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para la
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COUNCIL

Hundred and Thirty-second Session

Rome, 18 – 22 June 2007

SUMMARY PROGRAMME OF WORK AND BUDGET 2008-09

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SUMMARY PROGRAMME OF WORK AND BUDGET 2008-09

Director-General's Introduction

The Summary Programme of Work and Budget (SPWB) offers a timely opportunity for preliminary inter-governmental discussions on charting the Organization's course over the next two years.

Each PWB formulation process has its own distinctive features, and this one involves a particularly complex set of circumstances, as set forth in Section I. The outcome of the ongoing UN reform initiatives and the Independent External Evaluation of FAO (IEE) may have considerable implications on future Programmes of Work, but cannot be assessed at this juncture. They will have to be reflected in our Programme of Work in due course. In the meantime, implementation of the reforms approved by the governing bodies between November 2005 and November 2006 is proceeding well. The approved actions to streamline administrative processes, realise economies of scale and produce cost savings have been accounted for and will extend into the next biennium. I am confident the refined structural arrangements and cross-cutting thrusts will help the Organization to respond better to the needs of the membership.

FAO provides a range of services that is well appreciated by its constituents. There is, moreover, the continued demonstration of confidence from donors who have been providing record levels of voluntary extrabudgetary contributions. While the basis for my proposals for the next biennium rests on addressing the main external challenges and trends described in Section II – including the fight against hunger, more sustainable use of natural resources, the increasing threat of transboundary pests and diseases, rapid economic integration among countries, the impact of climate

change – the Organization is at the same time facing very serious financial challenges, as recognised by Members. The main features of this unhealthy financial condition are known and have been considered with growing concern. Among them are: recurrent delays in payments of assessed contributions; depleted reserves, the levels of which are proving also inadequate; rising costs; and long-term liabilities that are not covered by commensurate funding.

In responding to the expectations of the Council for a comprehensive financial plan for the next biennium aimed at restoring the financial health and long-term sustainability of the Organization, I am putting forward concrete financial and budgetary proposals in Section III. To ensure that the Organization can at least continue to carry out its Programme of Work at the present level, a "maintenance" budget is proposed that would cover anticipated cost increases and requirements already endorsed by or reported to the membership. However, I must also point out that many important areas of work will remain underfunded in a "maintenance" budget.

I appreciate that the resulting figures may be startling in their magnitude to some Members. As summarised in Section IV Conclusions, a "maintenance" budget, together with a set of necessary measures to ensure financial viability of the Organization, could lead to increases in assessments ranging between 26% and 34% percent over the current biennium.

I regret that such a stark diagnosis has to be brought to the attention of the membership at this time. However, the Organization cannot continue to operate satisfactorily and meet the legitimate

expectations of its Members, if Members themselves do not examine in earnest sustainable solutions and support their implementation. The reactions of the Committees and the Council will be critical to paving the way for further discussions in the governing bodies and ultimately to ensuring that the Organization is suitably enabled to carry out its mandate effectively.

Finally, despite the preparation in previous PWBs of a range of “scenarios”, a revised PWB has had to be prepared in the past two biennia after the conclusion of the Conference, as a result of the adoption of a budget level not corresponding to any of the proposals elaborated beforehand. This substantiates the views of those who regard as unhelpful the production of multiple scenarios and the excessive detail provided in PWB documents. In

light also of the ongoing UN reform initiatives and the IEE, and their eventual ramifications, the Secretariat seeks guidance from the Committees and the Council on the form and content of the full PWB 2008-09, to be finalised in July 2007 for submission to the sessions of the concerned bodies in September and November.



Jacques Diouf
Director-General

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I. OVERALL CONTEXT

A. SCOPE OF DOCUMENT

1. At their sessions of May 2005, the Programme and Finance Committees welcomed the much shorter Summary Programme of Work and Budget (SPWB) for the 2006-07 biennium. The Committees supported the preparation of even more concise SPWB documents in the future that would focus on key policy issues pertinent to FAO's work in the next biennium and on major changes regarding programme thrusts and resource allocations.

2. Accordingly, this version aims at presenting in a synthetic manner: 1) the *main factors* – external or internal – influencing the formulation and implementation of the Programme of Work for the 2008-09 biennium; 2) the *substantive thrusts* in broad terms, as envisaged by the Secretariat; and 3) the *key financial and budgetary parameters* which the membership wishes to address ahead of the decisions of the Conference in November 2007. While detailed supportive analysis is provided in other documents submitted to the Council or to the Committees at their present sessions, this SPWB summarises this ancillary documentation and indicates the applicable cross-references.

3. As described below, this SPWB is being elaborated on an unusual foundation of both known and unknown factors. Some policy considerations and the information of a financial nature are fully articulated and substantiated at this stage for preliminary examination by the Committees and Council. However, other factors such as the outcome of the Independent External Evaluation of FAO (IEE) may have a considerable bearing on the future of the Organization, but their impact, budgetary or otherwise, cannot as yet be reflected in a concrete manner.

4. Another unusual circumstance relating to this SPWB is that the governing bodies suspended the preparation and issuance of a Medium Term Plan (MTP) in 2006, which should have covered the 2008-13 period¹. Normally, the SPWB (and the subsequent full PWB) is expected to build on the substantive contents of the MTP approved by the Council in the previous year. However, in May 2006, the Committees endorsed a Revised PWB 2006-07² which incorporated a revamped chapter and programme structure (in itself an outcome of the decisions of the last Conference on the Reforms in the Organization). The new programme structure involved a significant reformulation effort and considerably streamlined programme entities, with the total number going down from 261 to 186. While not prepared within the longer-term perspective inherent in the MTP process, the Revised PWB 2006-07 nevertheless provides the main programmatic underpinning of the present document.

5. Depending on the results of deliberations in the governing bodies on the IEE, the future Programme of Work and the 2008-09 budget level, further planning documentation may have to be prepared by the Secretariat in 2008. This may have a bearing on the scope of the full PWB 2008-09 document that the Secretariat is mandated to submit to the Committees at their sessions of September and the Council and Conference in November 2007. Hence, the guidance of the Committees and the Council is sought on the desirable format of the full PWB 2008-09 in *Section IV* below entitled *Conclusions*.

¹ CL 131/REP paragraph 34

² PC 95/3 – FC 113/14

B. IMPLEMENTATION OF REFORMS APPROVED BY FAO GOVERNING BODIES

6. Significant changes to the organizational structure were approved by the Governing Bodies in two phases, i.e. by the 33rd Session of the Conference in November 2005 and the 131st Council in November 2006. A brief overview of the progress made – at the time of writing – in the implementation of these decisions is provided in this section. More details are included in a document submitted to the Council³.

Headquarters

7. The revamped structure approved by the November 2006 Council⁴ has been in place as of 1 January 2007. It includes two important departmental-level changes over previous arrangements, i.e. the new departments for Natural Resources Management and Environment (NR) and for Knowledge and Communication (KC).

Shared Services Centre in its New Configuration

8. As foreseen in the proposals submitted to, and endorsed by the governing bodies, the 2008-09 biennium is expected to see the full implementation of the Shared Services Centre (SSC), with its three operational hubs in Santiago, Budapest and Bangkok, together with a coordination centre in Rome. As from January 2008, the facilities in Budapest should be ready and an initial group of locally-recruited staff would have been trained to commence operations in human resources servicing, travel and user support. More generally, the transfer of activities will be done in a phased manner to ensure orderly transition, and also to allow for the necessary redeployment of headquarters-based staff. This process should take place between January and October 2008, leading to a fully staffed SSC hub in Budapest.

9. SSC work relating to the Africa and Near East regions will be performed from Budapest, entailing reductions in the present regional Management Support Units (MSUs) in Accra and Cairo, to become smaller administrative units. With regard to the Santiago and Bangkok hubs, staffing of the administrative units in these locations will be adjusted to reflect effective workloads linked to personnel servicing and travel operations in their respective regions. Staffing adjustments in all locations stemming from the full implementation of the SSC are within the parameters provided in document CL 131/18 Add. 1: *Implementation of Conference Decisions and Proposals from the Director-General*.

Africa Region

10. The new *Subregional Office for Central Africa* is now operational in Libreville, Gabon. The host country agreement was signed in May 2006 and the professional staff complement (i.e. the Subregional Coordinator and technical officers) has been appointed. As the host country agreement was signed in January 2007, the new *Subregional Office for Eastern Africa* in Addis Ababa, Ethiopia is expected to be operational by July 2007, while the Subregional Coordinator has already taken up his duties and the technical officers have been designated. The *Subregional Office for Southern Africa* with a new configuration has replaced the pre-existing one in Harare, Zimbabwe. The host country agreement was signed in August 2006 and the Subregional Coordinator and technical officers are in post. The *Subregional Office for Western Africa*, co-located with the Regional Office for Africa in Accra, Ghana is also operational (the related agreement with the host country was signed in September 2006). The modified staffing structure of the *Regional Office for Africa* has been implemented.

³ CL 132/16

⁴ CL 131/18 Annex 4

Europe and Central Asia Region

11. The *Regional Office for Europe and Central Asia* is to be relocated to Budapest, Hungary, and should be operational by July 2007, with some adjustment to the staffing of the former Regional Office for Europe. The host country agreement was signed on 27 March 2007. The pre-existing *Subregional Office for Central and Eastern Europe*, will be co-located with the Regional Office and its modified staffing structure should be in place by July 2007. In line with the agreement with the host country signed in August 2006, the *Subregional Office for Central Asia* in Ankara, Turkey is now operational. In addition, contacts with the Russian Government are ongoing to establish a Liaison Office in Moscow (LORU).

Other Regions

12. Following its approval in principle by the Council at its 131st Session, a working group was established to review the modalities for the establishment of a *Subregional Office for Central America*. This working group has reached a consensus to rank Panama as first choice among possible hosts. The Secretariat has initiated contacts and can confirm that the legal, technical and resource commitments required for the finalization of a host country agreement are fully met. The conditions offered by the Government of Panama are comparable to those agreed by other countries hosting Subregional Offices. Subject to final Council endorsement of the choice, a Host Country Agreement will be signed and measures taken in order for the office to be operational by the end of 2007.

C. INDEPENDENT EXTERNAL EVALUATION OF FAO (IEE) AND ITS EVENTUAL OUTCOME

13. The scope of the IEE is very broad, addressing four major components described in the inception report of the core team: 1) the technical work of FAO; 2) administration, management and organization; 3) governance; and 4) FAO in the multilateral system. The Council is to address progress regarding this important exercise under a separate agenda item⁵. At the time of writing, it may be recalled that the IEE core team is to prepare in April 2007 a paper describing emerging issues, while a draft report of the IEE should be formally available in August in all official languages. The final report should be available in October to allow for its consideration by the FAO Council and Conference in November 2007 together with the Director-General's comments.

