in particular in the areas of Human Resources, decentralization, Management follow-up arrangements and Enterprise Risk Management. The Committee recognized that certain costs would need to be adjusted if the assumptions, scope or timing behind the costs changed. It noted for example the 80 rotations per year assumed under the rotation policy which were in addition to the 25 transfers per year already budgeted in the draft PWB.

43. The Committee reviewed the two options provided for the Chapter structure, recalling that a new Chapter structure needed to be defined for the Results-based Programme of Work. The majority of Members stated a preference in principle for option 1, which consisted of one Chapter for each Strategic and Functional Objective (13 chapters) and would provide flexibility to the Director-General to authorize transfers between budgetary Chapters up to a certain percentage. Some Members raised questions regarding the presentation of the FAO Representatives' Programme and the TCP as separate Chapters for budgetary purposes, with no assurances of inclusion in the Results-based framework, but with their contributions to the Strategic and Functional Objective results frameworks to be determined during the implementation cycle and detailed in programme implementation reporting. The Committee noted that separate Chapters for Capital Expenditure, Security Expenditure and Contingencies would be needed in line with the Financial Regulations.

44. Having noted with concern the magnitude of unbudgeted costs and unfunded liabilities which had contributed to the accumulated deficit and cash depletion, the Committee recognized that the Organization remained vulnerable to cash shortages due to the high level of arrears of contributions from previous years, delays in the payment of current assessments, and insufficient cash reserves.

45. The Committee reviewed the options presented in paragraphs 164 through 186 and paragraphs 195-197 of the draft PWB 2010 11 to improve FAO's financial health, liquidity and reserves. The Committee noted that the minimum incremental funding level was proposed at USD 31.6 million, based on positive guidance already received from the Governing Bodies concerning the need to restore to the Special Reserve Account a USD 6.4 million charge incurred in 2006 following a decision of the Council, and an incremental amount of USD 25.2 million for the After Service Medical Coverage (ASMC) past service liability. It also noted that the Secretariat's

estimation of the desirable incremental funding to tackle the actual needs for improving FAO's financial health was estimated at USD 163.0 million.

46. The Committee acknowledged that the Secretariat's proposals for restoring financial health, liquidity and reserves fully reflected the guidance previously provided by the Committee.

47. In considering the options presented, the Committee recalled the Council's guidance to address the unfunded ASMC obligations in the longer-term by pursuing strategies to ensure that significant liabilities of the Organization are fully funded. The Committee welcomed the fact that FAO was among the few organizations within the UN system which had made progress in both recording and putting forward innovative proposals for funding such liability and took note of the steps taken by the Organization to reduce the costs of the Medical Plan and contain the liability of the Organization in the long-term. The Committee also welcomed the Secretariat's initiative to establish a credible long-term approach to funding the liability by re-setting the 30 year target date and noted that this had reduced the previously estimated biennial funding requirements.

48. The Committee recalled the need to replenish the Special Reserve Account (SRA) with USD 6.4 million, an amount equivalent to the special charge approved by the Council in November 2006 to cover unfunded staff costs related to the General Service salary increase. The Committee also recalled that the Conference at its Thirty-fifth Session of November 2008 noted that proposals for replenishment of the SRA would be included in the PWB 2010-11.

49. A range of views was expressed on the options presented, and several initial proposals were made concerning the draft budgetary appropriation resolution. The Committee agreed to continue its discussion in September 2009 in the context of its review of the PWB 2010-11.

50. The Committee highlighted the critical importance of the issues under discussion and the essential role of the Committee in providing advice to the Council. In this regard, the Committee resolved to review the possibility of holding an additional short session before the Council session in September with the aim to further discuss the issues at hand and formulate additional guidance for the Council.

### **STATUS OF CURRENT ASSESSMENTS AND ARREARS WITH UPDATED CASH FORECAST**

51. The Committee reviewed the paper which presented the status of current assessments and arrears at 22 June 2009 together with a cash forecast as at 31 May 2009. The Committee also reviewed a working paper on the status of current assessments and arrears and updated forecast at 23 July 2009.

