



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
Nations

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des
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Unies
pour
l'alimentation
et
l'agriculture

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

COUNCIL

Hundred and Thirty-first session

Rome, 20 – 25 November 2006

Report of the 115th Session of the Finance Committee
Rome, 25 – 29 September 2006

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REPORT OF THE HUNDRED AND FIFTEENTH SESSION OF THE
FINANCE COMMITTEE

Rome, 25 – 29 September 2006

Introduction

1. The Committee submitted to the Council the following report of its Hundred and fifteenth Session.

2. The following representatives were present:

Chairperson: Mr Aamir Khawaja (Pakistan)

Vice-Chairperson: Mr Augusto Zodda (Italy)

Members: Mr Søren Skafte (Denmark)

Mr Eckhard W. Hein (Germany)

Mr Seiichi Yokoi (Japan)

Ms Ana María Baiardi Quesnel (Paraguay)

Mr Roberto Seminario (Peru)

Mr Ahmed I. Al-Abdulla (Qatar)

Mr Lee Brudvig (United States of America)

H.E. Mary M. Muchada (Zimbabwe)

3. The Chairperson informed the Committee that Mr Aboubakar Bakayoko (Côte d'Ivoire) would regretfully be unable to attend this 115th Session of the Finance Committee. The Committee also noted that Her Excellency Muchada had been designated to replace Ms Mutiro Takaendesha as the representative of the Republic of Zimbabwe at this session.

Financial and Budget Reports

FINANCIAL HIGHLIGHTS AND STATUS OF CURRENT ASSESSMENTS AND ARREARS

4. 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 six months of the 2006-07 biennium and the financial status of the Organization as at 30 June 2006. The Committee also reviewed a working paper on the status of assessed contributions at 21 September 2006 and noted several key messages to be drawn from the discussion of the papers.

5. The General Fund (GF) deficit for the first six months of the 2006-07 biennium stood at a level of US\$124.9 million, practically unchanged from the deficit at the close of the previous biennium, but as an interim result it could not be regarded as indicative of the final outcome. The following salient points were noted by the Committee:

- a) There had been a very low payments rate by members of the 2006 Regular Programme Assessments with the result that only 34.5% of the amounts due had been received by 30th June and 39.52% by 21 September 2006. The very high level of outstanding current Regular Programme Assessments and a persistently high level of arrears from prior years, amounting to US\$245.1 million and

US\$52.3 million respectively in US dollar equivalents at 21 September 2006, combined with large, unbudgeted expenses and unrecorded liabilities related to staff costs were the most significant factors undermining the financial health of the Organization.

- b) The under funding of the After Service Medical Coverage (ASMC) amortization continued to be a cause of structural deficit on the GF. The six month charge for ASMC amortization amounted to US\$11.5 million while the assessed funding towards the ASMC amortization amounted to only US\$7.1 million for a full year. On the positive side, the long term investment income which was earmarked by Conference Resolution for the funding of staff related liabilities amounted to US\$8.4 million for the first six months of the biennium.
- c) The Capital Expenditure Account which was established by Conference Resolution as Chapter 8 of the Programme of Work and Budget (PWB) expended US\$3.9 million of the US\$10.1 million of funds which were available as at 1st January 2006 resulting from the transfer of unspent funds from the 2003 and 2004-05 arrears allocation. The expenditure related principally to the Human Resources Management System (HRMS) project.
- d) There had been a slow down in the rate of Technical Cooperation Programme (TCP) expenditure. Average monthly expenditure in the first six months of 2006 amounted to US\$2.2 million compared to an average monthly expenditure of US\$5.2 million in the 2004-05 biennium.

6. With regard to the other components of the Organization's reserves, the Committee was informed that the Working Capital Fund (WCF) balance of US\$25.2 million, which had been fully advanced to the GF in August 2005, was reimbursed in full in February 2006. However, delays in receipts of member contributions required the full balance to be once again advanced to the GF in May 2006. Similarly, the Special Reserve Account (SRA) balance of US\$10.3 million which had been advanced to the GF in August 2005 and reimbursed in full in February 2006 was again required to be fully advanced to the GF to cover delays in receipts of Member contributions. Consequently, the total remaining balance of US\$8.5 million was advanced in May 2006, after a US\$1.8 million charge for foreign exchange losses.