14. The present document clearly cannot anticipate the outcome of the IEE. The recommendations of the IEE and attendant decisions of the Conference may have far-reaching effects, including in terms of resource allocations, but the nature, extent and the timing of implementation cannot be prejudged.

D. UN REFORMS

15. FAO is following very closely reform initiatives in the UN system, given their obvious impact on the way the Organization does business. However, this area with potentially far-reaching implications for FAO and other UN institutions, is very much in the nature of work in progress at this stage. Both the content and implementation modalities of FAO programmes could eventually be affected, in particular to accommodate more interdisciplinary and coordinated support to countries. As coordination may also entail costs, the budgetary implications must be assessed as accurately as possible when firm guidance from intergovernmental processes and feedback from ongoing country pilot exercises will become available.

16. Among key aspects, the report of the Secretary-General's High-level Panel on UN System-wide Coherence in the areas of Development, Humanitarian Assistance and the Environment (the "HLP" report) which was launched in November 2006, has not yet been

⁵ CL 132/15

formally considered by the UN General Assembly, while related comments from the new Secretary-General have just been submitted. Similarly, a new Triennial Comprehensive Policy Review (TCPR) of Operational Activities for Development of the United Nations System is under preparation and the UN Economic and Social Council is to consider preliminary TCPR proposals at its session in July 2007. Negotiation and final endorsement of a TCPR resolution is expected to take place at the General Assembly in November/December 2007. It is not known whether the TCPR negotiations will be used also to deal with follow-up to the HLP report, or whether other arrangements will be made. In any event, some aspects of the new TCPR should be of prime relevance to the role of Specialized Agencies within UN Country Teams, including the agencies' capacity to mobilise extrabudgetary resources for country-level activities in the context of UNDAFs⁶, and to support their normative work.

17. An information document on the *Status of FAO's Engagement in the United Nations System Reforms*⁷ is being made available to the Council. The FAO Secretariat is closely involved in: 1) inter-agency initiatives relating to One Country Programme pilots at country level (i.e. through the UN Country Teams and through various UN Development Group mechanisms, including a new Support Committee, at headquarters level); 2) the search for improvements of UN system business practices (through the High-level Committee on Management); and 3) the review of the CEB (through the High-level Committee on Programmes and the CEB itself). The next Conference will receive a report on the implementation of the TCPR adopted by the UN General Assembly in 2004. In addition, a seminar on UN Reform is to be organised at headquarters with Permanent Representatives in June 2007.

E. FAO'S WORK AT COUNTRY LEVEL

18. The revised operating model for decentralized locations inherent in the FAO reforms was designed principally to enhance the Organization's response to country priorities in particular through more flexible and mobile technical support. Two cardinal dimensions of this model are: 1) empowered country offices (FAORs); and 2) Multidisciplinary Teams in Subregional offices, which can also have recourse to higher provisions for non-staff resources. The model is being implemented in the Africa region and the Europe and Central Asia region in 2007.

19. A first programming workshop between FAO Representatives and Subregional Technical Officers will take place in May 2007 in Libreville (Gabon). This type of event has multiple aims: defining optimal collaboration within the Multidisciplinary Team; updating responses to country priorities; assessing how to make technical expertise more readily available at country level; ensuring close links with FAO's global work (e.g. on policy and regulatory frameworks, addressing transboundary pests and diseases, etc.); and providing a substantive platform for FAO's participation in the "One UN" pilots.

20. Taking advantage of enhanced delegation of authority, FAORs are also gradually taking greater responsibilities for medium term programming. Currently, they are working on National Medium-term Priority Frameworks (NMTPF) to identify, jointly with governmental authorities, the UN Country Team (UNCT), donors and other stakeholders, specific priorities for collaboration with FAO. The NMTPFs would also facilitate the preparation of more inclusive UNDAFs that give due attention to national food security, agriculture and rural development priorities.

21. In the present eight "One UN" pilot countries, special attention is given to scaling up support to FAO Representatives so that they can participate actively in UN Country Team activities. Another ongoing initiative at country level relates to the establishment of food security theme groups with WFP and IFAD as noted below.

⁶ United Nations Development Assistance Frameworks (UNDAFs)

⁷ CL 132/INF/9

F. COOPERATION AMONG THE ROME-BASED UN FOOD AND AGRICULTURE ORGANIZATIONS

22. Cooperation is being pursued in both substantive and administrative areas and at headquarters as well as field levels.

23. On the substantive side, FAO, IFAD and WFP have established regular high level consultations and launched several initiatives at field and headquarters. This is also fully in line with the HLP report mentioned above which recommends that: *“to build long-term food security and break the cycle of recurring famines, especially in sub-Saharan Africa, WFP, FAO and IFAD should review their respective approaches and enhance inter-agency coordination”*. The three main pillars for substantive collaboration in 2008-09 have been identified, as follows:

- policy formulation, capacity building, knowledge management and advocacy;
- increased investments in agricultural and rural development as well as food security, where IFAD and FAO are particularly concerned; and
- emergency and rehabilitation contexts, including disaster risk reduction, where WFP and FAO are heavily engaged in relief, early recovery and the transition to development.

24. In the first area, enhanced cooperation is anticipated on such thematic areas as: GIEWS, FIVIMS, remote sensing, market analysis and linking producers to markets, locust control and animal health, land and water management, as well as farmer empowerment (Farmer Field Schools). Recently, the three organizations have established joint food security thematic groups at country level within the framework of “One Programme”. Cooperation will also be actively pursued in the context of National Programmes for Food Security based on the “twin-track” approach, as presented in the Anti-Hunger programme and the International Alliance Against Hunger.

25. In the second area, assistance to IFAD lending operations from the FAO’s Investment Centre has been increasing. In 2006, the IFAD Governing Council authorized IFAD to supervise its own lending operations, which is expected to result in greater interface with both the Investment Centre and FAO technical divisions. Another recent development is that IFAD has launched a pilot programme to enhance its country presence. Two of these pilots are with FAO (Mozambique and United Republic of Tanzania) and others are expected to follow during 2007 (Colombia, Rwanda, Madagascar and Viet Nam).

26. In the third area, notable examples of joint work with WFP include the preparation of a food security chapter in the Common Humanitarian Action Plan in a few countries, co-leadership of food security clusters in several countries, as well as in relation to targeting, logistic support, preparation and evaluation of WFP’s country strategies and protracted relief and recovery operations. A concrete case of collaboration between the three agencies in the context of rehabilitation is occurring in earthquake affected areas of northern Pakistan. Further cooperation in rehabilitation programmes is anticipated in 2008-09. The FAO-WFP led consultative process started in early 2007 with humanitarian and development actors on food security in the Horn of Africa, to which IFAD is also committed, is another example of a joint regional initiative.

27. On the administrative side, it is recalled that in response to the request of the Joint Meeting of the Programme and Finance Committees in September 2006, the Heads of Administration in the three Organizations established a working group to identify opportunities for future joint initiatives and to make recommendations for a more systematic approach to joint back-office administrative service provision. A document submitted to the Joint Meeting in May 2007⁸ identifies areas of current collaboration, describes opportunities for future joint work, proposes an appropriate set of governance and delivery mechanisms for evaluation and execution

⁸ JM 07.1/3: *Collaboration on Administrative and Processing Work between FAO, WFP and IFAD*

of future opportunities to ensure cost effectiveness, and makes a number of recommendations regarding how to proceed.

28. Current collaboration may be illustrated in areas such as procurement, where in 2005, FAO, WFP and IFAD carried out a joint tender to purchase electric energy on the liberalised market; in human resources, where, for example, FAO is responsible for the management of the medical insurance contracts covering staff and retirees of FAO, WFP and IFAD; and in finance, where FAO, WFP and IFAD have recently issued for the first time a joint contract for a specialised firm to perform the actuarial valuation of respective staff-related liabilities. Areas of future collaboration might include treasury management and cash management in the field and implementation of IPSAS, the new UN-wide standard required to be in place by 1 January 2010.

G. DEVELOPMENTS AND TRENDS REGARDING EXTRABUDGETARY RESOURCES

29. In the 2008-09 biennium, the Organization should be able to build on the positive trends observed over the last two biennia, i.e. of steadily increasing extrabudgetary contributions, with more or less equal shares for development programmes and activities on the one hand, and emergency and rehabilitation operations on the other (the latter being obviously of a more fluctuating nature). In effect, a record level of budget approvals was experienced in 2006 (i.e. US\$ 290 million in voluntary contributions in support of FAO's field programmes, outside emergencies). Sources such as the European Commission, Spain, the Netherlands, Norway, Belgium and Japan have provided significant contributions under the Government Cooperative Programme (GCP) modality. Countries such as Saudi Arabia, Venezuela, Brazil and Mexico are using the Unilateral Trust Fund (UTF) modality to obtain specific technical expertise, while meeting the costs from their own resources. The breakdown in approvals between these two principal funding modalities was 66 percent for GCP and 34 percent for UTF.

30. The 2007 field programme "pipeline" is presently estimated at approximately US\$ 300 million, (excluding emergencies). If effectively realised, total approvals in extrabudgetary contributions for the 2006-07 biennium will be the highest in the Organization's history.

31. Strategic partnership agreements, such as the ones with the Netherlands, Norway and the European Commission have contributed to this increase. Overall, significant extrabudgetary resources are now assisting with activities of the Organization at the global, regional and national levels. It is intended to develop and promote similar approaches in negotiations with other donors so that extra-budgetary resources can be channelled through a more cost effective and strategic results-based framework that is better integrated with the organization's Regular Programme.

32. Pending eventual recommendations from the IEE regarding the nexus of Regular-Field Programmes relationships further action is contemplated to build a strategic resource mobilisation strategy, and a more holistic presentation of the organization's regular and extra-budgetary programme of work in future PWBs.

H. CHANGES TO THE SCALE OF CONTRIBUTIONS

33. It is recalled that FAO follows the Scale of Assessments of the United Nations, subject to adaptation for slightly different membership. Therefore, the FAO Scale of Contributions for 2008-09 is to be derived from the triennial United Nations Scale of Assessments established for 2007-2009, which is essentially based on estimates of individual countries' Gross National Income after adjustments for external debt and low per capita income. While changes in percentages may therefore periodically occur at the level of individual countries, it may be noted that the general effect of the Russian Federation being included for the first time in the FAO Scale of Assessments is also to reduce slightly the assessments of many other Member Nations (Members assessed at the maximum or lowest rates see no change in their assessments because

they are subject to a ceiling and floor assessment rate). The proposed Scale for 2008-09⁹ reflects a lower assessment rate for some Members such as the second contributor, Japan (15.9% decrease), as well as for Brazil (43.4% decrease). Conversely, the 2008-09 rates for Australia, China, Mexico, Republic of Korea, and Spain are more than 10% higher than the previous ones in the 2006-07 Scale¹⁰.

⁹ FC 118/10 and as reported in CL 132/14

¹⁰ This list of major changes excludes Members with current assessment rates of less than 1%.

