



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-sixth Session

Rome, 15 - 19 June 2009

Report of the 126th Session of the Finance Committee
Rome, 11 - 15 May 2009

Table of Contents

Matters requiring attention by the Council	Page iv Paragraphs
Introduction	1 - 5
Reform and Immediate Plan of Action	
TERMS OF REFERENCE OF THE ENTERPRISE RISK MANAGEMENT STUDY	6 - 7
REVIEW OF THE TRUST FUND FOR THE IMMEDIATE PLAN OF ACTION	8 - 13
ELEMENTS OF THE ROOT AND BRANCH REVIEW	14 - 24

Financial and Budgetary Matters

ANNUAL REPORT ON BUDGETARY PERFORMANCE AND PROGRAMME AND BUDGETARY TRANSFERS IN THE 2008-09 BIENNIUM	25 - 29
SCALE OF CONTRIBUTIONS 2010-11	30
FINANCIAL HIGHLIGHTS AND STATUS OF CURRENT ASSESSMENTS AND ARREARS	31 - 33
2008 ACTUARIAL VALUATION OF STAFF RELATED LIABILITIES	34 - 41
MEASURES TO ENCOURAGE TIMELY PAYMENT OF CONTRIBUTIONS	42 - 46
PROGRESS REPORT ON ADOPTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS	47 - 51
REPORT ON INVESTMENTS 2008	52 - 55
PROGRESS REPORT ON ADJUSTMENT TO THE PROGRAMME OF WORK FOR UNIDENTIFIED SAVINGS AND EFFICIENCY GAINS	56 - 58
ELEMENTS FOR THE DRAFT STRATEGIC FRAMEWORK, MEDIUM TERM PLAN 2010-13 AND PROGRAMME OF WORK AND BUDGET 2010-11	59 - 64
PROGRESS REPORT ON IMPLEMENTATION OF THE TECHNICAL COOPERATION PROGRAMME	65 - 67

Human Resources Matters

REVISED POLICY AND IMPLEMENTATION OF FAO USE OF CONTRACTORS AND RETIREES	68 - 73
PROGRESS REPORT ON IMPLEMENTATION OF HUMAN RESOURCES MANAGEMENT STRATEGY AND POLICY FRAMEWORK	74 - 80

Oversight Matters

PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS	81 - 83
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2008 ANNUAL ACTIVITY REPORT OF THE OFFICE OF THE INSPECTOR-GENERAL	84 - 86
LIAISON OFFICES IN THE UNITED NATIONS SYSTEM (JIU/REP/2007/10)	87 - 88
FOLLOW-UP TO THE CONFERENCE REQUEST FOR PROVISION OF RELEVANT INFORMATION ON THE PROPOSED SUMMIT IN NOVEMBER 2009: ORGANIZATIONAL AND FINANCIAL ASPECTS	89 - 96
Other Matters	
WORKING METHODS OF THE FINANCE COMMITTEE	97 - 101
DATE AND PLACE OF THE HUNDRED AND TWENTY-SEVENTH SESSION	102
Annex I	
ANNUAL REPORT ON BUDGETARY PERFORMANCE AND PROGRAMME AND BUDGETARY TRANSFERS IN THE 2008-09 BIENNIUM	page 17
Annex II	
PROPOSED SCALE OF CONTRIBUTIONS 2010-2011	page 22

Matters requiring attention by the Council

Report of the Hundred and Twenty-sixth Session of the Finance Committee

	Paragraphs
- Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2008-09 Biennium	25 - 29
- Scale of Contributions 2010-11	30
- Financial Highlights and Status of Current Assessments and Arrears	31 - 33
- Progress Report on Adjustment to the Programme of Work for Unidentified Savings and Efficiency Gains	56 - 58
- Elements for the draft Strategic Framework, Medium Term Plan 2010-13 and Programme of Work and Budget 2010-11	59 - 64

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Twenty-sixth Session.
2. The following representatives were present:
Chairperson: Mr Yasser A. R. Sorour (Egypt)
Vice-Chairperson: Mr Lee Brudvig (United States of America)
Members: Mr MOUNGUI MÉDI (Cameroon)
Mr Li Zhengdong (China)
Mr Søren Skafte (Denmark)
Mr Jean-Jacques Soula (France)
Mr Eckhard W. Hein (Germany)
H.E. Jorge E. Chen Charpentier (Mexico)
Mr Aamir A. Khawaja (Pakistan)
H. E. Eudoro Jaén Esquivel (Panama)
Mr Robert Sabiiti (Uganda)
3. The Chairperson informed the Committee that Mr Chris Hegadorn had been designated to replace Mr Lee Brudvig as the representative of the United States of America at the session on 14 and 15 May. Furthermore, His Excellency Don Eudoro Jaén Esquivel of Panama was replaced for part of the session by Mr Horacio Maltez. A summary of the qualifications of Mr Hegadorn and Mr Maltez is listed in the addendum to this report (CL 136/8-Add.1).
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 126th Session to silent observers from all Member Nations of the Organization.
5. In line with agreement between the Chairperson of the Finance Committee and the Chairperson of the Conference Committee on Follow-up to the Independent External Evaluation of FAO (CoC-IEE), the Finance Committee decided to adopt its report on agenda items 4 (paras. 6-7), 5 (paras. 8-13), 6 (paras. 14-24) and 16 (paras. 74-80) in the afternoon of Wednesday 13 May. This was to enable an extract of the report relating to these items to be circulated to members of the CoC-IEE in advance of Working Group meetings on 20 and 21 May.

Reform and Immediate Plan of Action

TERMS OF REFERENCE OF THE ENTERPRISE RISK MANAGEMENT STUDY

6. While recalling that Enterprise Risk Management (ERM) is part of the Conference decision on the Immediate Plan of Action (IPA), the Committee found the information before it insufficient to enable it to take a decision on the conduct of an ERM study, in particular due to the provisional nature of the Terms of Reference (ToR) and a lack of detail and costing.
7. The Committee decided to postpone a decision on the ERM study to its July session. It requested that more detailed ToR be presented following the outcome of the ongoing Enterprise Risk Assessment exercise, in order to allow it to take an informed decision at that time.

REVIEW OF THE TRUST FUND FOR THE IMMEDIATE PLAN OF ACTION

8. The Committee appreciated the satisfactory progress regarding the implementation of the Immediate Plan of Action for FAO Renewal as well as Management's commitment to the implementation of the IPA.

9. The Committee reiterated that the IPA was a top priority for the Organization which constituted a necessary investment for its future.

10. It recalled that Conference Resolution 1/2008 foresaw that IPA implementation in 2009 was to be funded through voluntary extra-budgetary contributions, but expressed concern regarding the current low level of financial contributions to the IPA Trust Fund. It noted that the cash contributions to the Trust Fund as at 11 May 2009 amounted to USD 3.4 million compared to an estimated requirement in 2009 of USD 19.9 million before taking account of the final phase of the Root and Branch Review (RBR). It noted in particular that there had not been any significant improvement since it last reviewed the situation in March, although it was encouraged by the indication of forthcoming contributions from some members.

11. The Committee recalled its conclusion at its 125th Session in March 2009 to review a prioritization of IPA actions if substantial additional contributions to the Trust Fund were not forthcoming by May, and noted Management's agreement with such a course of action. It therefore recommended that Management prepare details on the sequencing of the implementation of IPA activities better aligned with the resources likely to become available in 2009, for review by the CoC-IEE at a session before the 136th Council in June 2009. It looked forward to a further review of the Trust Fund at the Finance Committee session in July.

12. The Committee urged additional contributions from Members of the Organization, including the provision of unearmarked extra-budgetary contributions in order to facilitate funding for the IPA. It also pressed for proposals of innovative solutions and expressed a willingness to support prudent budget flexibility to fund the IPA in ways that would not undermine the implementation of the 2009 Programme of Work of the Organization, *inter alia* in cases where extra-budgetary resources offered opportunities for freeing resources from the regular budget.