7. Looking forward, the Committee was informed that the GF liquidity would continue to be under pressure from the impact of delays in receipt of contributions, unbudgeted costs and the persistently high level of arrears. As a result, the Organization would require borrowing for almost eight months during 2006 compared to five months of borrowing in 2005. While the external borrowing of US\$71 million as at 31 December 2005 had been fully repaid by February 2006, the Organization was again obliged to resort to external borrowing to meet June 2006 salary obligations with a loan of US\$15 million. Current external borrowing stood at US\$54 million with another US\$18 million required within days. Based on current expected receipt and expenditure patterns, borrowing would continue through the end of 2006 and into 2007. Cumulative interest cost, which stood at almost US\$700 000, was expected to exceed US\$1 million by the end of the year.

8. Regarding staff related liabilities, the 2006-07 assessment for ASMC amortisation of US\$14.1 million was already recognized in 2005 as insufficient to offset the actual ASMC amortisation charges which would amount to US\$46.5 million for the 2006-07 biennium, adding a further US\$32.4 million to the GF deficit.

9. The Committee, noting that only 39% of current year assessments had been received by 21 September 2006 and that nearly US\$300 million was still owed to the Organization at this stage of the year, expressed serious concern in respect of the liquidity shortage and the increasing deficit as these factors cast doubt on the Organization's capacity to carry out its mandate. The Committee also noted the need to finance or absorb, in programmes, US\$27 million in unbudgeted costs. The Committee again noted with serious concern the magnitude of the

accumulated GF deficit of US\$125 million, the repeated recourse to other reserves (both the WCF and SRA had again been advanced in full to the GF), and the extent of external borrowing. In addition, the Committee discussed the necessary levels of the WCF and SRA and recognized that these reserves were clearly insufficient in the context of existing operating requirements. They recommended that whether a replenishment by members was appropriate should be considered as soon as possible. They noted the need for a financing plan to deal with the Organization's financial imbalances. In view of the importance of this, the Committee agreed to add one item to the agenda already agreed upon dealing with restoring the financial health and the long term sustainability of the Organization. The Committee expressed further concern at the existing level of arrears of Members' contributions which stood at US\$52.3 million in consolidated dollar equivalents and at the extent of total interest cost on external borrowing for 2006, which was expected to reach US\$1 million by the end of the year. The Committee resolved to inform the Council of the current severe financial situation of the Organization.

AUDITED ACCOUNTS FAO 2004-2005

10. In accordance with General Rule XXVII 7(1), the Committee examined the FAO Audited Accounts for the biennium 2004-2005.

11. The External Auditor noted that he had issued an unqualified opinion on the FAO Audited Accounts for the biennium 2004-2005 and summarized the main conclusions of his report as follows:

- The biennium 2004-2005 closed with bank borrowings of US\$71 million in addition to advances of nearly US\$36 million from the WCF and the SRA to the GF. The net shortfall of income over expenditure of the General and Related Funds was US\$85 million and the General and Related Fund balances ended with a deficit of US\$124.8 million.
- The Organization's assets had also declined by nearly 5%, compared to the preceding biennium, and stood at US\$288.2 million at the end of 2005. Total liabilities, at US\$402.9 million, had registered a marked increase of 17% primarily due to the bank borrowing and the increase in recorded liabilities on staff-related schemes.
- During 2004-2005 the provision for delays in contributions was increased by US\$72 million and the overall deterioration in the liquidity position of the Organization during the biennium was to a large extent due to delays in the receipt of contributions. Moreover, delays in the receipt of contributions had also had the effect of the Organization not being able to fully take advantage of the split assessment.
- In spite of liquidity difficulties during the biennium, the Organization had achieved a 100% budgetary performance. Given the liquidity problems, the Organization should identify ways to regulate programme delivery, while considering the fact that a majority of programme expenditure was committed. Linking the programme delivery only to the appropriations in the present scenario of severe cash shortage might not be sustainable in the long run.
- The Organization did not have surpluses in the General and Related Funds to overcome temporary shortages in cash. Last time when the Organization received payment of significant arrears of US\$92.7 million in November 2002, US\$44.9 million was allocated - with the approval of the Conference - for one-time expenditures on various programmes. The opportunity to reduce the GF deficit and thus improve the overall financial health of the Organization was thus lost. It was recommended that any future payment of arrears of contributions be credited to the GF, which would ensure that such arrears are used only to cover past budget expenditures. The Secretariat confirmed that the Organization had no plans to consider a similar proposal for the use of arrears in the foreseeable future, which would in any case require approval by the Conference to derogate the financial regulations.
- The unrecorded and unfunded liabilities of the terminal payment scheme and the ASMC continued to cause concern and further action was required to fully fund these.