II. THE BASIS FOR PROPOSALS IN THE 2008-09 BIENNIUM

A. MAIN EXTERNAL CHALLENGES AND TRENDS

34. The setting of the Millennium Development Goals (MDGs) marked a renewed commitment by the international community to address, in a holistic manner, basic issues related to economic and social development. The first goal (MDG1) is to eradicate extreme poverty and hunger, with a target of halving them by 2015. The goals, reaffirmed at the 2005 World Summit, have become the driving force for the UN system, including FAO, towards the permanent eradication of human hunger and also a more sustainable use of natural resources, the latter being consistent with MDG 7 to ensure environmental sustainability.

35. However, progress so far in achieving hunger and poverty reduction goals has been mixed. While parts of the world are on track for achieving MDG1 (East Asia) or have already met the target (China), others are at severe risk of failing to cut the prevalence of hunger and poverty by half by 2015 (sub-Saharan Africa). Inter-regional differences persist even in countries and regions that are exhibiting overall progress towards achieving MDG1. Moreover, “hidden hunger” caused by deficiency of iron, iodine, zinc and Vitamin A in the diet, is widespread. Lack of progress on the hunger target impedes the attainment of other Millennium Development Goals, especially poverty reduction. High levels of child and maternal mortality and low rates of school attendance in developing countries are also intimately linked to the prevalence of hunger and malnutrition. Concerted action remains indispensable to reduce hunger and poverty at the rates required.

36. The fight against hunger clearly underlies many activities in FAO’s Programme of Work. Moreover, the Programme of Work will continue to take account of other global trends, e.g. the rapid economic integration among countries (in terms of goods, capital and labour flows across borders); technological change, including information dissemination and communications tools; further population shifts towards urban areas, coupled with enhanced incomes in many regions; and evolving food and agricultural technologies. The transformation of food systems being experienced at all levels generates greater demand for higher food quality and safety, and for production technologies which ensure environmental sustainability. The dominance of food chains and agro-industry in food systems has impacts on local and national markets and creates new institutional mechanisms governing producer-processor or retailer relationships. The livelihoods of those producers and rural groups who do not possess the appropriate natural, financial and human capital assets remain a major policy concern of both governmental authorities and non-state development actors.

37. At the same time, the world is witnessing severe and competing pressures on land and water resources as well as on biodiversity, for instance for urban needs and for bioenergy, coupled with serious threats to the natural resource base, e.g. due to forest loss and degradation, increases in fishing capacity and demand for fish which are leading to overexploitation of fisheries resources.

38. Over the next decades, the impacts of climate change will put stresses on world economies and threaten the livelihoods of many people. Agriculture is both contributing to climate change through greenhouse gas emissions, and being negatively affected by global warming through increased climate variability (e.g. more floods and droughts, changing patterns of precipitation). A rise in average temperatures will have effects on agriculture, especially in arid and semi-arid regions. Water scarcity will increase, threatening agriculture particularly in least developed countries. Climate change will endanger biodiversity and is likely to alter the spread of animal and plant pests and diseases. Therefore, climate change and the associated increased incidence of extreme weather events could exacerbate the vulnerability of populations that are

already food insecure. Mitigation of, and adaptation to climate change have to be addressed in a holistic way through integrated strategies.

39. These manifold external factors translate into strong expectations from the entire membership of continued active involvement of the Organization with: public goods such as international rules, standards and conventions; assistance in relation to multilateral trade negotiations; commonly acceptable rules on food safety; and support to international and national actions in dealing with transboundary pests and diseases of plants and animals, environmental degradation, and natural and human-induced disasters.

40. Significant changes are also affecting the development cooperation context in which FAO operates. The Organization will need to continue to adjust to these changes, building on recent reforms and in consistency with the broader UN reforms. The following can be highlighted: new modalities of financing; the expected more incisive contributions of multilateral institutions to defining and implementing national development plans; the further drive towards national ownership; stronger concerted efforts for aid coordination, harmonisation and alignment; the emergence of new sources of investment and other forms of assistance from civil society, foundations and the private sector; and the emphasis placed on accountability for results.

B. MAJOR THRUSTS AT GLOBAL AND REGIONAL LEVELS

Continued Adherence to Global Goals and General Expectations of the Membership

41. The Strategic Framework 2000-2015 adopted by the FAO Conference in 1999 set out three interrelated global goals that the Organization should help Members achieve:

- access of all people at all times to sufficient nutritionally adequate and safe food, ensuring that the number of chronically undernourished people is reduced by half by no later than 2015;
- the continued contribution of sustainable agriculture and rural development, including fisheries and forestry, to economic and social progress and the well-being of all; and
- the conservation, improvement and sustainable utilisation of natural resources, including land, water, forest, fisheries and genetic resources for food and agriculture.

42. These global goals, coupled with the internationally recognised MDGs, especially MDG1 and MDG7, continue to guide the design of FAO programmes and the component entities.

43. The formulation of the Programme of Work seeks to conform to general expectations of the membership, i.e.:

- a demonstrated focus in areas of comparative advantage, particularly through the rigorous targeting of programmes and beneficiaries and adherence to well recognised priorities;
- enhancing the relevance of FAO's programme entities through optimising the positive "feedback loop" that occurs between global analytical work and the experience gained from local application;
- putting expertise as close as possible to countries in most need of assistance, also taking maximum advantage of alliances, partnerships and joint programmes with the UN and other organizations, in particular at country level; and
- paying due attention to administrative streamlining and efficiency measures, drawing on successful experiments elsewhere.

Important Thematic Areas

44. A number of important thematic areas evolve from the above context and underlie the design of most entities in the Programme of Work. These thematic areas can be summarily described as follows. Illustrations of specific regional dimensions are also given, where warranted.

- the *enhancement of productivity of smallholder productions systems*, ensuring multiplier effects in rural areas and increasing opportunities for off-farm income-generation and employment. Africa for instance is particularly in need of support for diversification and the provision of effective services to the rural sector, while in Asia a major focus needs to be placed on alleviating poverty in rice-based livelihood systems;
- *fostering sufficient public (domestic and international) support to agriculture*, and investment from all sources, ensuring at the same time the effective use of these resources in generating agricultural and rural growth;
- *policy assistance and planning*, aiming at maintaining complementarity between trade and domestic policy, meeting consumer demands for safe and nutritious food and fostering the application of international instruments under the aegis of FAO, e.g. the International Plant Protection Convention (IPPC) and Codex; at national level this includes contributions to UNDAFs while significant regional examples in this area are: the ongoing support to the Comprehensive Africa Agriculture Development Programme (CAADP) as part of the New Partnership for Africa's Development (NEPAD); in the Latin America and Caribbean region, the assistance related to the impact of trade negotiations and eventual agreements; in the Europe and Central Asia region, the advice provided to countries undergoing reforms in order to meet requirements for regional integration or linked to difficult transition processes to a market economy;
- the *advocacy role* of FAO, in partnership with others where feasible, in order to raise the profile of hunger and agriculture issues at all levels, making full use of tools such as the regular flagship publications (e.g. SOFA) and the corporate Web site, and pursuing awareness-raising activities like World Food Day;
- *catalysing international cooperation and fostering effective measures for pests and diseases management and prevention*; this applies to those of long-standing FAO involvement such as the desert locust of major interest to Africa and the Near East regions, and to those posing relatively new risks such as Avian Influenza, of keen relevance for instance to the Asia region given the widespread prevalence of small-scale poultry production systems;
- *facilitating environmental protection and the conservation and sustainable use of natural resources*, including through such major instruments as the International Treaty on Plant Genetic Resources, the Rotterdam Convention on pesticides, the Code of Conduct for Responsible Fishing and associated Plans of Action;
- *ensuring sustainable approaches to natural resource management*: e.g. land and water, fisheries and forests; regional examples include: in the Near East region, assistance to water resources management and afforestation and land conservation programmes; in the Asia region measures to reduce vulnerability to disasters;
- *addressing new major concerns* at international and national levels, including the implications of and adaptation to *climate change* and the effective potential of *bioenergy* and its interrelations with food security; and
- the two cross-sectoral thrusts emphasised in the FAO reforms and endorsed by the governing bodies, i.e. *capacity building* and the role of FAO as a *Knowledge Organization*, e.g. through WAICENT as a corporate framework for managing information, expanding thematic knowledge networks and dissemination of best practices. Support to more efficient data collection systems is relevant to all geographical areas, while particularly critical in the African and Near East regions.

Multidisciplinary Actions

45. Besides the two major multidisciplinary thrusts on capacity-building and knowledge management which are facilitated by the new structural arrangements at headquarters, the Programme of Work will continue to address issues cutting across sectoral lines, such as: support to multilateral trade negotiations; climate change; combating desertification; fragile ecosystems;

disaster prevention, mitigation and preparedness. This will continue to be pursued through dedicated programme entities.

46. Although not in the form of dedicated entities or programmes, joint work on other multidisciplinary areas will also continue, where relevant, ensuring a concerted FAO interface with external instruments (e.g. conventions) or events, i.e. the implications of HIV/AIDS; integrated management of biodiversity; biosecurity for agriculture and food production; biotechnology applications (together with the Joint FAO/IAEA Division); and bioenergy.

47. Delivery of all cross-cutting activities in 2008-09 could be improved through the introduction of increased budgetary and human resource incentives to facilitate cooperation and teamwork.

Efficiency Savings and Streamlining

48. One of the principles of the Director-General's reforms has been to improve management processes and procedures, with the aim of maximising gains in performance as well as in efficiency and cost effectiveness, including streamlining and delegation of decision-making, particularly to decentralized offices. This is subject to appropriate information and decision support systems being in place and prior training of empowered staff.

49. The implementation of the Human Resources Management System (HRMS) in March 2007 provides the foundation for further streamlining of business processes, including the remote processing of administrative actions¹¹. Electronic personnel records and electronic processing are being developed to derive maximum benefit from the new system. During 2007 and 2008 the Organization aims to deploy, resources permitting, the HR Management Model – a new arrangement for managing HR processes and supporting managers in HR matters that will improve the overall quality and efficiency of HR management while achieving cost savings. The HRMM involves consolidating a fragmented HR process; rationalising HR service delivery so that efficiency gains can be realized; extending coverage of the HR system to include the full range of HR services (for example performance management, HR planning, competency based HR systems); providing a single point of contact for clients; and, shifting resources from low-value-added transaction processing functions to higher-value-added advisory and policy functions.

50. Other efficiency savings and streamlining opportunities in the finance area are to be explored, albeit subject to sufficient funds being available, e.g. the use of self-service facilities and electronic workflow in corporate financial systems. During 2007, the Finance Division expects to implement a new banking structure for Headquarters which will generate cost savings by consolidation of transactions through one bank, increased automation of the banking process and the phasing out of manual payment methods.