13. The Committee welcomed Management's continuing efforts to encourage Member Countries to contribute to the IPA Trust Fund, including communications from the Director-General to the Permanent Representations to FAO. The Committee recommended to the Chairperson of the CoC-IEE to nominate a "champion" as soon as possible before the June session of Council among the member states to seek funding for the IPA, and to assemble a group with representatives of all regions to engage in advocacy and active fundraising.

ELEMENTS OF THE ROOT AND BRANCH REVIEW

14. The Committee noted the issuance of the Stage 2 report of the Root and Branch Review (RBR) by the external consultants, Ernst and Young (EY). It appreciated the presence of EY consultants and the FAO RBR Workstream Leaders during discussion of the topic. The Committee welcomed an oral presentation by the Secretariat outlining preliminary elements of the substantive Management Response on the RBR Stage 2 report, in addition to the initial comments on costs and savings contained in the executive summary of the report, which had been provided to the Committee earlier. The Committee noted the preliminary nature of its own consideration on the RBR final deliverable, and that a substantive Management Response would be provided to a meeting of Working Group III of the CoC-IEE due to be held on 20 May.

15. The RBR's holistic vision of organizational structure and FAO's administrative processes were appreciated by the Committee. It was however noted that the review could have benefited from greater involvement of decentralized offices and technical departments as well as a detailed review of the Shared Services Centre.

16. The Committee reaffirmed the centrality given to Human Resources, as well as the recommendation to institute a Chief Information Officer.

17. The Committee expressed the need for a monitoring mechanism of the implementation of specific RBR recommendations within the context of the IPA, and noted that responsibility for implementing these recommendations could be undertaken by IPA Project Leaders in view of intrinsic interrelation between the RBR and the IPA.

18. The Committee noted the EY consultants' statement on the wide range of concurrent initiatives being undertaken by the FAO under the auspices of the Reform process and recommended that the Organization prioritize and focus its attention on IPA actions and the RBR findings in a logical sequence. The Committee concurred that there were many contemporaneous initiatives and also drew attention to their financial dimension and unquantified staff costs in moving forward with numerous initiatives. The Committee noted the importance of ensuring convergence and treatment of the RBR, IPA and other Reform initiatives in the Programme of Work and Budget (PWB) 2010-2011 and the Medium Term Plan (MTP) 2010-2013. In this respect, the Committee noted the need to address important initiatives previously endorsed by the Finance Committee and other Governing Bodies such as the implementation of the International Public Sector Accounting Standards (IPSAS).

19. The Committee supported the proposal regarding a jointly-governed Procurement unit to serve all three Rome-based agencies, but also agreed on the need for Member support in dealing with the question, and sought further clarification on the matter. The Committee welcomed the fact that the collaboration with the Rome-based agencies which had started some years ago, for example for electricity supply, was being further developed in a number of other areas following recent meetings with the World Food Programme (WFP) and the International Fund for Agriculture Development (IFAD), and looked forward to a progress report on developments in this arena at its July session. It noted that acquiescence of all the Rome-based agencies was necessary in order to implement the RBR recommendation for a joint procurement unit. In this respect, the Committee welcomed FAO's active participation in system-wide procurement through the UN Global Marketplace and was informed that the UN system-wide Plan of Action for the Harmonization of Business Practices included priority funding in the Procurement area.

20. Some members sought further details on the suggested review by the RBR of the administrative processes carried out in ODG. The Committee noted the EY clarification that the RBR focused its available resources and time on the analysis of the Corporate Services function, but considered that this review should proceed in order to ensure a more effective delivery of the support and administrative activities, and in order to speed up the decision making process. The Committee noted the Secretariat clarification that it agreed with the recommendation within the context of appropriate prioritisation and funding framework for the implementation of RBR recommendations and the IPA.

21. Some members of the Committee expressed concerns about the RBR's recommendations regarding translation, stressing the need to ensure adequate quality and timeliness of the translations. The Committee noted EY's recognition that FAO had an efficient translation service but also noted that the costs of internal translation were higher than the rates applied by freelance translators. The Secretariat noted that FAO was one of only two UN agencies which fully backcharged translation services, and rates were substantially lower than in any other such agency. It was also noted that the present proportion of translation work outsourced was higher than in any other comparable UN agency. The costs of translation in FAO represented about 1% of the total net appropriation, which was less than other comparable organizations. Whilst the thrust of the RBR recommendation was agreed by the Secretariat, there were differences on the degree to which outsourcing of translation could be pursued. The Secretariat clarified that the quantity of urgent (in-session) and confidential translations, plus the internal work to revise and check the quality of externally-translated material (as recommended by EY), required translation groups per language of about the current size.

22. The Committee recognized the need to balance up front costs of implementing the RBR recommendation against longer-term savings and noted the caution expressed by the Secretariat about the level of one-time costs stated by EY, which were believed to be too low. The Secretariat had also noted in its preliminary response that certain issues like staff redeployment costs did not appear to be covered. The Committee noted the caution expressed about the quantum of the savings, and of the timeframe at which they could be envisaged to come on stream. While EY observed that redeployment costs could potentially be minimized by re-using displaced staff elsewhere, the Secretariat pointed to the fact that such redeployments could reduce one-time costs, but that the impact on savings would also have to be examined.

23. Having listened to the Secretariat's and EY's explanation, the Committee concurred that a seven-year timeframe would be a more viable approach for examining the overall savings stream than the five-year timeframe proposed in the RBR, as it gave a more balanced view of the ultimate benefit of the proposals by demonstrating that the net savings increased significantly once the one-time costs had been covered.

24. The Committee recognised the need for further consultation between the Secretariat and the EY consultants in order to seek convergence on viable RBR recommendations and their potential costs and savings, and looked forward to being advised of the outcome of such consultations.

Financial and Budgetary Matters

ANNUAL REPORT ON BUDGETARY PERFORMANCE AND PROGRAMME AND BUDGETARY TRANSFERS IN THE 2008-09 BIENNIUM

25. In accordance with Financial Regulations 4.5 and 4.6, the Committee reviewed the Director-General's *Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2008-09 Biennium* (ARBP).

2008-09 Budgetary Appropriations and Basis for Adjustments

26. The Committee recalled that the budgetary appropriation of USD 929.8 million for 2008-09 voted by Conference in November 2007 foresaw that further savings and efficiency gains of USD 22.1 million should be identified during the biennium in delivering the Programme of Work. It further recalled that in reviewing the first progress report in May 2008, it had looked forward to receiving an estimate of the impact on Chapter distributions in the next ARBP. The Committee reviewed the proposed adjustments to the Chapter distribution arising from the full allocation of these savings and efficiency gains. In accordance with Financial Regulation 4.5(b), the Committee approved the resulting transfers between chapters as shown in Table 1 of the *Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2008-09 Biennium* (see Annex I).

2008-09 Budgetary Projections

27. The Committee took note that the budgetary expenditure in 2008 amounted to USD 441.1 million or 47% of the 2008-09 net appropriation and that full utilization of the biennial appropriation was foreseen, with the exception of Chapter 9, Security Expenditure, where the surplus would be carried over to the next biennium, in accordance with Financial Regulations. The Committee was informed of the rising requirements for security and safety of staff and assets and noted that Security Expenditure would be closely monitored in the coming months, and the forecast adjusted accordingly.

28. The Committee took note of the tentatively forecast transfers between budgetary chapters for the biennium from Chapters 2 (USD 0.6 million) and 3 (USD 3.9 million) to Chapters 1 (USD 0.6 million), 4 (USD 1.1 million) and 5 (USD 3.9 million). It noted that the formal request for transfers between chapters would be submitted at its next session in July 2009, based on updated information.

29. The Committee agreed to approve in principle to re-apportion any fortuitous gains or overall budgetary surplus to reform-related Capital Expenditure projects in Chapter 8, noting that this was also in line with the guidance it had provided at its 125th Session¹. The Committee stressed, however, that the Programme of Work and Budget would be fully implemented. It recalled that the real efficiency gains identified so far in 2008-09 were USD 18.1 million and stressed that measures to achieve the remaining share of the USD 22.1 million as per the Conference resolution should be vigorously pursued. The Committee expected in the next ARBP to receive a detailed account on the achieved efficiency gains and savings and an update on their distribution among chapters.