52. In reviewing the above papers, the following salient points were noted by the Committee:

- a) Outstanding assessed contributions at 23 July 2009 stood at USD 78.4 million and EUR 80.5 million, compared to USD 110.2 million and EUR 107.8 million respectively at the same date in 2008. As at 23 July 2009, the cumulative rate of receipts of current assessments for 2009 had reached 60.44%, and represented an improvement compared to the rate of receipts at this point in previous years.
- b) Total arrears outstanding were USD 41.8 million and EUR 36.3 million, equivalent to 18.7 percent of current assessments. Persistently high levels of outstanding assessed contributions continued to be a significant factor undermining the financial health of the Organization.
- c) The updated 2009 cash forecast was based largely on Members' 2008 payment patterns and indicated that in spite of several large contributions having been received in May, the Organization was expected to require external borrowing by November 2009 unless there were significant payments of arrears, or earlier settlements of forecasted 2009 receipts.

53. Fully recognizing that only through timely receipt of contributions, could FAO meet operating cash requirements without recourse to statutory reserves or to external borrowing, the Committee urged all Member Nations to make timely payment of assessed contributions to ensure that FAO could meet the operating cash requirements for the Programme of Work.

### **MEASURES TO ENCOURAGE TIMELY PAYMENT OF CONTRIBUTIONS**

54. The Committee examined documents FC 128/INF/7 and FC 126/9 (re-issued) which, in addition to summarizing discussions and actions taken since 2004 with regard to measures to encourage timely payment of contributions, including measures currently in place and proposed measures still under consideration, also described certain incentives and penalties in place at other UN agencies.

55. The Committee also considered the information on cash forecasts and possible external borrowing in late 2009 provided by the Secretariat during discussion of Item 10 *Status of Current Assessments and Arrears with Updated Cash Forecast*. The Committee agreed that the Regular Programme liquidity situation would only be improved through timely payment of assessed contributions by Member Nations and stressed that all Members should settle arrears, as these weighed heavily on liquidity levels. The Committee recognized, however, that certain countries in arrears faced difficult economic situations.

56. Following discussion of alternative measures, the Committee strongly recommended to Council that all measures currently in place (FC 126/9) to encourage timely payment should be continued and that existing rules, in particular regarding voting rights should be strictly enforced. In addition, the Committee agreed to propose to Council that the restrictions set out under General Rules of the Organization (GRO) XXII-5 & XXII-7 (as regards eligibility for Council election and loss of seat for Member Nations in arrears of more than the total of contributions due for the two preceding calendar years) should be extended to eligibility for election and loss of seat in the Finance and Programme Committees, and in the Committee on Constitutional and Legal Matters since they are council committees.

57. The Committee also discussed whether the sanctions provided under Article III.4 (loss of voting rights) and GRO XXII-5 and XXII-7 (Council election or seat) should be amended so that only one year of arrears (instead of two) would result in sanctions being applied. The Committee agreed to discuss this matter and other measures to encourage timely payment of contributions further at a future session.

### **INCENTIVE SCHEME FOR PROMPT PAYMENT OF CONTRIBUTIONS**

58. The Committee recalled its earlier discussions in several past sessions concerning the efficacy and appropriateness of the incentive scheme in the face of rising levels of unpaid current assessments and arrears. The Committee reviewed document FC 128/4 and noted the Director-General's request for the Committee's indication of a discount rate to be used in applying credits to 2010 assessed contributions, or an indication to leave the rate at zero, as first recommended by the Committee at its 108<sup>th</sup> Session and endorsed by the Council at its 127<sup>th</sup> Session.

59. Following discussion of the rules of the scheme, and considering the importance of sending a signal to Members regarding the need for early payment of contributions, the Committee agreed that the discount rate to be used to apply credits towards 2010 contributions should be set at 0.03% for US dollars and 0.43% for Euros, and to so inform the Council. Considering that this discount is offset against interest earned on Regular Programme liquidity the Committee noted that the rules provide that the amount of such credits applied should not exceed the interest earned on Regular Programme funds during the year. Accordingly, a final decision on whether a discount was payable for 2009 would be taken at year-end when the actual amount of interest earned on Regular Programme funds would be known.

## **REPORT ON SUPPORT COSTS EXPENDITURE AND RECOVERIES**

60. The Committee considered the *Annual Report on Support Costs Expenditure and Recoveries* concerning implementation of the FAO Support Cost Policy for the period June 2008 through May 2009. It was satisfied that the project support cost rates for the period under review were applied within the approved policy and noted the developments arising from the partnership with the Global Environment Facility (GEF).