51. In respect of infrastructure services, a reduction in utilities costs was achieved through a joint tender carried out with WFP and IFAD. This allowed the purchasing of electricity on the liberalized market, thus obtaining a nominal 15% reduction which regrettably may not be translated into net savings, since utilities costs have increased during the same period. Other energy saving and environmental measures are being assessed.

52. The establishment of a central registry system is also being studied, to allow for a better utilization of human resources and economies of scale. Further efficiencies could be achieved with the technological development of DRMS and search engine applications. Measures are being taken to reduce to a minimum the external storage of printed materials.

¹¹ FC 118/18

C. FINANCIAL IMBALANCES FACING THE ORGANIZATION

53. This SPWB puts particular emphasis on financial issues, to meet the expectation from Members of a comprehensive financial plan for the next biennium. The requirements for 2008-09 will have to address, on the one hand the resources needed to execute the next biennium's Programme of Work, and on the other hand inadequacies in the Organization's reserves and funding for certain long-term liabilities.

54. Regarding the programme budget for 2008-09, the estimates in the present document reflect the full biennial impact of the decisions on FAO reform taken so far by the governing bodies, particularly the latest decisions of the Council in November 2006. From a programme perspective, the starting point is the allocations across chapters and programmes as shown in *Annex 3*, which include slight changes to the resource distribution pattern of the Revised PWB 2006-07. A "maintenance" budget level is quantified in this SPWB. It provides for the resources needed to continue the present Programme of Work into 2008-09, starting from the 2006-07 approved net appropriation level of US\$ 765.7 million and adding cost increases to preserve purchasing power and resources for incremental requirements that have been reported to or endorsed by members in 2006-07 for implementation in 2008-09. The latter include:

- the request of the Russian Federation that Russian be adopted as a language of the Organization¹²;
- the Implementation of the International Public Sector Accounting Standards (IPSAS), in line with the decisions taken throughout the United Nations system, and subsequent endorsement by the FAO Council¹³.

55. Accordingly, *Section III* of the document summarises the financial and budgetary issues concerning 2006-07, examines the requirements for the next biennium and puts forward tentative proposals for 2008-09.

D. THE CRITICAL RESOURCE GAPS INHERENT IN A "MAINTENANCE" BUDGET

56. Under a "maintenance" budget, new or additional programme activities are not defined and related resource requirements are not quantified. However, some areas of underfunding within existing programmes are recalled to facilitate discussion.

57. Despite the efforts made to protect a number of priority areas well recognised by the membership, the Programme and Finance Committees acknowledged that the Revised PWB 2006-07 currently being implemented, entailed a number of critical resource gaps, as the budget level approved by the Conference in November 2005 did not permit to address them satisfactorily. The further proposals submitted to the Council at its last session¹⁴ did include very limited ameliorative measures – within the overall resource constraints – which partially addressed these gaps (for IPPC, International Treaty on PGRFA, internal financial controls and inspection). Under the "maintenance" budget proposed for 2008-09, the remaining resource gaps are not covered.

58. In particular, the Programme Committee¹⁵ has expressed concern that certain high priority areas, namely support to the IPPC, plant and animal genetic resources, food safety, agricultural water management, GIEWS and support to implementation of the Code of Conduct for Responsible Fisheries, as well as the corporate statistical database FAOSTAT, might not be

¹² The legal aspects of this request are addressed by the Committee on Constitutional and Legal Matters (CCLM), the report of which will be before the Council (doc. CL 132/5).

¹³ A progress report on this issue with estimates of the range of implementation costs is before the current session of the Finance Committee (doc. FC 118/12).

¹⁴ CL 131/18, paragraphs 197 to 200

¹⁵ CL 131/13 paragraph 8

funded at the level necessary to ensure full implementation of expected outcomes. This is despite efforts made over the past biennia, for example to increase the proportion of resources in a declining real budget allocated to IPPC (75% increase since 2002-03) and Codex (67% increase since 2002-03), as well as allocating funds for the new Secretariat of the International Treaty on Plant Genetic Resources in 2006-07. In these cases, the bodies supervising these conventions and treaties have prudently developed detailed business plans setting forth the resource requirements and a range of funding mechanisms. The FAO share is not fully provided for in a “maintenance” budget and puts at risk the vital work in these priority areas.

59. The Finance Committee has stressed the importance of appropriate internal control within the Organization and noted the potential adverse impact of the budgetary provision in the Revised PWB 2006-07¹⁶. It welcomed the increased allocations provided to the concerned units in the further proposals submitted to the November 2006 Council but emphasised the need to ensure that the Human Resources Management Division was adequately funded¹⁷. At its present level of funding, the Human Resources Management Division will not be able to fully implement improved HR planning, recruitment processes, competency development and performance management called for under the HR Management model¹⁸.

60. Four other resource gaps are highlighted:

- Over the past several biennia, FAO has also strengthened its multidisciplinary work, initially through PAIAs¹⁹ with modest catalytic funding, and now increasingly through more *ex-ante* interdisciplinary planning. However, such work has always been underfunded, and the situation is even more critical now as multidisciplinary approaches will be the key to addressing such pressing issues as climate change and bioenergy. Delivery of all cross-cutting activities in 2008-09 could be improved through increased budgetary and human resource incentives to facilitate cooperation and teamwork.
- The current network of FAO country offices is critically underfunded. In effect, the use up to the present time of stopgap measures in FAORs to ensure that costs remain within the approved allocation, is not a viable way to manage the network.
- As noted in the Revised PWB 2006-07, the management of FAO premises is underfunded leading to the postponement of essential repair work as well as other work to improve their functionality and safety.
- No financial requirements are quantified for redressing excessive reliance on extrabudgetary resources and/or one time contributions in certain programme areas (e.g. where FAO must be seen to be neutral forum).

61. Finally, in the absence of guidance on reprogramming of activities or other means for eliminating these resource shortfalls, and pending the eventual recommendations of the IEE and the governing bodies’ reactions, these areas are flagged as underfunded substantive activities, on the basis of a “maintenance” budget level being continued in 2008-09. At this stage, the Secretariat has not sought to provide firm and detailed resource proposals in relation to these yet unmet needs across the pertinent chapters and programmes of the PWB.

¹⁶ CL 131/9 paragraph 9

¹⁷ CL 131/7 paragraph 58, 69

¹⁸ Details are provided in document FC 118/17

¹⁹ Priority Areas for Interdisciplinary Action (PAIAs)

III. KEY FINANCIAL AND BUDGETARY ISSUES

62. The Secretariat has regularly brought to the attention of the membership the gravity of the Organization's General Fund deficit, cash flow position, under-budgeted costs and unfunded liabilities, with a view to seeking improvements in the situation.

63. At its 131st session in November 2006, the Council expressed serious concern regarding the Organization's worsening financial situation, the large amounts of unbudgeted costs, unfunded and unrecorded liabilities and the increasing General Fund deficit. It also noted that the deterioration in the cash flow situation, due in particular to delays in payment of assessed contributions by Members, was critical as all reserves had been exhausted, forcing the Organization to resort to external borrowing for longer periods than in the past to meet its obligations. The Council endorsed the request of the Finance Committee that the Secretariat submit an appropriate financial proposal for 2008-09 aimed at restoring the financial health and long-term sustainability of the Organization.

64. In presenting a comprehensive financial proposal for 2008-09 aimed at restoring the financial health and long-term sustainability of the Organization, this section addresses, on the one hand the resources needed to execute the next biennium's Programme of Work particularly in light of escalation in the unit cost of inputs and on the other hand the requirements to tackle the Organization's financial health, liquidity situation and reserves.

65. The financial issues facing the Organization in 2008-09 can be addressed along two distinct themes which are elaborated and quantified below:

Incremental requirements to execute the 2008-09 Programme of Work

- In the first instance this comprises requirements beyond the current nominal budget level to preserve purchasing power parity with 2006-07 – that is, compensation for anticipated cost increases. The estimated incremental requirements for 2008-09 are US\$ 100.9 million.
- The second part comprises incremental budgetary requirements that have emerged in 2006-07 and have been reported to or endorsed by Members for implementation in 2008-09 without matching funding, estimated at US\$ 23.9 million.

Requirements to tackle financial health, liquidity situation and reserves

- These are recurrent or one-time requirements to at least stabilise the General Fund deficit by addressing unfunded liabilities and augmenting safety nets (reserves) so as to avoid liquidity shortages. The incremental provisions for 2008-09 under this rubric range from US\$ 70.9 million to US\$ 133.8 million.

A. INCREMENTAL BUDGETARY REQUIREMENTS TO EXECUTE THE 2008-09 PROGRAMME OF WORK

66. This section computes the requirements to fully fund the Programme of Work, under a "maintenance" budget. A "maintenance" budget is defined as the budget level that preserves purchasing power by updating unit costs through the estimation of cost increases and provides resources for incremental requirements that have been reported to or endorsed by Members in 2006-07 for implementation in 2008-09.

Anticipated Cost Increases

Methodology and context

67. The methodology for the calculation of cost increases in 2008-09 follows the approach of previous biennia, which was approved by the Finance Committee, Council and Conference.

68. The cost increase estimates in the SPWB are developed based on actual cost adjustments that have occurred in the first year of the current biennium and cost projections over the planning horizon. The financial adjustments for 2008-09 are subdivided into *biennialization* and *inflation*.

69. *Biennialization* incorporates the full biennial effect of cost increases that occurred or will materialise during the current biennium, but which will be incurred for the full 24 months in 2008-09. As such, biennialization objectively reflects the financial impact of events that will have already taken place before the implementation of the 2008-09 budget. The financial implications of biennialization are essentially a matter of fact and arithmetic, not conjecture or long range planning.

70. *Inflation* represents the cost impact in 2008-09 of those adjustments that are expected to take effect at various points in the next biennium. To assure prudent fiscal management and independent verification, external forecasts from the Economist Intelligence Unit and published data of authoritative bodies such as the International Civil Service Commission (ICSC) continue to be used. A conservative approach to risk is adopted in the 2008-09 inflation estimates and the planning assumptions are summarised below.

Overview of cost increases

71. The incremental requirements for cost increases are estimated at US\$ 100.9 million for 2008-09, to maintain the same purchasing power as in 2006-07, as summarised in *Table 1*. This corresponds to a biennial cost increase rate of 13.2% of the net budget (equivalent to an 8.5% annual increase), or 11.7% of the Programme of Work, which is higher than in previous biennia.

Table 1. Summary of cost increases at the base level of PWB for 2008-09 (at lapsed rate in US\$ million)

	PWB 2008-09 Programme Base at 2006-07 Costs*	Biennialization	Inflation	Total Cost Increases for 2008-09	Base at 2008-09 costs
Personnel Services	571.9	71.0	21.5	92.5	664.4
Goods and Services	309.0	0	10.4	10.4	319.3
Programme of Work	880.8	71.0	31.9	102.9	983.7
Less income	(115.1)	(1.7)	(0.4)	(2.0)	(117.2)
Net budget and additional requirements	765.7	69.3	31.5	100.9	866.6

72. Explanations are provided below and in *Annex 1* for the most significant cost increases and the underlying assumptions by main cost heading.