- External Audit teams had visited two regional offices in Ghana and Chile and nine country offices, four in Africa, three in Asia and two in Latin America. No serious financial irregularities in day-to-day operations were noted except in the management of the National Special Programme for Food Security in Nigeria.
 - Effective internal control promoted efficiency, reduced risks and helped to ensure reliability of financial statements and compliance with rules and regulations of the Organization. The Revised Programme of Work and Budget (PWB) for 2006-2007 proposed further budget cuts for Finance Division and other organs of internal control which were deemed to create potential threats to internal financial control. Three main recommendations were made in this regard:
 - a) Minimum number of posts required by Finance Division to maintain internal financial controls at a satisfactory level should be determined and provided for;
 - b) It should be ensured that scaling down of the local audit programme did not adversely impact the control environment in the decentralized offices; and
 - c) the Finance Committee should be periodically informed of the extent and impact of the scaling down.
 - The Director-General in his response to the External Auditor's draft report recognized the fundamental role of Finance Division, the Office of the Inspector-General and the local audit programme for proper functioning of internal controls and had decided to propose to the Council in November 2006 the strengthening of administrative support to field locations, reinstatement of funding for local audit programmes and provision of additional funding to the Office of the Inspector-General and Finance Division.
 - A review had been carried out on the Human Resources Management Model (HRMM) and the HRMS, where progress should be monitored on a continuous basis. The success of HRMS would depend to a great extent on connectivity available to the regional and, in particular, field offices and the Organization should monitor closely the availability of adequate technological infrastructure to enable field offices to access the new system conveniently.
12. The External Auditor expressed his appreciation for the cooperation of the Director-General and his officers and staff.
13. Committee Members looked forward to the response of the Secretariat on recommendations classified as fundamental, as well as the recommendation on the liquidity position of the FAO. Members requested further information from the Secretariat on how the recommendations might be implemented.
14. The Secretariat welcomed the External Auditor's report and recalled that details of the follow-up action against each recommendation made would be provided in reports to the Finance Committee in 2007. In response to specific questions and observations of the Committee, the Secretariat provided further clarification as follows:
- Organization's financial position: The Secretariat noted that the Organization's deteriorating financial position mainly represented a liquidity crisis caused by the worsening trend of late payment and arrears of contributions, rather than a long-term budget imbalance. Currently, the main significant long-term financial imbalance was the unrecorded liability for staff-related liabilities, a UN wide issue which had been brought to the attention of the Committee many years ago and for which financing through special assessments had commenced.
 - National Special Programme for Food Security in Nigeria: the Secretariat recalled that in his Report the External Auditor had noted that measures had been taken by the Organization to address these irregularities and that a comprehensive review to strengthen internal control was underway in order to improve the situation and prevent recurrence.

15. The Committee, noting the comments and clarifications provided by the External Auditor and the Secretariat, recommended that the Council submit to the Conference for adoption, the Audited Accounts for the 2004-2005 biennium. The Committee submitted to the Council the draft resolution below for onforwarding to the Conference.

DRAFT CONFERENCE RESOLUTION
FAO AUDITED ACCOUNTS 2004-05

The Conference,

Having considered the report of the 131st Session of the Council, and

Having examined the 2004-05 FAO Audited Accounts and the External Auditor's Report thereon

Adopts the Audited Accounts.

AUDITED ACCOUNTS - FAO CREDIT UNION 2005

16. The Committee took note of the information and clarification provided by the Secretariat and decided that, in future, the Credit Union accounts should be submitted to the Finance Committee for information purposes, based on which the Committee might take action as deemed appropriate.

AUDITED ACCOUNTS - FAO COMMISSARY 2005

17. The Committee took note of document FC 115/3c) "*Audited Accounts – FAO Commissary 2005*". After seeking clarifications relating to cash balances, it adopted the accounts.

Oversight Matters

ACCESS BY MEMBERS TO REPORTS OF THE OFFICE OF THE INSPECTOR-GENERAL

18. The Inspector-General provided the Committee with a summary of the key issues from the position paper, entitled *Access by Members to Reports of the Office of the Inspector-General* that was provided to the Committee members for their review and discussion.