61. The Committee welcomed the progress by the ongoing inter-agency consultation and study on the harmonization of cost recovery policies. It took note of the emerging recommendations on extending cost recovery policies to include in projects funded from voluntary contributions: an apportionment of costs incurred in country offices; specific categories of fixed indirect costs; security costs; and costs related to the role of the Administrative Agent. The Committee endorsed in principle the enlargement of FAO Support Cost policy scope to include these costs categories, and looked forward to receiving at a future session details of the revised policy for its consideration, before it is put into effect.

## **TECHNICAL COOPERATION PROGRAMME: IMPLEMENTATION OF THE 2006-07 APPROPRIATION, AND DESCRIPTION OF THE RETURN FLOW PROCEDURE**

62. In reviewing document FC 128/14, the Committee noted that the *return flow* procedure had been endorsed by the Finance Committee and Council in 1980 to ensure the full utilization of the resources appropriated by the Conference for the TCP, and its practice had been consistently applied by the Organization since then.

63. The Committee took note of the information presented by the Secretariat in paragraph 12 of document FC 128/14 in response to the recommendation of the External Auditor in his Long Form Report of 2006-07 to “*formalise the process to document the procedure for return flow.*”

64. The Committee did not support an alternative to the established *return flow* methodology that would entail an amendment to Financial Regulation 4.3 to allow a carry-forward of up to five percent of the unspent original TCP appropriation into a third biennium. The Committee raised further a number of questions regarding *inter alia* the legality of the *return flow* practice and its possible conflict with financial regulation 4.3. The representative for Legal Counsel stated that the *return flow* practice was legally correct. One member could nevertheless not recommend the application of the *return flow* procedure on the 2006-07 TCP appropriation. Instead, the Committee strongly encouraged positive Management action to implement TCP projects within the terms of the existing Financial Regulation.

## **ANNUAL REPORT ON THE SPECIAL FUND FOR EMERGENCY AND REHABILITATION ACTIVITIES**

65. The Committee expressed its appreciation for the excellent work facilitated by the use of the Special Fund for Emergency and Rehabilitation Activities (SFERA), and welcomed the report on those activities.

66. The Committee noted the use of the funds of the SFERA had been fully within its mandate.

67. The Committee endorsed document FC 128/15 for transmission to the Council.

## **Human Resources Matters**

### **PROGRESS REPORT ON THE SHARED SERVICES CENTRE, BUDAPEST**

68. The Committee reviewed background information on the establishment of the Shared Services Centre (SSC) hub in Budapest, the services provided and the staffing levels, cost savings achieved, the achievements and plans for 2009, highlights of the recommendations by the RBR, and a separate external review of the SSC. The Committee was informed that further analysis of the recommendations of this latter review was ongoing.

69. The Committee requested further details about the savings achieved so far amounting to over USD 8 million per biennium, which had already been anticipated in the PWB 2008-09, and the potential savings arising from the creation of a global hub, which were estimated at an additional USD 1.8 million per biennium. With a view to the potential efficiency gains and savings, the Committee strongly encouraged the finalization of the internal review and expected the outcome, especially the establishment of a single global hub, be presented in the PWB 2010-11 as appropriate.

70. The Committee welcomed the satisfactory progress on the SSC and supported efforts by Management to seek further improvements in efficiency and effectiveness of these functions.

### **JUNIOR PROFESSIONAL OFFICER/ASSOCIATE EXPERT/ASSOCIATE PROFESSIONAL OFFICER PROGRAMMES IN THE UN SYSTEM'S ORGANIZATIONS**

71. The Committee expressed appreciation for the Joint Inspection Unit (JIU) Report on the JPO/APO/AE Programme in the UN system organizations and noted the positive observations it contained on the management of the programme in FAO. It welcomed the presentation in the broader framework of FAO management of human resources.

72. The Committee also welcomed the additional information provided regarding the implementation of the Programme by the Secretariat. It noted in particular that the geographic distribution of Associate Professional Officers (APOs) currently in post in FAO corresponded to approximately one third from under-represented (31%), one third from equitably-represented (36%) and one third from over-represented countries (33%), and that FAO was among the UN organizations with the highest percentage of APOs from developing countries.

73. The Committee encouraged the Organization to increase the visibility of the APO Programme and expressed support for the measures taken by the Organization to increase training and the on-the-job learning opportunities for young professionals from developing countries both through the APO and other programmes.