73. Personnel services, which encompass all staff salaries, allowances and other benefits, account for US\$ 92.5 million (92%) of the overall cost increase for 2008-09. This is equivalent to a 16.2% rise compared with the 2006-07 biennium, as tabulated above, and is subdivided into US\$ 71 million for biennialization and US\$ 21.5 million for inflation.

74. The US\$ 71 million biennialization reflects the application of extraordinarily higher personnel services costs in the current biennium over the full 24-month period of expenditure in 2008-09. The areas where the current biennium is *already* witnessing a significant escalation in

the unit cost of staff inputs compared with the provisions budgeted in the PWB 2006-07 have been reported to and reviewed by the governing bodies²⁰ and comprise:

- an increase in the current service cost of After-service Medical Coverage to cover the actual requirements determined by the latest actuarial valuation;
- an ICSC-recommended increase in General Service salaries of headquarters staff of 12.16%, endorsed by the Council in November 2006;
- the increases in professional salaries, pensions, and certain allowances as well as the impact of a lower US dollar against local currencies in decentralized offices.

75. The estimates for inflation under personnel services (US\$ 21.5 million, which is equivalent to 3.8% over the biennium, or 2.5% per year) and goods and services (US\$ 10.4 million amounting to 3.2% for the biennium or 2.1% per year) are consistent with published data of external bodies.

Lapse Factor

76. Staff costs are incurred at unexpired budget rates, which represent the estimated average actual cost of staff remuneration, but the related budgetary appropriations are calculated after applying a lapse factor. The lapse factor consists of an overall reduction in the estimated cost of established posts on the grounds that, statistically, some posts should become vacant for some time as a result of staff turnover (e.g. retirement, resignation, death). The lapse factor methodology approved by the Council at its 107th Session for application in the 1996-97 budget, has been consistently applied to all budgets since then and is, again, used for 2008-09.

77. As in the PWB 2006-07, an across the board budgetary reduction of 2.83% and 1.75% continues to be applied for professional and general service staff costs respectively in arriving at the budget estimates for 2008-09. The reduction in the amount budgeted for staff costs through the application of lapsed standard rates amounts to some US\$ 17 million.

78. In the past several biennia, due to budget reductions in real terms, budgeting at lapsed standard rates has created unfunded costs. In many instances, the difference in costs between the lapsed rate and the unexpired rate for filled posts now has to be funded centrally, through reprogramming of resources from other areas, because many FAO units are not able to “absorb” the lapse factor and therefore require resources beyond their established budgets. This may happen, for example, in high priority programmes requiring the full complement of the established staffing throughout the biennium (and in case of vacancies, the immediate recourse to temporary consultancy arrangements), or in units with no staff turnover in the biennium.

79. In the present budgetary environment, where Members are themselves concerned about the Organization’s “critical mass” in a number of core areas, the lapse factor methodology may be considered a deliberate understatement of the real cost of programme delivery, representing a risk of promising more than can be delivered through available resources. The elimination of the lapse factor practice would, however, add US\$ 17 million to the budget in 2008-09.

Incremental Budgetary Requirements

80. Incremental budgetary requirements have emerged in 2006-07 and have been reported to or endorsed by Members for implementation in 2008-09 without matching funding, estimated at US\$ 23.9 million for three main requirements.

²⁰ FC 118/2 *Annual Report on Budgetary Performance and Programme and Budgetary Transfers in 2006-07*, paragraphs 13 through 17 and paragraph 31.

Capital Budgeting - Chapter 8

81. The 2006-07 biennium was the first time the Organization was able to undertake capital investments in a planned manner through the Capital Expenditure facility, funded by US\$ 10.1 million of unspent resources for one-time expenditures carried forward from 2004-05, and US\$ 4.7 million from the 2006-07 budgetary appropriation. Nevertheless, during implementation it was necessary to postpone some activities, such as the investment in a new Travel system, to supplement the funding of the HRMS project. It was also necessary to initiate preparatory work on the International Public Sector Accounting Standards (IPSAS). In total, investments of just over US\$ 1 million were deferred from 2006-07 and will be required for the 2008-09 biennium and a further US\$ 1 million is needed in 2008-09 for development costs pertaining to the HRMS system. Moreover, the MTP 2006-11 anticipated capital expenditure requirements in 2008-09 totalling US\$ 7.2 million for upgrading telephony and shared data services.

82. In addition to these previously identified capital projects, a major new investment project is the planned implementation of IPSAS in FAO. A capital budget of US\$ 5.8 million has been estimated for this in 2008-09 and details pertaining to the project and its costs can be found in document FC 118/12 *Progress Report on Adoption of International Public Sector Accounting Standards*. A further US\$ 3.4 million is required for other information technology projects including the technical upgrade of systems to accommodate IPSAS.

83. In total, therefore, a capital budget of US\$ 18.4 million is required for the 2008-09 biennium, of which US\$ 13.7 million is incremental to the US\$ 4.7 million funding level within the 2006-07 budgetary appropriation.

One-time and transition costs of FAO reforms

84. The full implementation of the Shared Services Centre (SSC) involves a number of one-time costs, in particular redeployment and separation costs for staff members whose posts are abolished under the approved configuration. The incumbents of the 65 General Service posts abolished in the AF Department at headquarters related to the full implementation of the SSC will need to be redeployed to other posts at headquarters or leave the Organization on agreed terms during the 2008-09 biennium. A number of posts in the Management Support Units of the Regional Offices will also be affected. Furthermore, the ongoing reconfiguration of some FAOR offices and the establishment of a new subregional office for Central America are expected to create redeployment cases and some agreed termination of appointments. Such transition costs in 2008-09 are tentatively estimated at US\$ 5 million, of which 65% is expected to be incurred as redeployment costs and 35% as agreed terminations.

85. In addition, some US\$ 0.7 million is currently identified as requirements to finalise training for decentralized offices, for which extrabudgetary resources will be sought.

Introduction of Russian as a language

86. Should the Conference decide to adopt Russian as an FAO language, additional costs to the Organization are estimated at US\$ 5.2 million, of which approximately US\$ 4.6 million are recurring and US\$ 0.6 million are one-time costs²¹. This would provide for the required infrastructure to add Russian to FAO multilingual capacities and provide Russian language services on a par with other languages of the Organization. They include: i) upgrade of corporate systems to handle the Cyrillic alphabet, ii) templates for document production in Russian, iii) building-up of reference materials in Russian, iv) translation and interpretation for sessions of governing bodies and other FAO meetings, v) upgrading FAO's Newsroom and associated media outreach to include Russian, vi) use of Russian in the FAO terminology databases, vii) provision of editorial services and production of flagship publications in Russian and viii) adaptation of the FAO homepage and corporate Web applications into Russian.

²¹ CL 132/17

B. REQUIREMENTS TO TACKLE FINANCIAL HEALTH, LIQUIDITY SITUATION AND RESERVES

87. An appreciation of the financial position of the Organization as at end-2006 is a useful foundation for examining possible solutions for the next biennium. Accordingly, *Annex 2* provides an overview of the General Fund deficit and the causes for its deterioration between 1998, when total reserves and fund balances were positive at US\$ 27.4 million, and end-2006, when the overall deficit stood at US\$ 83.2 million.

88. *Annex 2* explains that the deterioration during this period is largely due to unfunded amortization of After-service Medical Coverage past service costs (US\$ 81.2 million); Conference-approved redeployment and separation costs over and above net budgetary appropriations in 1998-99 and 2000-01 (US\$ 19 million); terminal payments to staff members in excess of the amounts determined by the respective actuarial valuations in 2002-03 and 2004-05 (US\$ 12.3 million); and cumulative losses in foreign exchange differences charged to the Special Reserve Account (US\$ 19.8 million). It also highlights the effect of persistently high levels of outstanding contributions, amounting to US\$ 110.5 million at end-2006, on the cash position of the General Fund, which have resulted in external borrowing since 2004.

89. As noted in *Annex 2*, the General Fund deficit continues to deteriorate because charges are incurred that are not matched with funding. At the same date, the balance of the Working Capital Fund was US\$ 0.3 million compared with an authorised level of US\$ 25.4 million, because resources had been advanced to the General Fund to meet liquidity shortages. The Special Reserve Account, which has depleted primarily on account of substantial losses on exchange due largely to late payments of assessed contributions, had a balance of US\$ 12.1 million (compared with an authorised level of 5% of the effective working budget, which would be equivalent to US\$ 38.3 million in 2006-07).

90. At its past sessions²², the Finance Committee has scrutinised proposals to accelerate payment by Member Nations of assessed contributions, so as to improve the Organization's balance sheet situation and liquidity shortage. The Committee discussed several alternative measures that could be introduced to encourage timely payment of contributions, e.g. incentives, sanctions, as well as measures proposed in the past, but not adopted, and recent UN system experience in contributions. The issue is addressed by the UN Secretariat, whereby several proposals have been recently presented to the General Assembly, such as charging interest on Member States in arrears of assessed contributions. The Secretariat continues to pursue all possible measures within its control to accelerate payment of assessed contributions. However, it cannot prejudge or anticipate substantial improvements in payment patterns pending further deliberations and actions by Members.

91. This section quantifies the requirements to at least stabilise the General Fund deficit by addressing recurrent unfunded liabilities as reflected in the Organization's accounts (past service liability of ASMC and TPF) and to begin to restore safety nets particularly to avoid liquidity shortage by one-time replenishment of reserves (WCF and SRA).

92. As summarised in *Table 2* and further explained below, incremental funding requirements range from US\$ 70.9 million to US\$ 133.8 million for full funding.

²² See FC 115/8 *Measures to Improve the Organization Cash Shortage*, which also provides a history of documents presented to the Finance Committee on this issue.

Table 2. Incremental requirements for restoring the financial health of the Organization (in US\$ millions, assuming rate of exchange of 1 Euro = US\$ 1.19)

Elements for improving FAO's financial health, liquidity and reserves	Minimum incremental funding in 2008-09	Desirable incremental funding in 2008-09
<i>Recurring requirements for staff-related liabilities</i>		
Funding After-service Medical Coverage, past service liability by instalments over ten biennia	30.9	30.9
Funding Terminal Payments Fund, past service liability by instalments over three biennia	8.8	8.8
Subtotal recurring incremental funding requirements for staff related liabilities	39.7	39.7
<i>One-time requirements for replenishment of reserves</i>		
WCF (Current authorised level is US\$ 25.4 million)	24.8	49.6
SRA (Balance at end 2006 stood at US\$ 12.1 million)	6.4	44.5
Subtotal one-time requirements for building up reserves	31.2	94.1
Total incremental requirements	70.9	133.8

Funding of After-service Medical Coverage past service liability

93. Every organization within the UN system will have to individually fund its own ASMC liability. No UN-wide funding solution is contemplated as each agency has a different magnitude of liability and funding approach. Some UN organizations have fully funded the ASMC past service liability, while most others are providing funding by instalments. In the case of FAO, for 2008-09, the Council will consider the Finance Committee's recommendations based on the latest actuarial data and options presented in document FC 118/11.