19. The Committee discussed the paper and obtained clarifications from the Inspector-General and the Legal Counsel, where needed. The key issues discussed were:

- the fundamental distinction between general audit reports and specific investigation reports and the additional legal issues that needed to be addressed for the latter;
- the importance for the Organization to be as transparent as possible while balancing the needs of the Organization with protection of the rights of individuals addressed in the reports;
- concern about the implications and legal aspects of releasing reports, especially from the perspective of the protection of confidentiality or due process of individuals involved in investigations;
- the role and responsibilities of the Finance Committee and the CCLM in making the final recommendation to the Council on making final reports available to Member Nations; and
- the possible effects on the Committee's recommendation of a recently-released report by the United Nations on the "Comprehensive Review of Governance and Oversight within the United Nations, Funds, Programmes and Specialized Agencies" conducted by PriceWaterhouseCoopers.

20. Having noted that the matter had been placed in the agenda of the CCLM, the Committee reached a consensus to recommend to the Council that final audit reports be made available to Member Nations on request, subject to such views as the CCLM might provide, especially as concerned the information that member countries might consider restricted according to their legislation. As regards, more specifically, investigation reports, the Committee noted that detailed guidance from the CCLM would be required, in light of various concerns expressed by some Member Nations and related considerations, including the criteria already established by the United Nations for the modification or withholding of reports, so that a decision could be taken by the Council.

FAO AUDIT COMMITTEE (INTERNAL) - ANNUAL REPORT TO THE DIRECTOR-GENERAL FOR 2005

21. The Committee took note of the information provided in the Annual Report of the Audit Committee (Internal) to the Director-General for 2005.

FURTHER MEASURES TO STRENGTHEN UNITED NATIONS SYSTEM SUPPORT TO THE NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT (NEPAD) (JIU/REP/2005/8)

22. The Committee took note of the JIU report "*Further Measures to Strengthen United Nations System Support to the New Partnership for Africa's Development (NEPAD)*" (document CL 131/INF/9) and of the comments of the Director-General thereon.

OVERSIGHT LACUNAE IN THE UN SYSTEM (JIU/REP/2006/2)

23. The Inspector-General provided the Finance Committee with a summary of key aspects from the report of the Joint Inspection Unit (JIU) entitled *Oversight Lacunae in the United Nations System*, and a summary of the comments of the Director-General of FAO to the report.

24. The Committee discussed the report and obtained clarifications from the Inspector-General, Legal Counsel and the Evaluation Service, where needed. The key issues discussed were:

- an explanation for the Director-General's decision to reject Recommendation 6 of the report that the audit, inspection, investigation and evaluation functions be consolidated in a single unit, under the head of internal oversight, reporting directly to the Executive Head;
- an explanation as to why FAO did not take a position on endorsing recommendations number 1 and 9, and why FAO checked "no" in its response to the JIU question: "Include recommendation and action in annual monitoring report";
- clarification as to the specific role of the Independent Oversight Board the JIU recommended, and whether any of these functions overlapped with those of FAO's Finance, Programme and Audit Committees;
- concern over the JIU using its own standards as the benchmark to which it evaluated the other UN organizations' oversight structures;
- the need to maintain separate finance and audit committees, and the present membership (internal vs. external) of the FAO Audit Committee as compared to other UN organizations;
- concern that a recently-released report by the UN on the "Comprehensive review of Governance and Oversight within the United Nations, Funds, Programmes and Specialized Agencies" that was commissioned by the Secretary-General to PriceWaterhouseCoopers might supersede many of the issues addressed in the JIU report; and

- the ongoing evaluation by the Independent External Evaluation (IEE) of the audit (internal and external) and evaluation functions and their roles with respect to governance, public accountability and management.
25. The Committee decided to postpone further discussion of these issues until it had the opportunity to consider the findings of the IEE.

Financial Policy Matters

MEASURES TO IMPROVE THE ORGANIZATION'S CASH SHORTAGE SITUATION

26. The Committee examined the document prepared by the Secretariat and discussed the measures to improve the Organization's cash shortage situation.
27. It was agreed that the cash liquidity situation of the Organization was critical and would only be improved through timely payment of assessed contributions by the Member Nations. Nevertheless, it should be recognized that some countries faced extremely difficult economic situations.
28. As for the measures to enhance the payment by the Member Nations, the Committee supported all measures currently in place. Many members supported measures which were discussed in the past but not implemented, as well as the proposals made by one member at the previous session. The Committee also supported a zero discount rate for the Incentive Scheme, although one member argued for establishing a small symbolic discount rate in order to encourage prompt payment. Some members supported the option to increase the level of the WCF, while others were against this option.
29. The Committee encouraged the Regional Groups to consult actively on these proposals with a view to arriving at a consensus by the Council session in June 2007. It further requested the Secretariat to continue its efforts to collect further replies to the survey on the reasons for non-payment of contributions.
30. The Committee also encouraged the Secretariat to actively engage country offices and Permanent Representatives whose countries were in arrears to rectify the situation.