SCALE OF CONTRIBUTIONS 2010-11

30. The Committee reviewed and accepted the proposed Scale of Contributions for the biennium 2010-2011 (see Annex II) set out in document FC 126/3 and endorsed the following draft resolution for transmittal to Council and Conference:

Resolution SCALE OF CONTRIBUTIONS 2010-11

THE CONFERENCE

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

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

Decides that the FAO Scale of Contributions for 2010-11 should be derived directly from the United Nations Scale of Assessments in force during 2009;

Adopts for use in 2010 and 2011 the Scale as set out in Appendix ___ of this report.

FINANCIAL HIGHLIGHTS AND STATUS OF CURRENT ASSESSMENTS AND ARREARS

31. The Committee reviewed the paper on *Financial Highlights and Status of Current Assessments and Arrears* which showed the unaudited results of operations for the first twelve months of the 2008-09 biennium and the financial status of the Organization as at 31 December 2008. The Committee also reviewed a working paper on the *Status of Current Assessments and Arrears* at 8 May 2009.

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

- a) The General Fund (GF) deficit at 31 December 2008 stood at a level of USD 412.7 million compared to the 31 December 2007 balance of USD 465.3 million. The improvement was, however, based on interim results and could not be regarded as indicative of the final outcome of the 2008-09 biennium.
- b) Outstanding assessed contributions at 8 May 2009 stood at USD 217.8 million and EUR 176.3 million, compared to USD 184.2 million and EUR 141.6 million respectively at the same date in 2008. The Committee noted with concern that from 2005 to 2009 approximately 50% of the Members of the Organization had not paid their assessed contributions to the regular budget. In addition, a large portion of 2008 assessments (11 percent) remained unpaid, representing USD 54 million (consolidated). Persistently high levels of outstanding assessed contributions continued to be a significant factor undermining the financial health of the Organization.

¹ CL 136/7 paragraph 22

- c) The updated 2009 cash forecast was based largely on Members' 2008 payment history, however some large receipts expected in April had not materialized, making the forecast more uncertain. The receipt of large payments within May and June was essential for 2009 cash levels in the second and third quarter to remain at a level which avoids external borrowing. The large unpaid 2008 contributions continue to weigh heavily on the cash forecast for 2009. In the absence of significant payments of arrears, or earlier settlement of forecasted 2009 receipts, the Organization would require external borrowing by October 2009.
- d) The total actuarially determined liability as at 31 December 2008 for the four staff related schemes was USD 1,042.2 million, of which liabilities of USD 729.9 million were recorded in the financial statements. Unrecorded liabilities of USD 312.3 million reflect the adoption of the 'Corridor Method' for recognizing actuarial gains and losses in accordance with IPSAS.
- e) The Committee noted that the After Service Medical Coverage (ASMC) liability was underfunded by USD 736.8 million and that this contributed to a structural deficit on the General Fund. The Committee again noted that the biennial assessments of USD 14.1 million towards ASMC past service funding, as first approved by Conference in November 2003, remained far short of the biennial funding requirement to fully fund the liability by 2027. Based on the 2008 actuarial valuation, USD 101.6 million per biennium would need to be contributed to achieve full funding by 2027. The Committee noted the matter of ASMC funding would be discussed further under item 8 of the agenda of its 126th Session – *2008 Actuarial Valuation of Staff Related Liabilities* and in the context of the PWB 2010-11.
- f) The Committee noted that the Technical Cooperation Programme (TCP) expenditure in 2008 charged against the 2006-07 appropriation amounted to USD 33.6 million while spending against the 2008-09 appropriation amounted to USD 18.8 million. This represented an average of USD 4.4 million per month in 2008, up from an average of USD 2.5 million per month in 2006-07 but still below the average spend of USD 5.2 million per month during 2004-05. The Committee expressed concern at the level of TCP expenditure in 2008-09 and noted that this issue would be further discussed under item 14 of the agenda of its 126th Session - *Progress Report on Implementation of the Technical Cooperation Programme*.
- g) In the light of the significant recent volatility in equity markets, the Committee was provided with an update on the latest market valuation of the long-term investment portfolio which the Organization holds as partial funding towards staff-related liabilities which amounted to USD 1.042 billion. The market value of the portfolio at 24 April 2009 had declined to USD 233 million compared to a value of USD 242 million at 31 December 2008. The Committee noted that 2008 investment performance would be further discussed under item 11 of the agenda of its 126th Session – *Report on Investments 2008*.
- h) With regard the Capital Expenditure Account (CAPEX), the Committee noted that USD 4.6 million was charged to the account in 2008, leaving a closing balance at 31 December 2008 of USD 8.8 million to be used to fund ongoing CAPEX projects. Expenditure charged to the Security Expenditure Account (SEA) in 2008 amounted to USD 9.4 million leaving a closing balance at 31 December 2008 of USD 2.3 million relating to the Organization's contribution to the UN Department of Safety and Security. The Committee noted that CAPEX and SEA issues would be discussed further in the context of the PWB 2010-11.
- i) The Committee noted that as a result of delays in receipts of Member contributions, the full balance of the Working Capital Fund (USD 25.6 million) had been advanced to the General Fund in December 2008, prior to recourse to external borrowing, leaving a balance of zero at 31 December 2008. The Committee noted that the authorized level of the Working Capital Fund (WCF) was insufficient to

cover even one month of cash outflow, and that the level may need to be reconsidered.

- j) The Committee noted that the balance on the Special Reserve Account (SRA) at 31 December 2008 amounted to USD 15.9 million of which USD 12.8 million related to unrealized exchange gains not backed by actual cash resources. The Committee was informed that, in the context of the implementation of IPSAS requirements, the function, purpose and accounting treatment of the SRA, particularly relating to the transfer of exchange gains/losses to the SRA, would be reviewed and proposals for revision to the SRA would be presented to the Finance Committee.

33. 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 Finance 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.

2008 ACTUARIAL VALUATION OF STAFF RELATED LIABILITIES

34. The Committee was informed that the valuation had been performed by a specialized actuarial firm which had carried out an in-depth analysis of actual claim costs and applied the latest economic and demographic assumptions, including discount rate, inflation, medical inflation and mortality rates.

35. The Committee reviewed the paper (doc. FC 126/8) and noted that based on the most recent 2008 actuarial valuation, the total staff related liabilities at 31 December 2008 amounted to USD 1042.2 million (31 December 2007 - USD 719.1 million) which represented an increase of USD 323.1 million from 2007. The Committee noted that the increase was mainly attributable to the ASMC liability which had increased by USD 301.5 million.

36. The Committee was informed that the main reasons for the increase in the ASMC liability were:

- the addition of an age-grading assumption that future medical claim costs would increase with age;
- the strengthening of the Euro against the US Dollar;
- updated mortality assumptions to reflect expected increases in longevity; and
- introduction of an assumption that the current cost sharing arrangement between FAO and medical plan participants would be retained.

37. The Committee noted that total staff related liabilities recorded in the Organization's financial statements as at 31 December 2008 of USD 729.9 million were lower than the actuarial valuation at that date. Unrecorded liabilities of USD 312.3 million reflected the adoption of the "corridor method" for deferred recognition of actuarial gains and losses under IPSAS, which permits differences in excess of 10% to be recorded over several years. The Committee further noted that the total unfunded liabilities amounted to USD 787.4 million at 31 December 2008 compared to USD 404.5 million at 31 December 2007.

38. The Committee again noted that the biennial assessments of USD 14.1 million towards ASMC past service funding, as first approved by Conference in November 2003, remained far short of the biennial funding target which would be needed to fully fund the liability by 2027.

39. The Committee also reviewed key considerations for future plans to fully fund the ASMC liability, including:

- the significant Euro component of the liability; and
- the effect of cost sharing assumptions among participants, and with the Organization.