94. In synthesis, FAO's ASMC past service liability has never been, and is not intended to be, met from the budgetary appropriations or the Programme of Work. As explained in *Annex 2*, beginning with the 2004-05 biennium, the Conference approved separate additional assessments on Members towards funding the ASMC past service liability, although at a level less than required to fully fund the liability by 2027. The Council has previously acknowledged the principle of matching the funding to the amortization of the liability as prescribed by the latest actuarial valuation²³. The resulting biennial amortization is US\$ 45 million²⁴. This requires an increase of US\$ 30.9 million above the present US\$ 14.1 million biennial assessment to achieve matched funding.

Amortization of terminal payments past service liability

95. The liability relates to the end of service payments including accrued annual leave, repatriation grant, termination indemnities, and cost of repatriation travel that will arise when the staff members separate from the Organization. The unrecorded – and unfunded – past service liability at 31 December 2006 was US\$ 24.2 million, which is not intended to be met from the budgetary appropriations or the Programme of Work²⁵. The past service liability would, therefore, need to be addressed in the same manner as ASMC past service liability. It is thus proposed to

²³ CL 129/REP para. 44

²⁴ As at 31 December 2006 the Organization had recorded an ASMC liability of US\$ 173 million of which US\$ 20 million was unfunded. The remaining amount of US\$ 353.3 million of ASMC past service liabilities are not yet recorded and remain to be amortized according to the latest actuarial valuation as at end-December 2006.

²⁵ TPF *current service cost* is included in the appropriation for 2008-09 for an amount of US\$ 4.2 million.

include a provision for a special assessment of US\$ 8.8 million per biennium, which would fully fund the TPF past service liability over a period of three biennia.

Working Capital Fund

96. The Finance Committee has been previously advised that to cope with the operating cash requirements in the face of persistent delays in Members' contributions, the WCF should increase by US\$ 49.6 million to reach US\$ 75 million, or 8.4% of a 2008-09 "maintenance" budget through a one-time assessment on Members. The amount of US\$ 75 million is equivalent to two months of Regular Programme cash outflow. A replenishment to this level in 2008-09 is considered desirable, as it would provide a realistic safety net for avoiding recourse to borrowing. A replenishment spread over a period of two biennia is proposed as the minimum incremental funding requirement for 2008-09 (US\$ 24.8 million per biennium).

Special Reserve Account

97. Conference Resolution 13/81 specifies that the SRA should be maintained at a level equivalent to 5% of the total effective working budget of the Organization. The previous replenishment of the SRA, by special assessment on Member Nations, was authorised by Conference in 1991 (Resolution 16/91), for an amount of US\$ 28 million.

98. The SRA had a balance of US\$ 12.1 million as at end-2006, following a charge of US\$ 6.4 million for a portion of the unforeseen 2006-07 headquarters General Service salary increase, as recommended by the September 2006 Joint Meeting and endorsed by Council. As recommended by the Finance Committee at its session in September 2006, a minimum replenishment of US\$ 6.4 million is required to cover the underbudgeted portion of the cost of the GS salary increases²⁶.

99. The SRA could be depleted by year end if significant exchange rate losses arising primarily from late receipts of Members contributions are incurred during 2007. For example, exchange losses charged to the SRA during the 2004-05 biennium alone amounted to US\$ 14.7 million, which is larger than the 31 December 2006 balance of the SRA. It is therefore desirable to replenish the reserve to its authorised level through a one-time special assessment. The level of the assessment would depend on the latest balance of the SRA and on the approved budget level. Assuming there will be no balance left on the SRA by the end of the biennium, an assessment in the order of US\$ 44.5 million to fully replenish the SRA up to 5% of a "maintenance" 2008-09 budget could be required.

²⁶ CL 131/7 paragraph 43

IV. CONCLUSIONS

100. The preceding section covered the elements of a “comprehensive financial plan” aimed at restoring the financial health and long-term sustainability of the Organization. This final section presents an overall view of how this plan would impact on future financial commitments of Members, to facilitate consideration by the Committees and the Council and their guidance for the preparation of the full PWB 2008-09.

A. OVERALL FUNDING REQUIREMENTS

Funding of 2008-09 Programme of Work

101. The “maintenance” budget provides for the resources needed to continue the 2006-07 Programme of Work in 2008-09. It therefore starts with a net budgetary appropriation of US\$ 765.7 million, as approved for the current biennium. Estimated cost increases of US\$ 100.9 million must be added to this to preserve purchasing power (primarily for increased staff costs which were underbudgeted in 2006-07) and US\$ 23.9 million for incremental requirements that have been reported to or endorsed by Members in 2006-07 for implementation in 2008-09 (capital expenditure, transition costs and Russian as an FAO language).

Table 3. Net budgetary appropriations (in US\$ millions, assuming the rate of exchange of 1 Euro = US\$ 1.19)

Requirements for implementing the Programme of Work in 2008-09	“Maintenance” budget for 2008-09
2006-07 Net Budgetary Appropriation	765.7
Cost Increases	100.9
Incremental requirements for 2008-09 reported to/endorsed by Members	23.9
“Maintenance” level net budgetary appropriation for 2008-09	890.5
<i>Percentage change in Net Appropriation</i>	<i>16.3%</i>

102. The resulting appropriation level of US\$ 890.5 million represents the amount required to continue a Programme of Work in the next biennium at the 2006-07 level. A net budgetary appropriation below this amount would require programme cuts.

103. Possible adjustment to the lapse factor methodology, which may be considered a US\$ 17 million understatement of the real cost of programme delivery, is not taken into account. A “maintenance” budget would also not address certain areas of underfunding that have built up over the years or possible follow-up to the IEE and UN Reforms, the cost of which remains unquantified at present.

Restoring the Financial Health of the Organization

104. In addition to the above, proposals are put forward to at least stabilise the General Fund deficit by addressing unfunded liabilities such as the After-service Medical Coverage past service liability which has only been partially funded since 2004 via additional biennial assessments of US\$ 14.1 million, and augmenting safety nets (reserves) mostly to avoid liquidity shortages. The incremental funding requirements are in a range of between US\$ 70.9 million and US\$ 133.8 million, as summarised in *Table 4*. The range depends upon the extent of replenishment of the Special Reserve Account (SRA) and the envisaged period of replenishment (one or two biennia) of the Working Capital Fund (WCF) to an increased level of US\$ 75 million.

Table 4. Incremental requirements for restoring the financial health of the Organization (in US\$ millions, assuming rate of exchange of 1 Euro = US\$ 1.19)

Elements for improving FAO's financial health, liquidity and reserves	Minimum incremental funding in 2008-09	Desirable incremental funding in 2008-09
<i>Recurring requirements for staff-related liabilities</i>		
Funding After-service Medical Coverage, past service liability by instalments over ten biennia	30.9	30.9
Funding Terminal Payments Fund, past service liability by instalments over three biennia	8.8	8.8
<i>Subtotal recurring incremental funding requirements for staff related liabilities</i>	<i>39.7</i>	<i>39.7</i>
<i>One-time requirements for replenishment of reserves</i>		
WCF (Current authorised level is US\$ 25.4 million)	24.8	49.6
SRA (Balance at end 2006 stood at US\$ 12.1 million)	6.4	44.5
<i>Subtotal one-time requirements for building up reserves</i>	<i>31.2</i>	<i>94.1</i>
Total incremental requirements	70.9	133.8

Overall Funding Requirement and Impact on Assessments

105. In calculating Members' assessed contribution, Financial Regulation 5.2(a) foresees that the resolution on the Budgetary Appropriation should include a deduction for estimated Miscellaneous Income. Miscellaneous Income estimates put forward during the past four biennia have ranged between US\$ 6.0 million and US\$ 9.2 million. The governing bodies have already recognised the risk in this approach should the level of forecast Miscellaneous Income not be realised, with a consequent adverse effect on the balance of the General Fund. In 2004-05, actual Miscellaneous Income fell short of the estimated level by US\$ 1.7 million. In 2006-07, the increasing costs of borrowing (US\$ 1.5 million in 2006 and up to US\$ 3 million estimated for 2007) are expected to result in actual Miscellaneous Income falling far short of the 2006-07 estimate of US\$ 6 million. Accordingly, it is considered appropriate to set the Miscellaneous Income estimate in the next PWB at the conservative level of US\$ 0.5 million.

106. The overall 2008-09 funding requirement for a "maintenance" budget and restoring FAO's financial health thus ranges from US\$ 975 million to US\$ 1,037.9 million, representing a 26% to 34% increase in the level of assessments compared with the present biennium, as summarised in *Table 5*.

Table 5. Cumulative requirements (in US\$ millions, assuming the rate of exchange of 1 Euro = 1.19 US\$)

	PWB 2006-07 Approved	2008-09 Funding requirements for “maintenance” budget and restoring financial health	
		Minimum funding	Desirable funding
Budgetary requirements at 2006-07 cost levels		765.7	765.7
Incremental requirements for ‘maintenance’ budget		124.8	124.8
<i>Net budgetary appropriation</i>	765.7	890.5	890.5
Partial funding of ASMC past service liability	14.1	14.1	14.1
Incremental requirements for restoring financial health of FAO		70.9	133.8
<i>Total assessments for restoring financial health of FAO</i>	14.1	85.0	147.9
<i>Total requirements</i>	779.8	975.5	1,038.4
Miscellaneous Income deduction	(6.0)	(0.5)	(0.5)
<i>Assessed contributions from Members</i>	773.8	975.0	1,037.9
Increase in assessments in 2008-09 vs. 2006-07		201.2	264.1
<i>Percent difference from 2006-07</i>		26.0%	34.1%

107. The impact on individual Members may differ from the overall increase on account of the adjustments to the proposed 2008-09 scale of assessments, which for example envisions lower assessment rates for Japan and Brazil, and higher rates for Australia, China, Mexico, Republic of Korea and Spain.

108. The above budget figures have been calculated at the budget rate of exchange of the 2006-2007 biennium, i.e. 1 Euro = US\$ 1.19. As per established practice, the budget rate of exchange for the 2008-09 biennium would be set by reference to the exchange rate at the time when the full PWB document will go to print. Under the split assessment methodology adopted by Conference Resolution 11/2003, assessments are due in US dollars and Euro. It is recalled that the assessed split contributions in Euros and US dollars do not vary under different exchange rate conditions. This is demonstrated in *Table 6* by applying the desirable funding requirements for 2008-09 for illustrative purposes at a revised Euro/US\$ exchange rate of €1 = US\$ 1.33.