PROPOSED ARRANGEMENTS FOR SELECTION AND APPOINTMENT OF THE EXTERNAL AUDITOR

31. The Finance Committee reviewed the document and discussed the process for the selection, evaluation and appointment of the External Auditor. The Committee confirmed the process should be similar to that adopted during the selection of the incumbent External Auditor and agreed on certain additional detailed procedures. In particular:

- The following timeline would be followed:

Milestone event	Time frame	Action by
Invitation for proposals	October 2006	Secretariat
Receipt of proposals	December 2006	Secretariat
Preparation of comparative analysis and Finance Committee Paper	February 2007	Secretariat
Oral presentation, evaluation and recommendation	May 2007	Finance Committee
Appointment by the Council	June 2007	Council

- A shortlist of the best proposals should be drawn up by a working group comprising the Secretariat and a regionally representative group of Committee members: Italy, Japan, Peru, Qatar, United States of America and Zimbabwe. The working group should determine how many proposals to include in the shortlist and the shortlisted bidders should be invited to deliver an oral presentation to the Finance Committee.
- In case a shortlisted bidder was from a country whose representative was also a member of the Finance Committee, that member should absent herself/himself from the evaluation of such bid.

ANNUAL REPORT ON SPECIAL FUND FOR EMERGENCY AND REHABILITATION ACTIVITIES

32. The Committee took note of the information provided in document FC 115/10, *Annual Report on Special Fund for Emergency and Rehabilitation Activities*.

ADOPTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

33. The Committee noted that on 7 July 2006, following a recommendation by the High Level Committee on Management (HLCM) of the Chief Executives Board for Coordination (CEB), the General Assembly adopted resolution 60/283 approving adoption of IPSAS by the United Nations by 1 January 2010 and approving the requested resources to permit the Secretary-General to begin implementation of the Standards. The General Assembly approval was an important milestone for the UN system-wide implementation of IPSAS, which represented a vital component of the United Nations drive to improve comparability and credibility of UN financial reporting. There was now an imperative on the UN agencies to put in place the project plans and necessary funding to ensure that each would be able to comply with the 2010 adoption date.

34. The Committee recognized the importance of IPSAS adoption within the UN system and for the Organization and recognized the scale of the project in FAO and that the Organization should now proceed on a priority basis with the preparation of a detailed plan of action for the implementation of the IPSAS project. The Committee re-confirmed its approval to use the Capital Expenditure Facility as a funding source for the start-up expenditures during the 2006-07 biennium, which were estimated at the level of US\$410 000.

35. While a firm estimate of the total project implementation costs was under development at this early stage, the Committee was informed that WFP had decided to proceed with early adoption of IPSAS (by 2008) and that the WFP Executive Board had recently approved a US\$3.7 million budget for a two-year IPSAS implementation project. While no two organizations could be considered identical in terms of the required IPSAS implementation costs, the WFP budget could be considered as indicative of the required level of costs for FAO. The Committee would consider a firmer estimate of such costs in May 2007 when the Secretariat would present a document with an updated project plan, based on a detailed analysis of system changes and implementation requirements. The forecast of project costs would be considered when developing the PWB for the 2008-09 biennium to be approved by Conference in November 2007.

36. The Committee decided to approve that FAO adopt IPSAS in accordance with the HLCM decision and as approved by the General Assembly in July 2006 and that FAO proceed with an implementation project. The Committee also approved that the Secretariat take forward the process of obtaining the necessary approvals from the Governing Bodies, first from Council in November 2006 and then from Conference in 2007.

PROGRESS REPORT ON ACTUARIAL VALUATION OF THE STAFF-RELATED LIABILITIES

37. The Committee took note of the information provided in document FC 115/12 "*Progress Report on Actuarial Valuation of the Staff-Related Liabilities*".

RESTORING THE FINANCIAL HEALTH AND LONG-TERM SUSTAINABILITY OF THE ORGANIZATION

38. The Committee discussed various unbudgeted costs during the present biennium, which taken together, would have involved material cuts in the Programme of Work for the present biennium. This had been estimated by the Secretariat at US\$27 million, after taking all present extra-budgetary support and efficiency gains into reckoning, if further extra-budgetary support was not available.