40. The Committee recalled Council's advice to address these obligations in the longer term by pursuing strategies to ensure that significant liabilities of the Organization are fully funded. The Committee acknowledged that additional funding towards the ASMC liability was required

and agreed to make its recommendation to Council for increased biennial assessments within the context of the PWB 2010-11. Funding proposals would recognize the contribution of active staff participants over time, and the possible revision of the target date for full funding of the liability.

41. The Committee recalled that other large UN agencies were at different stages in terms of recognizing and funding staff related liabilities and welcomed the fact that FAO was among those UN System organizations that had taken steps to both recognize and fund the staff-related liabilities from various sources.

MEASURES TO ENCOURAGE TIMELY PAYMENT OF CONTRIBUTIONS

42. The Committee examined the document prepared by the Secretariat which summarized the discussions and actions taken in this area since 2004, and listed measures currently in place and proposed measures still under consideration.

43. The Committee also considered the information on borrowing forecasts provided by the Secretariat during discussion of the Financial Highlights, and agreed that the Regular Programme liquidity situation was critical and could only be improved through timely payment of assessed contributions by Member Nations. Some Committee members noted that the level of the Organization's reserves (WCF and SRA) appeared inadequate compared to the average monthly Regular Programme disbursements of USD 44 million, and this meant the Organization remained vulnerable in case of delays in payment of current assessments by large contributors. The Committee stressed that all countries pay their assessed contributions on time and for those in arrears to settle them without delay, as these weighed heavily on liquidity levels. The Committee recognized, however, that certain countries in arrears faced extremely difficult economic situations.

44. The Committee recalled that the discount rate for the current Incentive Scheme to Encourage Prompt Payment of Contributions had been set at zero since 2004. Many members felt that such schemes were not effective as the budget cycle of member countries and other political issues were the factors which determined the timing of payments received. One member of the Committee considered that it was important to re-instate even a small discount rate to send a signal to Members of the Organization to encourage prompt payment of contributions. The Committee also noted the document's description of incentives.

45. The Committee reviewed and supported all measures currently in place to encourage timely payment by Members and stressed that existing rules should be strictly enforced.

46. The Committee agreed to list (below) all of the initial proposals emerging from its discussion, for preliminary Council consideration, and to defer further discussion to the July 2009 session of the Finance Committee:

- a) the restriction 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 include loss of seat in the Finance and Programme Committees, and in Council Committees;
- b) 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 the sanctions;
- c) interest should be charged on late payments or external borrowing costs should be borne by countries with outstanding contributions;
- d) Member Nations in arrears of more than the total of contributions due for the two preceding calendar years should be required to submit an installment plan to the Finance Committee for review, and subsequent approval by the Conference, while Member Nations in arrears for amounts less than that should be required to provide written explanation on the reason for such arrears to the Finance Committee for review;

- e) existing regulations on loss of voting rights should be rigorously applied;
- f) TCP assistance and recruitment of nationals should not be available for countries in arrears; and
- g) a set of guidelines should be developed setting out conditions for accepting voluntary contributions from Member Nations in arrears.

PROGRESS REPORT ON ADOPTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

47. The Committee was informed that in line with the revised project plan, the year 2012 would be first full year of International Public Sector Accounting Standards (IPSAS) compliant operations to be submitted for external audit. The revised implementation date took into account the capacity and resource constraints of the Organization, in addition to allowing better synergies with other corporate initiatives and in particular the integration into the IPSAS Project of the Field Accounting System (FAS) Replacement project.

48. The Committee noted that the IPSAS Project had been audited by the Office of the Inspector-General, which concluded that it had a sound governance and management structure supported by detailed plans, but that the corporate nature of the project necessitated enhanced senior management involvement and higher organizational priority with respect to other ongoing initiatives. The Committee was informed that the Project continued to monitor the key risks of a) limited availability of key staff throughout FAO, and b) limited capacity, infrastructure and systems in the decentralized offices. The estimated total cost of the Project over three biennia remained USD 13.9 million.

49. The Committee was informed that the existing FAS was no longer fit to serve the needs of an increasingly decentralized organization as reflected by more than a 100% growth in extra-budgetary disbursements by decentralized offices since 2004. The Committee noted that the new system to replace FAS would provide better controls, data and integration with the corporate systems, as well as supporting IPSAS compliance. The unfunded part of the cost estimates for the FAS Replacement project (which would be subject to revision when detailed planning is completed) amounted to USD 2.5 million. The Committee noted the intention by the Organization to seek extra-budgetary sources to fund the FAS Replacement project.

50. The Committee supported in the light of the aforementioned considerations the re-planned 2012 implementation date as being both realistic and allowing maximization of synergies within the Organization, noting also that most other UN entities had delayed the planned date for IPSAS implementation to 2012. Noting the pressure of staff resources resulting from the various ongoing initiatives within the Organization, the Committee stressed the importance of ensuring that the required staff resources be made available within the Organization to the IPSAS Project. It also underlined the importance of continued collaboration with the other UN agencies, in particular the WFP.

51. The Committee reaffirmed the importance of IPSAS for better decision-making and governance and fully supported the adoption of IPSAS at FAO, recognizing that it would support numerous other reform initiatives. The Committee noted that the IPSAS Project would require to be funded from the Capital Expenditure facility in the PWB 2010-11.

REPORT ON INVESTMENTS 2008

52. The Committee noted the Organization's short-term investments represented in large part the accumulation of Trust Fund contributions held pending disbursement on projects, and that such holdings had reached a value of USD 742 million at end 2008. The Committee praised the timely actions taken by the Organization to reduce risk and preserve Trust Fund capital in the face of severe market declines which occurred in 2008. The Organization had re-positioned the

portfolio in the summer of 2008 and 95% of short-term assets were now held in securities with negligible risk. The timely actions allowed the short-term investment portfolio to achieve a small overall positive return of 0.43% for 2008.

53. As regards long-term investments (value USD 242 million at end 2008) the Committee took note of the severe declines in financial markets during 2008. The Committee expressed satisfaction that the overall annual return on long-term assets, though negative (-21.36%), was 1 percentage point above the established benchmark and superior to many other comparators. The Committee, at the same time, expressed concern over the growing funding gap between long-term investment assets (USD 242 million) and the level of staff-related after service liabilities (USD 1,042 million) which the portfolio was intended to address. The Committee recognized that the Organization's investment at current levels would never be sufficient to cover such liabilities and suggested that developments in this gap be monitored continuously and the issue be taken up by future meetings of the Committee.

54. The Committee noted the sound governance employed by the Organization in managing both short and long-term assets. The tri-partite level of control, consisting of an internal Investment Committee, an external Advisory Committee on Investments and the Finance Committee itself, had proven effective.

55. The Committee also supported the actions taken by the Organization in late 2008 to suspend crediting interest on unspent Trust Fund balances due to market rates approaching near-zero levels. The Organization was examining new approaches for recognizing interest, including review of practices in other UN organizations. The Committee noted that financial markets had changed significantly and agreed that crediting interest on unspent Trust Fund balances should be consistent with market conditions and avoid any interest shortfall on the Regular Programme. The Committee requested to be informed on the results of the internal review and any changes that are put in place when market conditions allow distribution of interest to Trust Fund unspent balances to be resumed.

PROGRESS REPORT ON ADJUSTMENT TO THE PROGRAMME OF WORK FOR UNIDENTIFIED SAVINGS AND EFFICIENCY GAINS

56. The Committee recalled that the budgetary appropriation of USD 929.8 million for 2008-09 voted by Conference in November 2007 foresaw that further savings and efficiency gains of USD 22.1 million should be identified during the biennium in delivering the Programme of Work.

57. The Committee noted the actions being taken by the Organization in a short time frame to put in place measures to achieve, on a biennial basis, the full savings of USD 22.1 million. It noted that measures had so far been instituted to achieve USD 18.1 million in savings. The Committee was reassured that measures to achieve the remaining USD 4 million in savings would be put in place during 2009, building in part on the RBR and the Innovation Fund.