## **Oversight Matters**

### **FAO AUDIT COMMITTEE – 2008 ANNUAL REPORT TO THE DIRECTOR-GENERAL**

74. The Committee thanked Mr. E. Ouko, Chairperson of the FAO Audit Committee, for the report.

75. The Committee discussed issues related to independence of the Office of the Inspector General, implementation of audit recommendations and conflicting governance arrangements.

76. The Committee noted the Director-General's comments on the FAO Audit Committee's statements regarding the preparation and implementation of biennial audit plans by the Office of the Inspector General.

77. The Committee inquired as to the reasons for the long outstanding audit recommendations, some going back to 2002, and wondered if there were specific reasons for the delays the Organization experiences in implementing the outstanding items. The Chairperson informed the Committee of on-going efforts by the Inspector-General to prioritize the long-outstanding recommendations in terms of their impact on the risks the Organization faced if the recommendations remain unimplemented. It is after this exercise that one could assess their relevance, and the reasons for any delays in closing them. The Committee requested being apprised of the results of this assessment.

78. The Committee also requested further clarification on the statements relating to conflicting governance arrangements. The Chairperson of the Audit Committee explained that Management should address most issues internally first before elevating them to the various governing bodies, to avoid getting the governing bodies too involved in managing matters which are in the domain of Management.

### **APPOINTMENT OF THE INSPECTOR-GENERAL**

79. The Committee noted that in view of the retirement of the incumbent Inspector-General of FAO at the end of December 2009, a selection process for a successor had been initiated in April. The Committee was informed that the position was being readvertised to identify a suitably qualified candidate for appointment to the post soonest possible. The Committee looked forward to consultation by the Director-General on the eventual appointment, in line with the Charter for the Inspector-General, preferably at its session in October 2009. The Committee was informed by Management that should the position not be filled by 31 December 2009 an officer in charge would be appointed *ad interim*.

## **World Food Programme Matters**

### **PROCESS FOR THE SELECTION AND APPOINTMENT OF THE WFP EXTERNAL AUDITOR FOR THE TERM FROM 1 JULY 2010 TO 30 JUNE 2016**

80. The World Food Programme (WFP) Secretariat outlined the selection and appointment procedures of the WFP External Auditor indicating that at its Annual Session in 2009, the Executive Board requested the Executive Board Bureau to develop recommendations on the arrangements for appointment of the External Auditor, to be approved by correspondence following Rule IX.8 of the Rules of Procedure, modified to allow the Bureau to perform the functions that are otherwise attributed in that Rule to the Executive Director *mutatis mutandis*. The document presented thus outlined the mandate, composition and continuity of service of the Evaluation Panel, and the selection procedure, criteria for evaluation, with their relative weightings, for the evaluation of candidates. The paper also described the role of the Audit Committee in the different steps.

81. The Committee commended the clarity of the paper and the excellent outline of selection criteria. It further cautioned against possible duplication of the work of the Audit Committee and the advisory bodies such as the Finance Committee and the Advisory Committee on Administrative and Budgetary Questions (ACABQ). The Committee noted the WFP Secretariat's clarification that the role of the Audit Committee was specific and strictly advisory in reviewing the Request for Proposal, providing comments during the evaluation process and assisting the Evaluation Panel as silent observers in the interview process of the shortlisted candidates. The Audit Committee's advice was primarily on the process. The Committee agreed to the different stages of the process to be followed and concluded that it could be recommended to the Board for approval.

## Other Matters

### REPRESENTATION ALLOWANCE FOR THE INDEPENDENT CHAIRPERSON OF THE COUNCIL

82. The Finance Committee considered the proposed methodology and related formula for the periodic adjustment of the Independent Chairperson of the Council's representation allowance, which was presented in document FC 128/21.

83. The Committee agreed that the representation allowance for the Independent Chairperson of the Council be consolidated into a single component and established in Euros. The amount in Euros would be calculated through the conversion of the current level of USD 22,000 into Euros at the exchange rate that is in force at the time the decision is taken by the Thirty-sixth Session of the Conference. The Committee further agreed that the representation allowance be adjusted annually based on the yearly consolidation percentage issued by the International Civil Service Commission (ICSC).