39. The Finance Committee, in addressing the serious financial situation of the FAO, was troubled by the large amounts of unbudgeted costs and unfunded/unrecorded liabilities brought to the attention of the Committee by the Secretariat and as highlighted by the External Auditor.

40. The Finance Committee was very seriously concerned with the liquidity shortage caused by the worsening trend in delayed payments of members' contributions and imbalances of expenditure and receipts. The Committee looked forward to the response of the Secretariat to the recommendations of the External Auditor on the liquidity position of the FAO. The impact on cashflow was far-reaching as all reserves were now exhausted and, without substantial payments, external borrowing was expected to be required for most of the rest of the 2006-07 biennium. Recognizing the severity of the shortages due to delays in payment of Members' contributions, and in view of the accumulation of unbudgeted costs to be faced in 2006-07, the Committee requested detailed and updated projections of costs and the related funding requirements to be met.

41. The Finance Committee recommended that the Secretariat develop a projected cashflow analysis presenting all financial demands on the budget and sources of financing during the remainder of the 2006-07 biennium, as the basis for careful analysis of programme spending and implications on liquidity and required levels of reserves. Based on this, the Secretariat should submit an appropriate financial proposal within the SPWB 2008-09 aimed at restoring the financial health and long term sustainability of the Organization. This would help the Member States in reaching an informed political decision in this regard.

FUNDING OF THE GENERAL SERVICE SALARY INCREASE IN 2006-07

42. The Finance Committee reviewed the paper and discussed the Secretariat's proposals for the funding of the general service salary increase recommended by the International Civil Service Commission (ICSC).

43. While it was noted that the recommendation to Council would be submitted by the Joint Meeting, the Finance Committee unanimously agreed that the contributions of the Russian Federation to the 2006-07 PWB be treated as miscellaneous income and used to partially fund the unforeseen and unbudgeted general service salary increase. Apart from two members who were opposed, the Committee recommended that the remaining US\$6.4 million of the cost should be charged to the SRA with the necessary funding secured for the SRA by replenishment of an equivalent amount through Member Nation assessments at the time of formulation of the PWB 2008-09.

Budgetary Matters

PROGRAMME IMPLEMENTATION REPORT 2004-2005

44. The Committee welcomed the improved and simplified structure of the Programme Implementation Report (PIR) and noted that the format took account of previous guidance from the Membership. It recalled that the prime purpose of the PIR was to meet accountability requirements to members by addressing all FAO activities in a given biennium and covering both resources utilization and delivery of outputs.
45. The Committee expressed general satisfaction at the reported achievements in the 2004-05 biennium, including full utilization of budgeted resources. It took note of progress on efficiency savings, including those resulting from ongoing collaboration of FAO, IFAD and WFP on administrative and operational matters. The information on geographical representation of professional staff in Annex II of the PIR was appreciated.
46. The Committee noted the increase in administrative and operational support costs incurred and the increase in related reimbursements, which resulted in a sizeable under-recovery of indirect variable costs of supporting projects. The Committee recalled that the Council had approved an increase in the project support cost rate for Emergency Assistance projects in 2004, and that it would consider a proposal for support cost rate adjustment for projects in direct support to Regular Programme activities under another agenda item.
47. The Committee was encouraged by the positive presentation of the main achievements and services delivered during the biennium. It noted that reporting on programme implementation was based primarily on information and assessments prepared by managers as part of results-based management. The Committee requested enhanced reporting on the TCP, in particular on its regional dimensions.
48. The Committee endorsed the PIR 2004-05 for transmission to Council.

REPORT ON SUPPORT COSTS EXPENDITURE AND RECOVERIES

49. The Committee considered the *Report on Support Costs Expenditure and Recoveries*. It was satisfied that Project Servicing Cost (PSC) rates for the period under review were applied within the approved policy.
50. The Committee reaffirmed the principle that extra-budgetary activities should cover the indirect variable support costs that they incur. It recalled that adequate external cost recovery for services rendered was an integral part of efficiency savings measures prescribed by the Council, including efforts to contain costs. It also noted that implementation of Conference decisions, as well as measures taken under the authority of the Director-General to streamline administrative and operational procedures and delegate authority, should contribute to reducing costs and achieving efficiency savings.
51. The Committee considered a proposal to increase the PSC rate for the category of projects in direct support to the Regular Programme, which were implemented at Headquarters or a Regional Office. It recalled that the current PSC rate of 6% for such projects had not been reviewed since 2000 and took note that the UN and the other main specialized agencies charged a rate of 13% for this type of project. The Committee considered the overall results of the 2004 and 2005 FAO cost measurement studies in the light of supplementary descriptive and quantitative information provided by the Secretariat to the meeting and endorsed, by consensus, the increase in PSC rate for projects in direct support to the Regular Programme from 6% to 13%.
52. The Committee encouraged the Secretariat to continue to refine the methodology for determining the indirect variable costs of supporting different types of projects operated by the

Organization and to keep under review the cost recovery rates for extra-budgetary projects, as well as to provide additional information, if requested, to facilitate the discussion at Council.