58. The Committee noted that USD 9.3 million in actual efficiency savings had been achieved to end-March 2009 and that USD 15.9 million in actual efficiency savings were expected to be achieved in the biennium due to the lead time needed to implement the measures. The Committee noted with concern that the balance of USD 6.2 million in savings would be found from one-time measures in the biennium, but was reassured that such measures would minimize adverse impact on the implementation of the planned Programme of Work. It looked forward to receiving a progress report at its session in July 2009.

ELEMENTS FOR THE DRAFT STRATEGIC FRAMEWORK, MEDIUM TERM PLAN 2010-13 AND PROGRAMME OF WORK AND BUDGET 2010-11

59. The Committee considered the draft elements of the Strategic Framework, MTP and PWB presented in document CL 136/16. Members welcomed the document and agreed that it provided a sound basis for discussion.

60. The Committee concurred that the sequencing of preparation and discussion of the Strategic Framework, MTP and PWB was particularly complex this year, with a phased review and discussion of the elements by the Council and its standing committees as well as by the CoC-IEE. Members stressed that the current documentation represented a work-in-progress which would require improvements and refinements – for example to take into account the outcome of the RBR in the presentation of the Functional Objectives. Furthermore, the Committee observed that resource allocations could first be discussed at its session in July 2009.

61. The Committee supported the proposal regarding the drafting of two separate documents: one being the Strategic Framework document; and the other a combined MTP/PWB document. Furthermore the Committee welcomed the elements that would be presented in the PWB, including: biennial resource requirements – both assessed and voluntary – for the Organizational Results; costs and savings stemming from the implementation of the IPA; calculation of cost increases and efficiency savings; provision for long-term liabilities (in particular ASMC), reserve funds and any under-funded obligations; and, a draft Budgetary Appropriations Resolution.

62. The Committee welcomed the information provided on Functional Objectives X (*effective collaboration with member states and stakeholders*) and Y (*efficient and effective administration*). Several members believed that the Functional Objectives could benefit from further elaboration, including incorporating input provided by the RBR and other exercises, and from making the indicators more specific and operational. The Committee recalled that the membership of the FAO had asked for a breakdown between the programme budget and administrative budget of the Organization, and noted that Functional Objective Y would represent a reference for the preparation of the administrative budget.

63. The Committee considered that the draft Budgetary Appropriations Resolution would need to be presented differently than in the past, in order to realign it with the newly defined Strategic and Functional Objectives, while ensuring flexibility for effective implementation. The Committee noted that the Secretariat would present such a draft Budgetary Appropriations Resolution to the Committee at its July Session.

64. Several members expressed the desire to see increased resource allocation to the TCP.

PROGRESS REPORT ON IMPLEMENTATION OF THE TECHNICAL COOPERATION PROGRAMME

65. While noting the progress achieved in project approvals against the TCP appropriation for 2008/09, many members expressed their continuing concern over the low level of expenditure for both 2006/07 and 2008/09 appropriations and the expected monthly rate of expenditure for the remainder of 2009. In recalling its deliberations at its 122nd Session, the Committee reiterated the need to ensure the full implementation of projects approved against the 2006/07 appropriation before the end of 2009.

66. The Committee requested that the item be maintained on the agenda of subsequent sessions, but that in future it be preferably discussed in a joint meeting with the Programme Committee (which had itself reviewed in detail several related aspects of TCP operations at its 101st session held concurrently to the 126th Session of the Finance Committee) to broaden the focus beyond financial aspects, and in conjunction with similar reports on the use of extra-budgetary resources.

67. The Committee recalled the decisions contained in the IPA concerning the decentralization of the TCP, and noted that the Secretariat had already taken several preparatory steps to put into effect the framework of the TCP decentralization. It was informed that the Secretariat was fully committed to pursue these efforts with a view to implementing them effective 1 January 2010. In this connection, the Committee requested that immediate attention be given to the necessary capacity building in decentralized offices, including training, and to the

revision of procedures with a view to accelerating approval and implementation, while ensuring the quality of the assistance provided.

Human Resources Matters

REVISED POLICY AND IMPLEMENTATION OF FAO USE OF CONTRACTORS AND RETIREES

68. The Finance Committee considered the Human Resources (HR) policy changes and streamlining measures proposed by the Organization regarding the use of non-staff human resources (NSHR) and retirees, as presented in document FC 126/15, which had been formulated pursuant to the discussions held by the Committee at its 123rd Session on this subject and as a result of recommendations emanating from the IEE and the IPA.

69. The Committee recalled that, with regard to non-staff human resources, the IEE report advocated for the streamlining and simplification of rules and procedures governing the use of NSHR contracts and called for a substantial shift from *ex ante* to *ex post* controls. It also noted that the IPA called for the introduction of transparent and competitive policies for recruitment of consultants with due consideration to geographical distribution and gender balance (IPA action 3.67), as well as ensuring that consultants not be used for long-term gap filling of vacant posts as a cost saving measure. With regard to retirees, the IEE recommended that the Organization adopt more liberal conditions and simpler procedures for the remuneration of UN pensioners and other retirees at market rates, while the IPA recommended rationalizing the use of FAO retirees who should not be rehired for at least 6 months after retirement from the Organization (IPA action 3.68).

70. The Committee was informed that simpler procedures for the remuneration of UN pensioners and other retirees at market rates had been introduced as an early action in response to the IEE report and noted that this action was undertaken with the support of the Governing Bodies. Many members stressed that cost containment measures should remain an important objective in the management of NSHR and retirees.

71. The Committee was satisfied that policy changes proposed by the Organization adequately addressed the expectations of the IPA while providing the required managerial flexibility in meeting programme needs. These included effective communication through the issuance of guidelines and wider dissemination of NSHR assignments to redress distorted geographic distribution with internal *ex post* reporting on efforts made, the introduction of an iRoster in 2010, introduction of a self-certification record of the internal selection process for NSHR, and a reinvigorated internal oversight mechanism managed by the Human Resources Division. With regard to retirees, the proposed policy changes included simplification of the rules and procedures by streamlining the current three retiree categories into one category only, UN pensioners, and prohibition of employment for the first six months following the date of retirement (currently three months). Proposed policy changes also included non-recruitment of retirees to perform the functions of the post from which they retired nor acting in an executive capacity that committed the Organization.

72. The Committee stressed that NSHR contractual instruments provided a useful mechanism to implement specific tasks and activities that need to be executed within a defined period of time. While noting the flexibility and cost-effectiveness offered by the use of non-staff human resources and retirees, the Committee also acknowledged the importance of upholding the principle of equitable treatment of employees in conformity with best practice employment. While recognizing the difficulties in defining what constituted core work of FAO, it underlined the need to ensure that NSHR contractual instruments were effectively used for task-based, time-bound activities.

73. The Committee supported the proposed policy changes and streamlining measures to promote the effective use of non-staff human resources and retirees, in line with the IPA. Given

its governance and oversight role on HR matters and in view of the importance attributed to the use of NSHR contractual instruments and retirees, the Committee requested that an annual report be submitted henceforth for its information on the use of these arrangements.

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

74. The Committee noted that HR management was fundamental and a key component of the FAO reform and recalled its decision at its 125th Session in March 2009 that the HR strategy framework should be a standing item on the agenda of its future sessions.

75. It appreciated the progress made by the Organization in the development of the HR Management Strategy & Policy Framework, embodying three consolidated key HR goals, namely (a) to enable a workforce of excellence and high performance; (b) to establish HR as a strategic partner in corporate management; and (c) to provide efficient and effective HR service in support of programme delivery.

76. The Committee recommended that the Secretariat continue in its efforts to clearly align these HR goals to Functional Objective Y entitled "*efficient and effective administration*" and expected that this would be reflected in the detailed development of the three underlying Organizational Results and indicators for the MTP 2010-2013 and the PWB 2010-11. It was satisfied that this would provide the basis for a results-based formulation of indicators of achievement and targets related to specific HR activities and enable the Committee to exercise its oversight role. It stressed the importance of ensuring measurable metrics for the improvement in efficiency and effectiveness.

77. The Committee acknowledged the importance of the six principal HR initiatives outlined in document FC 126/16², namely Performance Evaluation, Management/Leadership training, Management Information Reporting, new HR Policies, support to restructuring, and streamlining, as being central for the effective delivery of the HR goals.