84. Given that the revised role of the Independent Chairperson of the Council envisaged him/her spending normally at least six to eight months of the year in Rome, the Committee endorsed the proposal that the Chairperson be remunerated with the standard daily subsistence allowance for Rome throughout his/her stay at Headquarters, if he/she were not to be based in Rome. This amount would be adjusted periodically in accordance with the daily subsistence allowance (DSA) rates promulgated by the ICSC.

85. In addition, the Committee reaffirmed that the Chairperson would continue to be remunerated for all travel undertaken as part of his/her role in conformity with the provisions of resolution 79 adopted by the Sixth Session of the FAO Conference. In this respect, the Committee noted that the Chairperson would be provided with the direct round trip to the place of the meeting of the Conference or Council or to any other place where the Chairperson makes a trip in connection with Council affairs, together with the relevant DSA at the rate of the Deputy Director-General (namely the DSA rate at 140%) for the period of the duty travel.

### 2009 SUMMIT ON FOOD SECURITY: REVIEW OF FINANCIAL ARRANGEMENTS

86. Recalling Council guidance regarding the paramount importance of FAO reform and IPA implementation, the Committee took note of the estimated logistical costs (USD 2.5 million) for the organization of the World Summit on Food Security to be organized at FAO Headquarters from 16 to 18 November 2009, just before the next FAO Conference. These costs had been calculated on the basis of the experience of previous summits and notably the June 2008 High Level Conference on World Food Security: the Challenges of Climate Change and Bioenergy. They did not include estimated staff costs nor expenses for the technical documents for the Summit prepared and financed by the High Level Experts Forum on "*How to feed the world in 2050*" organized in October 2009. The Committee took note of Management's efforts with respect to financing for pre-Summit events by the respective organizers.

87. The Committee expressed its appreciation for the generous contribution of the Kingdom of Saudi Arabia for the organization of the Summit (USD 2.5 million), officially confirmed by a letter to the Director-General on 24 July 2009.

88. With this financial contribution, the Trust Fund created to cover the estimated costs for the logistics of the Summit had reached its target and funds were expected to be available shortly. The Committee endorsed the establishment of a second multidonor Trust Fund to cover the costs of the participation of representatives from Least Developed Countries, and was informed that contacts were underway with potential donors. An update would be available for information during the next Committee meeting in September.



89. The Committee took note that contacts were also underway with the International Fund for Agricultural Development (IFAD) and WFP to discuss their possible contribution, in cash or in kind, for the organization of the Summit.

90. The Committee noted that the costs for the preparation of the High Level Experts Forum in October 2009 were currently covered at 50% and that commitments had been made to cover the remaining 50% in the coming weeks.

### **WORKING METHODS OF THE FINANCE COMMITTEE**

91. The Committee underlined the need for its members to exhibit consistency between the consensual recommendations conveyed in its reports to the Council and the positions subsequently taken by Committee members during the Council debate.

92. The Committee recalled that for up to half an hour one item on its agenda had been exceptionally conducted in only one language because interpretation time had been exhausted. It emphasized the need to ensure in future the provision of simultaneous interpretation in accordance with the rules and practices of the Organization.

93. The Committee welcomed the continuing improvements in the introductory presentations by the Secretariat, including the use of audio-visual techniques, and encouraged that these presentations be concise and aim to complement the information provided in the documentation.

### **DATE AND PLACE OF THE HUNDRED AND TWENTY-NINTH SESSION**

94. The 129th Session of the Finance Committee was tentatively scheduled to be held in Rome on 18 September 2009. The final date would be agreed in consultation with the Chairperson.

## **Annex**

### **INFORMATION DOCUMENTS**

The following documents were submitted to the 128<sup>th</sup> Session of the Finance Committee for information only:

- Audited Accounts – FAO Credit Union 2008 (doc. FC 128/INF/2)
- European Commission for the Control of Foot-and-Mouth Disease - Budget for 2010-11 (doc. FC 128/INF/3)
- Animal Production and Health Commission for Asia and the Pacific (APHCA) - Budget for 2009 (doc. FC 128/INF/4)
- Budgets of the Desert Locust Commissions for 2010-11 (doc. FC 128/INF/5)
- Decisions of the General Assembly on International Civil Service Commission and UN Joint Staff Pension Board (including Changes in Salary Scales and Allowances) (doc. FC 128/INF/6)