Human Resources Matters

REPORT ON HUMAN RESOURCES MANAGEMENT ISSUES

53. Having noted the information provided by the Secretariat in document FC 115/15, *Report on Human Resources Management Issues*, the Committee underscored the crucial role of human resources in enabling FAO to deliver its programmes and, recognizing the importance of such resources as capital of the Organization, acknowledged the need to safeguard them.

54. Considerable progress and results had been achieved since the last report in terms of the HRMM and the HRMS as well as the improved recruitment processes and implementation of an FAO competency framework. In this respect, the Committee appreciated in particular the efforts undertaken by the Secretariat to enhance competency profiles of staff with the establishment of the management competency development programme being realised through the Management Development Centre (MDC).

55. The MDC programme was perceived as a commendable example of collaboration among the Rome-based UN organizations. Advocating the need to reinforce cooperation among organizations of the UN common system, the Committee further expressed its satisfaction with the coordination pursued by the Secretariat with other UN organizations in the development of the HRMM and in the key role played in the formulation of the new Inter-Organization Mobility Accord.

56. The initiative embarked upon by the Secretariat to review and develop an intra-organizational rotation policy was deemed by the Committee to be particularly important, given the proposals for increased decentralization being presented to the Governing Bodies. The Committee noted that the Secretariat was committed to introducing an incentive-based rotation policy at FAO by the end of 2007.

57. Notwithstanding improved gender balance and a more equitable geographic representation among the staff of the Organization, the Secretariat was encouraged to adopt specific measures aimed at redressing the gender balance in the professional and higher categories of staff and addressing the concerns of certain Member States regarding the variance in desirable ranges of geographic representation. In this context, the Committee requested that a report be submitted at its next session providing information on the recruitment missions conducted by the Secretariat to non- and under-represented Member countries.

58. While the Secretariat committed to implementing the recommendations made in the Report of the External Auditor on FAO Audited Accounts 2004-2005, especially those relating to the HRMM and HRMS (recommendations 8, 9 and 10 of the report), the Committee took note of the limited resources available to the Human Resources Management Division to implement its programme of work and emphasised the need to ensure that this programme was adequately funded. To this end, it was agreed that the issues of resources allocated to HR management activities should be reviewed during the Committee's session of May 2007, following the introduction of the HRMS in December 2006.

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

59. The Committee took note of the recommendations and decisions of the International Civil Service Commission (ICSC) and of the United Nations Joint Staff Pension Board (UNJSPB) to the United Nations General Assembly.

60. The Committee reviewed the findings of the ICSC regarding the outcome of the general service salary survey carried out in Rome in November 2005 and endorsed the relevant ICSC recommendations for transmittal to the Council for approval.

61. Recalling the recommendation made previously with regard to the ratio of general service to professional staff and mobility of staff between categories, the Committee reiterated its request for a review to be conducted on this matter and for a report to be presented at its next session, including a comparison between the general service salary structures in Rome and the FAO Regional Offices.

62. The Committee, concerned by the magnitude of the salary increase, also requested for the May 2007 session an update on the review conducted by the ICSC on the general service category in the UN-system and on the headquarters methodology for determining best prevailing conditions of employment for the category. The members noted the methodology might require revision to accurately reflect the changing demographics of the UN.

Organizational Matters

IMPLEMENTATION OF CONFERENCE DECISIONS AND PROPOSALS FROM THE DIRECTOR-GENERAL

63. The Finance Committee considered the implementation of the reform proposals approved by the FAO Conference and the further proposals submitted by the Director-General to Council, as invited in operative paragraph 5 of Conference Resolution 6/2005. The Committee thanked the Secretariat for the documentation provided, including the additional information notes which were distributed during the Committee session.

64. The Committee recalled the challenging budgetary environment faced by the Organization. It noted that in addition to a real budget reduction of US\$90 million (11.6%) imposed over the last two biennia, implementation of the 2006-07 regular programme budget was affected by unbudgeted costs tentatively estimated at US\$27 million.