78. The Committee received an oral update on the final recommendations in the RBR as regards the HR area as well as Management's preliminary reactions thereon, and agreed to continue its discussion on this matter at its session in July 2009.

79. The Committee was informed that the RBR recommendation on the staffing levels for the HR function, specifically the establishment of a benchmark for the optimal HR staff to employee ratio for the Organization, required further discussions with the external consulting firm. The Committee asked to be apprised of the outcome of these further discussions.

80. The Committee recognized that the HR Management Strategy & Policy Framework continued to be a living document and concluded that the general framework taking into account the agreed recommendations of the RBR be presented within the context of the MTP 2010-13 for review at its session in July 2009.

Oversight Matters

PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS

81. The Committee welcomed the report and noted with satisfaction that there had been progress in the implementation of recommendations since the last progress report, recognizing the Secretariat's integrated efforts within the context of IPA implementation in this regard.

² Progress Report on Implementation of Human Resources Management Strategy and Policy Framework

82. The Committee noted with concern the absence of the External Auditor at its session while considering the Progress Report on the Implementation of the External Auditor's Recommendations. The Committee registered their consideration that the External Auditor would make every foreseeable effort so that no such absence would happen in the future.

83. The Committee requested that in future the document include the External Auditor's comments on each individual recommendation, as agreed earlier.

2008 ANNUAL ACTIVITY REPORT OF THE OFFICE OF THE INSPECTOR-GENERAL

84. The Committee thanked the Inspector General for providing it with a clear, concise and informative report.

85. The Committee discussed issues related to staffing of the Office of the Inspector General; the implementation of recommendations emanating from the 2007 *Quality Assessment Review of the Office* by the Institute of Internal Auditors; how appointments would be made to the Audit Committee; identification, implementation and presentation of high-risk recommendations; independence of the Office of the Inspector General and the Ethics Officer; the Organization's lack of a comprehensive approach to risk management; and the status of the transfer of the Local Audit Programme to the Office of the Inspector General.

86. After discussing the issues, the Committee made a number of comments and suggestions to improve FAO operations and reporting by the Office of the Inspector General, including ensuring independence of the Ethics Officer, the need for comprehensive risk management, and improving the classification, implementation and reporting of outstanding high-risk recommendations.

LIAISON OFFICES IN THE UNITED NATIONS SYSTEM (JIU/REP/2007/10)

87. The Committee took note of the document CL 136/INF/8, consisting of the UN Joint Inspection Unit's report on the Liaison Offices in the United Nations System and related comments from the FAO Director-General, as well as of the UN system Chief Executive Board for Coordination.

88. The Committee acknowledged the importance of the Liaison Offices in enabling the United Nations system to deliver as one and ensuring the contribution of UN agencies, funds and programmes to system-wide coherence. The Committee also took note of information provided on the number and location of FAO Liaison Offices.

FOLLOW-UP TO THE CONFERENCE REQUEST FOR PROVISION OF RELEVANT INFORMATION ON THE PROPOSED SUMMIT IN NOVEMBER 2009: ORGANIZATIONAL AND FINANCIAL ASPECTS

89. The Committee noted preliminary information on the organizational and financial aspects of the proposed World Summit of Heads of State and Government on Food Security in 2009, recalling that the idea was initially launched by the Director-General at the World Food Day celebration in New York and included in his statement to the 35th (Special) Session of the FAO Conference in November 2008.

90. The Committee welcomed a paper describing FAO's objectives of the proposed Summit, which were provided as background to facilitate a better appreciation of financial aspects of the arrangements. It noted that a decision on holding the proposed Summit would be taken by the Council at its 136th session in June on a basis of separate documentation to be prepared for this purpose.

91. With respect to the financing of the incremental costs of the proposed Summit which would have to be funded entirely through extra-budgetary resources, the Committee was informed that these costs would be between USD 1.5 and 2.5 million.
92. The Committee was informed that this projection was based on the actual costs incurred for logistics (for example security, interpretation, hiring of equipment and insurance, and so on) for the June 2008 High Level Conference on World Food Security (HLC). It was further informed that, in comparison, the proposed Summit should in fact benefit from cost reductions, both for the Organization as well as for Members, in light of the proposal to hold the Summit back-to-back with the 36th Session of the FAO Conference.
93. The Committee was informed that no additional costs were foreseen for the substantive requirements of the proposed Summit, given that the necessary technical work was already being carried out within the scope of the existing Programme of Work and the technical documentation in relation to the High-Level Conference on How to Feed the World in 2050 for which extra-budgetary resources amounting to USD 1 million had already been identified. The Committee was informed that, in contrast, the majority of the funding requirements for the HLC in 2008 related to core technical costs.
94. The Committee noted FAO management's assurances of prospective additional cost-minimisation initiatives which would leverage on synergies both within FAO and with entities external to the Organization, such as the City of Rome, the Italian Chamber of Commerce, the Italian Parliament's Chamber of Deputies and others.
95. The Committee noted that measures to collect extra-budgetary funding for the proposed Summit would be initiated only after a final decision on the proposed Summit was taken by Council in June 2009, and noted that this gave little lead time for the requisite resource mobilization effort.
96. The Committee was assured that incremental funding for the Proposed Summit in November 2009 would be entirely financed from extra-budgetary sources, in full compliance with the Financial Regulations, and with no negative impact on the Programme of Work

Other Matters

WORKING METHODS OF THE FINANCE COMMITTEE

97. The Committee expressed appreciation of the Secretariat's efforts in ensuring timely circulation of documents in advance of the 126th Session of the Committee, as well as of the high quality of documentation provided.
98. The Committee encouraged, in line with its previous guidance, the use of focussed and succinct audio-visual introductions to individual agenda items.
99. It welcomed the new practice of including an Executive Summary and a record of actions requested from the Committee in its documentation. It requested that, in future, this practice be extended also to Council and/or Conference documents submitted for consideration to the Finance Committee, by accompanying such documentation with a short, background cover paper addressed to the Committee.
100. The Committee welcomed the use of inter-session and preparatory electronic communication amongst members.
101. The Committee reiterated the need to emphasise and enforce the terms of the understanding which allows admission of silent observers to Finance Committee sessions so as to enable members to conduct proceedings in a smooth and unhindered manner.

DATE AND PLACE OF THE HUNDRED AND TWENTY-SEVENTH SESSION

102. The Committee was informed that its 127th Session was scheduled to be held in Rome from 27 to 28 May 2009.

Annex I

ANNUAL REPORT ON BUDGETARY PERFORMANCE AND PROGRAMME AND BUDGETARY TRANSFERS IN THE 2008-09 BIENNIUM

Executive Summary / Action Required

i) The Committee is requested to endorse the chapter distribution of the 2008-09 budgetary appropriation of USD 929.8 million approved by the Conference resulting from the allocation of savings and efficiency gains of USD 22.1 million that were not identified in the PWB 2008-09. The highest savings, 4.1% of original resources (USD 5.7 million), were assigned to *Chapter 5: Management and Supervision Services*. In *Chapter 4: Decentralization, UN Cooperation and Programme Delivery*, savings of 2.7% (USD 6.3 million) were identified and in *Chapter 2: Sustainable Food and Agricultural Systems*, 2% (USD 5.4 million). In the remaining chapters, efficiency savings were distributed as follows: *Chapter 1*, 1.4% (USD 0.4 million); *Chapter 3*, 1.6% (USD 3.9 million), *Chapter 8*, 1.3% (USD 0.3 million) and *Chapter 9*, 0.6% (USD 0.1 million).

ii) The Committee is also requested to take note of forecasted biennial performance against the net Regular Programme appropriation of USD 929.8 million approved by the Conference. The budgetary expenditure in 2008 amounted to USD 441.1 million³ (47% of the 2008-09 net appropriation) and forecasted expenditure for the biennium foresees full utilisation of the appropriation with the exception of a surplus in *Chapter 9*. A formal request for transfers between chapters will be submitted at the next session in July 2009.