Table 6. Impact of the change in the budget rate of exchange under split assessment (US\$ million)

	Euro 1 = US\$ 1.19	Euro 1 = US\$ 1.33
Assessed contributions due in US dollars	526.8	526.8
Assessed contributions due in Euro and expressed in US dollars at two distinct rates of exchange of Euro 1 = US\$ 1.19 and Euro 1 = US\$ 1.33	511.0	571.2
Total expressed in US dollars	\$1,037.9	\$1,098.0
<i>Assessments due in US dollars</i>	\$526.8	\$526.8
<i>Assessments due in Euro</i>	€429.4	€429.4

B. CONTENT OF THE FULL PWB 2008-09

109. A number of special factors this year make the submission of a full PWB 2008-09 document in the degree of detail provided in previous biennia not very meaningful, either for the membership or for the Secretariat, in its endeavour to meet their information requirements.

110. The Committees and Council may therefore wish to consider whether the full PWB 2008-09 should rather focus on expanding on the analysis done in this Summary, based on the feedback obtained at the present sessions, and provide succinct programme narratives which, among other factors, would take account of the deliberations in the sessions of the Technical Committees held in the first half of 2007 and guidance from the Committees and Council as well as any available indications from the Independent External Evaluation.

ANNEX 1

COST INCREASES
Overview of cost increases

111. The incremental requirements for cost increases are estimated at US\$ 100.9 million for 2008-09, to maintain the same purchasing power as in 2006-07, as summarised in *Table 1*. This corresponds to a biennial cost increase rate of 13.2% of the net budget (equivalent to an 8.5% annual increase), or 11.7% of the Programme of Work, which is higher than in previous biennia.

Table 1. Summary of cost increases at the base level of PWB for 2008-09 (at lapsed rate in US\$ million)

	PWB 2008-09 Programme Base at 2006-07 Costs*	Biennialization **	Inflation **	Total Cost Increases for 2008-09	Base at 2008-09 costs
Personnel Services:					
Salaries, Pension Fund Contributions and Allowances	542.1	54.1	21.5	75.7	617.8
After Service Medical	12.2	13.5	0	13.5	25.7
Other After Service Benefits	17.6	3.3	0	3.3	20.9
Total Personnel Services	571.9	71.0	21.5	92.5	664.4
Total Goods and Services	309.0	0	10.4	10.4	319.3
Programme of Work	880.8	71.0	31.9	102.9	983.7
Less income	(115.1)	(1.7)	(0.4)	(2.0)	(117.2)
Net budget and additional requirements	765.7	69.3	31.5	100.9	866.6

* In line with previous SPWB documents, at this stage the Cost Increase projections assume the same staff and non-staff input mix for 2008-09 as the base. The estimated cost increases for 2008-09 could change in the full PWB as a result of the proposed input-mix in 2008-09.

** For definition of biennialization and inflation, see paragraphs.69 and 70

Personnel services

112. Personnel services comprises all staff costs, including salaries, pension fund contributions, dependency allowances, social security and other staff related entitlements and after service benefits for both the professional and general service staff categories²⁷. The increases in personnel services costs derive from the UN common system, as reviewed by the ICSC and approved by the UN General Assembly.

113. Personnel Services are estimated to increase by 16.2% compared to the previous biennium (or 10.5% per year) and account for US\$ 92.5 million (92%) out of the overall US\$ 100.9 million cost increases.

114. The effects of staff cost adjustments that are occurring in the current biennium are reflected under biennialization and amount to US\$ 71 million. Staff cost increases remain difficult to predict despite the refined information systems used to analyse current costs patterns and

²⁷ FC 108/11(b) on Cost Analysis of Staff Remuneration and Benefits contains a detailed description of the remuneration and allowances granted to internationally and locally recruited staff.

quantify trends²⁸. The FAO governing bodies have been advised that staff costs in the current biennium are underbudgeted by around US\$ 46 million due to cost escalations that have taken effect at various stages in 2006-07²⁹. FAO does not enjoy the solution available, for example at the United Nations, where staff costs requirements are adjusted annually on the basis of the most recent forecast by the UN Secretariat of inflation and exchange rates, with the assessed contributions to Member States being immediately adjusted to provide a funding source for such underbudgeted increases. The approach available to FAO is to find *ad hoc* solutions to such underbudgeted costs for the current biennium, and for the following biennium to factor the financial impact of these costs under biennialization so that they can be covered from assessed contributions from 2008-09.

115. The estimated US\$ 46 million underbudgeted costs contributing to the large adjustment under biennialization, are:

- The current service cost of After-service Medical Coverage needs to be increased by US\$ 13.5 million beyond 2006-07 budgeted levels, to cover the actual current service cost determined by the latest actuarial valuation as at 31 December 2006 (as previously reported to the Finance Committee³⁰ in September 2005);
- An increase in General Service salaries of headquarters staff of 12.16%, endorsed by the Council in November 2006, following the results of the ICSC Salary Survey effective November 2005 (that also affected Pensionable Remuneration, Separation Scheme and Dependency Allowances);
- The increase in Professional salaries at headquarters and pensions above budgeted levels in 2006-07, increases in education grant, and the impact of a lower US dollar against local currencies in decentralized offices, which are contributing to an estimated US\$ 19 million staff cost variance in the current biennium, as reported to the Finance Committee in 2006 and 2007.

116. When increased costs that take effect at some point during the current biennium (whether budgeted or otherwise) are applied to a full 24 month period of expenditure in 2008-09 the overall financial impact in 2008-09 will be higher than in 2006-07 and is shown as *biennialization* (US\$ 71 million for personnel services) for the next PWB.

117. With regards to *inflation*, a total cost increase of US\$ 21.5 million is foreseen for personnel services based on estimates for the cost of various components. For staff salaries and related items, the assumptions are as follows:

- headquarters general service staff remuneration and other related items: an increase of 2.7% and 3% respectively for 2008 and 2009;
- headquarters professional salaries and post adjustment multiplier: an increase of 2.5% for 2008 and 3% for 2009;
- other locations: an average of factors such as inflation indexes, exchange rate extrapolations and recent patterns of increases as applied to staff salaries.

118. For pensionable remuneration of the Professional category, 3% increase for each year is applied, taking an average of the EIU forecast for Average Nominal Wages Index for the USA for 2008 and 2009 (2.8% and 3.4%).

²⁸ See FC 113/10 *Treatment of Staff Cost Variance*.

²⁹ See FC 118/2 *Annual Report on Budgetary Performance Programme and Budgetary Transfers in 2006-07*, paragraphs 13 to 17.

³⁰ CL 129/4 paragraph 73

119. Current service costs of ASMC and Terminal Payments Fund (TPF) arise each year as active staff members provide their services in exchange for these benefits to be paid in the future. They represent legitimate costs of delivering the Programme of Work and are included in the budgetary appropriations, as staff costs and related cost increases. As noted above, the provision for the ASMC current service costs, as derived from the latest actuarial valuation, results in a significant increase versus the present budgeted level. In the case of the TPF account, an overall provision of US\$ 13 million is required versus the current service cost estimated by the actuaries of US\$ 4.2 million, to take account of the potential cost of agreed terminations under a “maintenance” budget. For the other after-service benefits, namely the Compensation Plan and the General Service Separation Payment Scheme, the absolute amounts determined by the 31 December 2006 valuation have been allowed for, which entailed minor adjustments from current 2006-07 provisions.

120. The Basic Medical Insurance Plan contribution in 2008-09 prudently assumes 8% inflation per year, as medical inflation remains above general consumer price inflation and the proportion of the plan borne by the Organization may be expected to rise.

121. Finally, no adjustment is made for movements in non-headquarters currencies against the US dollar in decentralized offices, which essentially implies that the prevailing market exchange rates of 2006 and early 2007 are considered a reasonable guide for the next biennium.

Goods and services

122. This cost heading includes Other Human Resources, Travel, General Operating Expenses, Furniture, Equipment and Vehicles and inflation is estimated at 2.2% per year, with US\$10.4 million being required over the biennium (3.2%) to maintain purchasing power of these inputs.

123. Other Human Resources, which consists of non-staff human resources in the form of temporary assistance, consultants and contracts, is estimated to increase by 2.4% per year for headquarters and 3% per year for non-headquarters locations due to inflation (3.6% and 4.5% over the biennium respectively). This is based on the weighted average of the estimated nominal wage increase for Italy applied to headquarters-based expenditures and that of USA for expenditures in non-decentralized locations. Other costs, such as travel, are projected to increase annually by 1.7% at headquarters and 2.7% in decentralized locations.

ANNEX 2

**OVERVIEW OF BALANCE SHEET OF FAO AND LIQUIDITY
CONSTRAINTS FACED BY ORGANIZATION**

124. The financial health of the Organization can be appraised in relation to three components of the General and Related Funds as follows:

- a) the General Fund balance, which reflects the accumulated historical result of all receipts from assessments on Members, all miscellaneous and other income, offset by cumulative expenditures to execute the Programme of Work within the biennial appropriation (including, for example, accelerated TCP delivery in 2004-2005) and other costs incurred such as Conference-authorized spending of arrears allocation up to US\$ 44.6 million on one-time expenditures for approved high priority programmes including IT systems;
- b) the Working Capital Fund (WCF), which is authorised at a level of US\$ 25.4 million, its primary purpose being to advance monies to the General Fund to finance expenditures pending receipt of assessed contributions to the budget. The WCF can also be used to finance emergency activities not contemplated in the budget; and
- c) the Special Reserve Account (SRA), which is authorised at a level of 5% of the effective working budget (this would be equivalent to US\$ 38.3 million in the 2006-07 biennium). Established by Conference in 1977 and expanded by Conference Resolutions 13/81 and 17/89, it protects the Programme of Work against the effects of unbudgeted extra costs arising from adverse currency fluctuations and unbudgeted inflationary trends. The SRA can also advance monies on a reimbursement basis to the General Fund.

History of the General Fund Deficit

125. The balance of the General and Related Funds provides a snapshot of the Organization's financial health. As at 31 December 2006, the breakdown of the General and Related Funds is summarised as follows:

Table 2. General and Related Funds equity position as at 31 December 2006 (unaudited)

	US\$ million
General Fund Balance/(Accumulated Deficit)	(95.6)
Working Capital Fund	0.3
Special Reserve Account	12.1
Total Reserves and Fund Balances/(Deficit) at 31 December 2006	(83.2)

126. *Table 3* and the following text provides an analysis of the decrease of total reserves and fund balances from 31 December 1997 (when last reported with a positive balance, amounting to US\$ 27.4 million) to 31 December 2006.