65. The Committee took note of other items such as After Service Medical Coverage and Terminal Payments which, while not affecting budgetary performance, adversely influenced the overall financial situation of the Organization and decided to pursue discussions on this matter under another item of its agenda.

66. On the implementation of Conference decisions, the Committee expressed its general satisfaction at the progress achieved. It received clarifications on the establishment of the authorized subregional offices and welcomed the favourable conditions that had been negotiated with the concerned host governments to cover the establishment costs and some of the operating costs, including the provision of local professional and support staff. It highlighted the importance of having adequate human resource policies and information technology systems in place to support decentralized structures. The Committee therefore provided its general endorsement on the implementation of the first steps authorized for headquarters and the decentralized offices.

67. Concerning the Shared Services Centre, the Committee took note of the US\$8 million per biennium savings expected by the Secretariat to be achieved by configuring the services across three “hubs” (Bangkok, Budapest and Santiago) supervised by a coordination centre in Rome and reaffirmed the necessity of achieving cost savings in administrative and financial transaction processing functions. It was satisfied that the proposals met the spirit of earlier guidance provided by FAO Governing Bodies in connection with the SSC when proposed as a concept. One Member expressed the view that the justification for the establishment of the SSC hubs required further explanation and looked forward to receiving supplementary information about alternatives considered ahead of the session of the next Council, in order to facilitate understanding and further discussion of the Director-General’s proposals.

68. The Committee expressed general endorsement of cost efficiency measures put in place under the authority of the Director-General, including increased flexibility and delegations of authority, process and systems improvements and capitalizing on joint action with UN system partners. It welcomed the expected future efficiency gains including those to be achieved through further joint action among the Rome-based UN system organizations. The Committee also noted that income estimates had increased by 13% compared with the Revised Programme of Work and Budget (PWB) for 2006-07.

69. On the further proposals presented by the Director-General, the Committee welcomed the creative and constructive initiative and appreciated the consultative process that had led to these adjusted proposals. It welcomed the recognition of the fundamental role of Finance Division, the local audit programme and the Office of the Inspector-General in a properly functioning system of internal control and the increased allocations to the concerned units, which responded to concerns raised at its previous session and by the External Auditor. In response to questions raised, the Committee received explanations on the role of the proposed Liaison Office for Russia.

70. While members acknowledged the merits of strengthened decentralization and the principles guiding change, as endorsed by the Conference, the Committee recognized that divergences of positions existed on the proposals for further organizational changes. All but two members supported the proposals on headquarters restructuring, while two distinct sets of opinions were expressed on further decentralization measures.

71. Some members supported the further decentralization proposals submitted by the Director-General, viewing this as a natural consequence of the earlier reforms already approved by the Conference. Concerns were, however, expressed on the further proposals not addressing the needs of the Asia region in general, and South Asia in particular, and on an overall reduction in international professional staff in the Asia Regional Office.

72. Other members were not able to support any further decentralization measures until the results of the implementation of the Conference decisions and other initiatives, including the Reports of the UN Secretary-General’s High-Level Panel on UN System-wide Coherence and the IEE, could be taken into account.

73. Finally, the Committee highlighted the need for flexibility in moving ahead with any aspects of the reform.

REVIEW OF TRANSLATION SERVICES IN FAO

74. The Committee reviewed the document FC 115/18, *Review of Translation Services in FAO*, and appreciated the useful information provided in the document about the methodology in place for the quality control of translations in the Organization, which aimed at ensuring high quality standards in the most cost-effective way for all types of documents in all FAO languages. It also appreciated the comparative data regarding the funding mechanisms of other international organizations, noting with satisfaction that FAO’s translations services compared well with those of similar UN organizations both in terms of staffing/workload ratio and in terms of the rates backcharged to users.

75. Some members observed that the technical publications of the FAO contained very useful information and stressed that they should be made available to all interested stakeholders, even to those who cannot read them in their original language. The Committee encouraged the Secretariat to take appropriate measures to ensure that all FAO documentation was made available in the languages of the Organization, at the required quality level. It also noted that such measures would not require specific guidance from the Governing Bodies in terms of implementation modalities.

PROGRESS REPORT ON ADMINISTRATIVE INFORMATION SYSTEMS

76. The Committee took note of the information provided in document FC 115/19 – *Progress Report on Administrative Information Systems*.

Other Matters

DATE AND PLACE OF THE HUNDRED AND SIXTEENTH SESSION

77. The Committee was informed that the Hundred and sixteenth Session was scheduled to be held in Rome on 20 October 2006.