Contact

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³ Assuming TCP expenditure of 50% of the biennial TCP appropriation and before the distribution of the unfavourable staff cost variance and the adjustment of expenditure to budget rate.

Introduction

1. Financial Regulation (FR) 4.1 authorises the Director-General to incur obligations up to the budgetary appropriation voted by the Conference. Overall expenditure to execute the regular Programme of Work must therefore be managed within the biennial Regular Programme appropriation.
2. In accordance with FR 4.6, the Director-General manages the appropriations so as to ensure that adequate funds are available to meet expenditures during the biennium, without concentrating obligations and expenditures in any one calendar year. The Finance Committee reviews annually the Director-General's management of the Regular Programme budgetary appropriations and this Annual Report on Budgetary Performance summarises, for discussion, the budgetary aspects of the Regular Programme performance for 2008-09 as at end 2008.
3. Financial Regulation 4.5 (a) calls for the Finance Committee to be notified of certain transfers between divisions and Financial Regulation 4.5 (b) requires transfers from one chapter to another to be approved by the Finance Committee. This report provides: 1) an overview of the chapter distribution arising from the allocation of efficiency savings of USD 22.1 million that were not identified in the PWB 2008-09, for the Committee's endorsement, and 2) an advance indication of the likely magnitude of budgetary transfers arising from the implementation of the 2008-09 Programme of Work. A formal request for transfers between chapters arising from programme implementation will be submitted at the next session in July 2009.

2008-09 BUDGETARY APPROPRIATIONS AND BASIS FOR ADJUSTMENTS

4. The budgetary appropriation of USD 929.8 million for 2008-09 voted by Conference in November 2007⁴ foresaw that savings and efficiency gains of USD 22.1 million should be identified during the biennium in delivering the Programme of Work. The Conference requested that the Director-General include in his reporting to the Finance Committee in May ongoing adjustments to the Programme of Work for further unidentified savings and efficiency gains in accordance with Financial Regulation 4.5.
5. Document FC 126/12: *Progress Report on Adjustment to the Programme of Work for Unidentified Savings and Efficiency Gains*, provides a more detailed overview of actual savings and efficiency gains achieved to date. This present document identifies the impact at the Budgetary Chapter level of the distribution of the full amount of USD 22.1 million in savings, as shown in *Table 1* below.

⁴ CR 3/2007

Table 1.

Approved Budget Level (in USD 000)					
Chapter		2008-09 Programme of Work	Savings and Efficiency Gains		Net Appropriation 2008-09
			USD	%	
1	Corporate Governance *	27,038	-373	1.4	26,665
2	Sustainable Food and Agricultural Systems	266,474	-5,437	2.0	261,037
3	Knowledge Exchange, Policy and Advocacy	239,851	-3,898	1.6	235,953
4	Decentralization, UN Cooperation and Programme Delivery	234,553	-6,335	2.7	228,218
5	Management and Supervision Services	139,671	-5,698	4.1	133,973
6	Contingencies	600	0	0.0	600
8	Capital Expenditure	20,378	-262	1.3	20,116
9	Security Expenditure	23,420	-139	0.6	23,289
Total		947,985	-22,143	2.3	929,842

* Chapter 1 totals include USD 4 million for IEE follow-up voted by the Conference in CR 3/2007.

6. The Committee is requested to endorse the chapter distribution of the net Regular Programme budgetary appropriation arising from the allocation of the efficiency savings.

*2008-09 BUDGETARY PROJECTIONS AND TENTATIVE FORECAST OF
BUDGETARY TRANSFERS BETWEEN CHAPTERS*

7. Following an assessment of actual 2008 expenditure and the estimated requirements for 2009, additional budgetary chapter transfers may be required for the 2008-09 biennium, as outlined below.

8. The 2008-09 performance is impacted by a forecasted unfavourable staff cost variance, estimated at USD 5.8 million, which is mainly due to higher-than-budgeted education grant claims and recruitment and transfer allowances, as well as increases in General Service salary and pension costs in decentralized offices due to the devaluation of the US dollar. Furthermore, one-time and transition costs associated with decentralization and with offshoring of the Shared Services Centre (SSC), including redeployment and relocation of staff, are approximately USD 4 million higher than budgeted. The costs are partially offset by budgeted resources not fully utilised, for example related to decentralization costs in the new subregional offices.

9. The forecasted budgetary performance in 2008-09 by chapter is shown in *Table 2* below. The actual expenditure in 2008 amounted to USD 441.1 million⁵ (47 % of the 2008-09 net appropriation). Forecasted expenditure for the biennium foresees full utilisation of the appropriation, including *Contingencies*, but excluding *Chapter 9* where the surplus will be carried over to the next biennium in accordance with the Financial Regulations.

⁵ Assuming TCP expenditure of 50% of the biennial TCP appropriation and before the distribution of the unfavourable staff cost variance and the adjustment of expenditure to budget rate.

Table 2.

	2008-09 Forecasted Budgetary Performance (in USD 000)	Net Appropriation	Forecasted Expenditure	Surplus/ (Deficit)
1	Corporate Governance	26.7	27.3	(0.6)
2	Sustainable Food and Agricultural Systems	261.0	259.4	1.7
3	Knowledge Exchange, Policy and Advocacy	236.0	232.0	3.9
4	Decentralization, UN Cooperation and Programme Delivery	228.2	229.3	(1.1)
5	Management and Supervision Services	134.0	137.9	(3.9)
6	Contingencies	0.6	0.6	-
8	Capital Expenditure	20.1	20.1	0.0
9	Security Expenditure	23.3	21.1	2.2
	Total Appropriation (Net)	929.8	927.6	2.2

10. Based on these early estimates of biennial performance, resources may need to be transferred from *Chapters 2* (USD 1.7 million) and *3* (USD 3.9 million) in favour of *Chapters 1* (USD 0.6 million), *4* (USD 1.1 million) and *5* (USD 3.9 million).

11. *Chapter 1* overspending is mainly due to the additional cost of the Regional Conference for Europe as well as funding of additional human resources in the Legal Office. The overspending in *Chapter 4* is largely due to the forecasted unfavourable staff cost variance.

12. The overspending in *Chapter 5* occurs due to the higher-than-budgeted one-time costs of establishment of the Shared Services Centre in Budapest and additional redeployment costs incurred as certain headquarters administrative functions are being gradually transferred to the SSC (e.g. offshoring of the Accounts Payable group). In addition, 40% of biennial staff development resources from all chapters have been transferred to *Chapter 5* to support corporate action on staff development priorities and the related recommendations for early action emanating from the IEE report.

13. While full expenditure is currently foreseen in *Chapter 8*, and *Chapter 9* is likely to achieve a surplus in 2008-09 of up to USD 2.2 million, it is recalled that, in accordance with the Financial Regulations, any surplus in these chapters will be carried forward to the 2010-11 biennium.

14. FAO faces multiple demands in implementing concurrently the 2009 planned Programme of Work and the IEE follow-up. In the event of fortuitous gains eventuating, for example, as a result of unforeseen exchange rate movements, the Committee may wish to consider granting an approval in-principle to re-apportion any fortuitous gains or overall budgetary surplus to reform-related⁶ Capital Expenditure projects (*Chapter 8*) which are likely to be required or continue into the next biennium, including the Performance Management System (PEMS) and the HR-MIS.

15. Finally, it is recalled that budgetary reporting at the end of the biennium is based on the US dollar/Euro exchange rate established in the PWB 2008-09 of Euro 1 = USD 1.36 (the budget rate). PBE is monitoring the situation carefully, but some variations by chapter may occur if the

⁶ CL 136/7, paragraph 22 - The Committee reiterated the importance of considering all avenues for identifying resources, such as windfall savings or from freed up Regular Programme resources as a result of extra-budgetary contributions in support of technical programmes, while ensuring that the planned Programme of Work 2008-09 was fully implemented.

final average percentage of expenditure in Euro differs significantly from the assumptions in the forecasts.

Guidance Sought from the Finance Committee

16. The Committee is requested to:

- endorse the chapter distribution of the 2008-09 net appropriation adjusted for the efficiency savings of USD 22.1 million;
- take note of the tentative forecast of the projected transfers between budgetary chapters against the approved net appropriation. (A formal request for transfers between chapters will be submitted at the next session in July 2009.)

ANNEX II

PROPOSED SCALE OF CONTRIBUTIONS 2010-2011 (2008-2009 Scale shown for comparative purposes)

Member Nations	Proposed Scale	Scale
	2010-11 ⁷	2008-9 ⁸
	%	%
Afghanistan	0.001	0.001
Albania	0.006	0.006
Algeria	0.086	0.086
Andorra	0.008	0.008
Angola	0.003	0.003
Antigua and Barbuda	0.002	0.002
Argentina	0.327	0.327
Armenia	0.002	0.002
Australia	1.796	1.796
Austria	0.891	0.891
Azerbaijan	0.005	0.005
Bahamas	0.016	0.016
Bahrain	0.033	0.033
Bangladesh	0.010	0.010
Barbados	0.009	0.009
Belarus	0.020	0.020
Belgium	1.108	1.108
Belize	0.001	0.001
Benin	0.001	0.001
Bhutan	0.001	0.001
Bolivia	0.006	0.006
Bosnia and Herzegovina	0.006	0.006
Botswana	0.014	0.014
Brazil	0.880	0.880
Bulgaria	0.020	0.020
Burkina Faso	0.002	0.002
Burundi	0.001	0.001
Cambodia	0.001	0.001
Cameroon	0.009	0.009
Canada	2.992	2.992
Cape Verde	0.001	0.001

⁷ Derived directly from the UN Scale of Assessments for 2007-2009 as adopted by General Assembly Resolution 61/237 of 22 December 2006.

⁸ Derived directly from the UN Scale of Assessments for 2007-2009 as adopted by General Assembly Resolution 61/237 of 22 December 2006.

Member Nations	Proposed Scale	Scale
	2010-11 ⁷ %	2008-9 ⁸ %
Central African Republic	0.001	0.001
Chad	0.001	0.001
Chile	0.162	0.162
China	2.680	2.680
Colombia	0.106	0.106
Comoros	0.001	0.001
Congo	0.001	0.001
Cook Islands	0.001	0.001
Costa Rica	0.032	0.032
Côte d'Ivoire	0.009	0.009
Croatia	0.050	0.050
Cuba	0.054	0.054
Cyprus	0.044	0.044
Czech Republic	0.282	0.282
Democratic People's Republic of Korea	0.007	0.007
Democratic Rep. of the Congo	0.003	0.003
Denmark	0.743	0.743
Djibouti	0.001	0.001
Dominica	0.001	0.001
Dominican Republic	0.024	0.024
Ecuador	0.021	0.021
Egypt	0.089	0.089
El Salvador	0.020	0.020
Equatorial Guinea	0.002	0.002
Eritrea	0.001	0.001
Estonia	0.016	0.016
Ethiopia	0.003	0.003
Fiji	0.003	0.003
Finland	0.567	0.567
France	6.332	6.332
Gabon	0.008	0.008
Gambia	0.001	0.001
Georgia	0.003	0.003
Germany	8.619	8.619
Ghana	0.004	0.004
Greece	0.599	0.599
Grenada	0.001	0.001
Guatemala	0.032	0.032
Guinea	0.001	0.001
Guinea-Bissau	0.001	0.001
Guyana	0.001	0.001
Haiti	0.002	0.002

Member Nations	Proposed Scale	Scale
	2010-11 ⁷	2008-9 ⁸
	%	%
Honduras	0.005	0.005
Hungary	0.245	0.245
Iceland	0.037	0.037
India	0.452	0.452
Indonesia	0.162	0.162
Iran, Islamic Republic of	0.181	0.181
Iraq	0.015	0.015
Ireland	0.447	0.447
Israel	0.421	0.421
Italy	5.104	5.104
Jamaica	0.010	0.010
Japan	16.706	16.706
Jordan	0.012	0.012
Kazakhstan	0.029	0.029
Kenya	0.010	0.010
Kiribati	0.001	0.001
Korea, Republic of	2.184	2.184
Kuwait	0.183	0.183
Kyrgyzstan	0.001	0.001
Lao People's Democratic Republic	0.001	0.001
Latvia	0.018	0.018
Lebanon	0.034	0.034
Lesotho	0.001	0.001
Liberia	0.001	0.001
Libyan Arab Jamahiriya	0.062	0.062
Lithuania	0.031	0.031
Luxembourg	0.086	0.086
Madagascar	0.002	0.002
Malawi	0.001	0.001
Malaysia	0.191	0.191
Maldives	0.001	0.001
Mali	0.001	0.001
Malta	0.017	0.017
Marshall Islands	0.001	0.001
Mauritania	0.001	0.001
Mauritius	0.011	0.011
Mexico	2.268	2.268
Micronesia, Federated States of	0.001	0.001
Moldova	0.001	0.001
Monaco	0.003	0.003
Mongolia	0.001	0.001
Montenegro	0.001	0.001

Member Nations	Proposed Scale	Scale
	2010-11 ⁷	2008-9 ⁸
	%	%
Morocco	0.042	0.042
Mozambique	0.001	0.001
Myanmar	0.005	0.005
Namibia	0.006	0.006
Nauru	0.001	0.001
Nepal	0.003	0.003
Netherlands	1.882	1.882
New Zealand	0.257	0.257
Nicaragua	0.002	0.002
Niger	0.001	0.001
Nigeria	0.048	0.048
Niue	0.001	0.001
Norway	0.786	0.786
Oman	0.073	0.073
Pakistan	0.059	0.059
Palau	0.001	0.001
Panama	0.023	0.023
Papua New Guinea	0.002	0.002
Paraguay	0.005	0.005
Peru	0.078	0.078
Philippines	0.078	0.078
Poland	0.504	0.504
Portugal	0.530	0.530
Qatar	0.086	0.086
Romania	0.070	0.070
Russian Federation	1.206	1.206
Rwanda	0.001	0.001
Saint Lucia	0.001	0.001
Samoa	0.001	0.001
San Marino	0.003	0.003
Sao Tome and Principe	0.001	0.001
Saudi Arabia	0.752	0.752
Senegal	0.004	0.004
Serbia	0.021	0.021
Seychelles	0.002	0.002
Sierra Leone	0.001	0.001
Slovakia	0.063	0.063
Slovenia	0.097	0.097
Solomon Islands	0.001	0.001
Somalia	0.001	0.001
South Africa	0.292	0.292
Spain	2.983	2.983

Member Nations	Proposed Scale	Scale
	2010-11 ⁷	2008-9 ⁸
	%	%
Sri Lanka	0.016	0.016
St Kitts and Nevis	0.001	0.001
St Vincent and the Grenadines	0.001	0.001
Sudan	0.010	0.010
Suriname	0.001	0.001
Swaziland	0.002	0.002
Sweden	1.076	1.076
Switzerland	1.222	1.222
Syrian Arab Republic	0.016	0.016
Tajikistan	0.001	0.001
Tanzania, United Republic of	0.006	0.006
Thailand	0.187	0.187
The Former Yugoslav Republic of Macedonia	0.005	0.005
Timor-Leste	0.001	0.001
Togo	0.001	0.001
Tonga	0.001	0.001
Trinidad and Tobago	0.027	0.027
Tunisia	0.031	0.031
Turkey	0.383	0.383
Turkmenistan	0.006	0.006
Tuvalu	0.001	0.001
Uganda	0.003	0.003
Ukraine	0.045	0.045
United Arab Emirates	0.304	0.304
United Kingdom	6.675	6.675
United States of America	22.000	22.000
Uruguay	0.027	0.027
Uzbekistan	0.008	0.008
Vanuatu	0.001	0.001
Venezuela, Bolivarian Republic of	0.201	0.201
Viet Nam	0.024	0.024
Yemen	0.007	0.007
Zambia	0.001	0.001
Zimbabwe	0.008	0.008
	100.000	100.000