Table 3. Analysis of decrease of total reserves and fund balance in the period 1998-2006

	US\$ million Improvement/(worsening)
Total Reserves and Fund Balances as at 31 December 1997	27.4
Movements in General Fund between 1998 and 2006	
1 Net decrease in provisions for Contributions	43.5
2 Unfunded Amortization of ASMC past service costs	(81.2)
3 Redeployment and separation costs in 1998-99 and 2000-01	(19.0)
4 Terminal Payments charged to General Fund in 2002-03 and 2004-05	(12.3)
5 Cumulative losses on foreign exchange charged to Special Reserve Account	(19.8)
6 Other expenditure	
1998-2005	(2.6)
2006 (from unaudited accounts)	(19.2)
Net deterioration of General Fund between 1998 and 2006	(110.6)
Total Reserves and Fund balances as at 31 December 2006	(83.2)

1. Provisions for Contributions

127. In accordance with United Nations System Accounting Standards, assessed contributions are recognised as a net asset in the Organization's accounts only when Members' contributions are actually received. At 31 December 2006 current contributions and arrears amounting to US\$ 110.5 million were outstanding from Members and are, therefore, not included in the final General Fund balance. However, there has been a net decline in the amount of outstanding contributions of US\$ 43.5 million in the period 31 December 1997 (when they stood at US\$ 154 million) to 31 December 2006 and the improvement is tabulated above.

2. After-service Medical Coverage (ASMC) Past Service Amortization

128. The ASMC past service liability represents the cost of medical benefits that the Organization is required to pay on behalf of retirees over their expected remaining lifetimes based on their past services with FAO. It should be distinguished from current service cost, which is a standard component of staff costs and is covered in each biennium's Regular Programme budgetary appropriations.

129. In 1997 the governing bodies *inter alia* approved that the ASMC liabilities for past service determined by actuarial valuation be amortized (i.e. recorded in the balance sheet) over 30 years. The ASMC amortization in FAO's official accounts started in 1998, while additional assessments towards funding such charges only began in 2004, after Conference agreed to additional biennial assessments of US\$ 14.1 million towards ASMC for 2004-05 and 2006-07. The net cumulative impact of excess amortization over the funding available on the General Fund deficit since ASMC amortization started in 1998 has been US\$ 81.2 million, as at end-2006³¹.

³¹ In addition to the amount reflected within the General Fund deficit at end-2006, US\$ 353.3 million of ASMC past service liabilities are not yet recorded and remain to be amortized. Further information on the ASMC liabilities are submitted to the governing bodies in document FC 118/11.

3. Redeployment and Separation Costs in 1998-99 and 2000-01

130. Conference Resolutions 7/97 and 3/99 authorised the Director-General to meet redeployment and separation costs over and above the net budgetary appropriations approved for 1998-99 and 2000-01 respectively. The related costs of US\$ 10.6 million and US\$ 8.4 million were charged to the General Fund.

4. Terminal Payments in 2002-03 and 2004-05

131. Terminal payments to staff members when they separate from the Organization are a component of staff costs and charged to the Terminal Payments Fund (TPF) account. The budgeted level of the Regular Programme contribution to the TPF account is determined by actuarial valuation. At the end of the past two biennia, payments in excess of the amounts determined by the respective actuarial valuations amounting to US\$ 9.4 million in 2002-03 and US\$ 2.9 million in 2004-05 were charged to the General Fund without matching funding.

5. Net Foreign Exchange Differences Charged to SRA

132. Since 1997 the SRA balance has decreased by a net US\$ 19.8 million due to currency variances, and stood at US\$ 12.1 million at the end of the 2006. Analysis of the exchange gains and losses charged to the SRA has shown that the main cause of the recorded exchange differences is unfavourable exchange rates prevailing at the time of receipt of delayed payment of Members' contributions.

Liquidity Shortages

133. As noted above, outstanding contributions due to FAO, amounting to US\$ 110.5 million at end-2006, are not included in arriving at the overall General Fund accumulated deficit at 31 December 2006 of US\$ 95.6 million. Also, delays in receipt of assessed contributions have caused substantial exchange losses since 1998 which are incurred through the SRA. However, the most critical effect of persistently high levels of outstanding contributions is that they aggravate the cash position of the General Fund.

134. Recourse to external borrowing is preceded by the full utilisation of the Working Capital Fund, plus any available balance of the Special Reserve Account. For many years the level of these FAO reserves proved to be satisfactory safety nets and prevented recourse to borrowing, despite delays in receipt of assessed contributions. However, the deterioration in payments from Members in 2004, 2005 and again in 2006, coupled with the execution of approved programmes and adverse currency fluctuations, required full use of both the Working Capital Fund and the Special Reserve Account as well as sustained periods of external borrowing. In fact, outstanding contributions amounted to US\$ 279 million at end-October 2006 and external borrowing peaked at US\$ 104 million in November 2006, falling by month-end when outstanding contributions fell to US\$ 177.7 million. A separate Finance Committee document³² provides a projection of cash levels for 2007, largely based on last year's patterns of receipts. While external borrowing is forecasted to remain within the total of available credit lines accorded to FAO, it may reach some US\$ 130 million in 2007, and the risk of exceeding credit lines is growing for 2008.

135. Of course, external borrowing can be avoided if more timely payments of contributions (both current and arrears) are received from Members. Unless significant measures are adopted by the governing bodies to improve the inflow patterns of assessed contributions, augment safety nets such as the Working Capital Fund and the Special Reserve Account, and to address unfunded liabilities, the Organization will be unable to improve the future cash flow situation or to reverse the trend of an increasing accumulated deficit under the General Fund.

³² FC 118/3 *Financial Highlights*

ANNEX 3

OVERALL RESOURCE TABLES
Explanatory Notes

136. The following *Tables A* and *B* reflect the full biennial impact of the decisions on FAO reform taken so far by the governing bodies. Thus, the resource allocation pattern differs somewhat from that contained in the Revised PWB 2006-07 endorsed by the Programme and Finance Committees in May 2006, in order to take account of subsequent decisions taken by the Council at its November 2006 session and other required adjustments. Figures are at the same cost levels as in the present biennium.

137. *Table A* shows the budgetary allocations by programme and chapter, and *Table B* by components of the organizational structure, including the new headquarters structure in place since 1 January 2007. The allocations for decentralized offices reflect the new structure in Africa and Central Asia approved by the last Conference, as was already done in the Revised PWB 2006-07, while taking account of new arrangements in the Europe and Latin America and Caribbean regions. It may be noted that certain refinements have been made in some locations, for example some adjustments in General Service post counts to take due consideration of staff already provided through host country agreements, as well as exigencies in individual offices. The provisions for the decentralized offices in the Asia Pacific and Near East regions remain as established in the Revised PWB 2006-07 at this juncture, pending eventual further decisions from the governing bodies. The Shared Services Centre (SSC) is costed in its new configuration, although – as reported in *Section I* of the document – actual implementation is to proceed in a phased fashion.

Table A. Summary Resource Table by Chapter and Programme at 2006-07 Cost Levels

Programme and Chapter	Description	Programme of Work	Less: Income	Appropriation
1A	Governing bodies	7,959	0	7,959
1B	General direction	9,814	214	9,600
1X	Programme Management	689	0	689
1	Corporate Governance	18,462	214	18,248
2A	Crop production systems management	21,430	323	21,107
2B	Livestock production systems management	9,228	521	8,707
2C	Diseases and pests of animals and plants	27,018	492	26,526
2D	Nutrition and consumer protection	24,420	1,455	22,965
2E	Forestry information, statistics, economics, and policy	11,331	293	11,038
2F	Forest management, conservation and rehabilitation	9,410	72	9,338
2G	Forest products and industry	9,227	257	8,970
2H	Fisheries and aquaculture information, statistics, economics, and policy	19,258	888	18,370
2I	Fisheries and aquaculture management and conservation	13,780	514	13,266
2J	Fisheries and aquaculture products and	9,441	880	8,561

Programme and Chapter	Description	Programme of Work	Less: Income	Appropriation
	industry			
2K	Sustainable natural resources management	30,501	1,034	29,467
2L	Technology, research and extension	10,306	4,095	6,211
2M	Rural infrastructure and agro-industries	15,756	401	15,355
2X	Programme Management	20,527	336	20,191
2	Sustainable Food and Agricultural Systems	231,634	11,561	220,073
3A	Leveraging resources and investment	51,432	26,288	25,144
3B	Food and agriculture policy	30,698	1,613	29,085
3C	Trade and markets	11,461	340	11,121
3D	Agriculture information and statistics	10,744	171	10,573
3E	Alliances and advocacy initiatives against hunger and poverty	12,939	941	11,998
3F	Gender and equity in rural societies	9,635	546	9,089
3G	Rural livelihoods	3,961	137	3,824
3H	Knowledge exchange and capacity building	22,389	58	22,331
3I	Information technology systems	29,471	0	29,471
3J	Communication and public information	17,327	0	17,327
3X	Programme Management	19,091	204	18,886
3	Knowledge Exchange, Policy and Advocacy	219,148	30,298	188,850
4A	UN cooperation, integration and monitoring	13,724	994	12,730
4B	Coordination of decentralized services	20,054	3	20,051
4C	Food security, poverty reduction and other development cooperation programmes	83,881	23,928	59,953
4D	Emergency and post crisis management	15,838	14,875	963
4E	Technical Cooperation Programme	103,550	0	103,550
4X	Programme Management	11,121	2,141	8,980
4	Decentralization, UN Cooperation and Programme Delivery	248,168	41,941	206,227
5A	Oversight	11,641	479	11,163
5B	Programme and budget services	7,013	788	6,225
5C	Financial services	16,937	6,732	10,206
5D	Human resources management and staff welfare	16,157	2,373	13,784
5E	Procurement	7,505	3,111	4,393
5F	Management of premises	35,883	3,792	32,091
5G	Meetings and language services and protocol	7,654	126	7,528

Programme and Chapter	Description	Programme of Work	Less: Income	Appropriation
5H	Shared services	18,155	5,123	13,032
5X	Programme Management	8,154	40	8,114
5	Management and Supervision Services	129,099	22,565	106,534
6	Contingencies	600	0	600
8	Capital Expenditure	13,575	8,851	4,724
9A	Headquarters security	7,989	0	7,989
9B	Field security	12,455	0	12,455
9	Security Expenditure	20,444	0	20,444
	Total	881,130	115,430	765,700

Table B. Regular Programme Resource Allocations by Organizational Unit at 2006-07 Cost Levels

Org Unit / Dept	Description	Programme of Work	Less: Income	Appropriation
ODG	Office of the Director-General	9,148	0	9,148
UNC	Office of UN Coordination and MDG Follow-up	2,686	0	2,686
OCD	Office for Coordination and Decentralization	7,071	0	7,071
AUD	Office of the Inspector-General	5,855	105	5,750
LEG	Legal Office	5,887	503	5,384
PBE	Office of Programme, Budget and Evaluation	13,000	560	12,440
ODG	Office of the Director-General	43,648	1,168	42,480
AGD	Office of Assistant Director-General	3,996	0	3,996
AGA	Animal Production and Health Division	14,352	515	13,837
AGE	Joint FAO/IAEA Division	5,518	0	5,518
AGN	Nutrition and Consumer Protection Division	18,593	1,404	17,189
AGP	Plant Production and Protection Division	25,770	665	25,105
AGS	Rural Infrastructure and Agro-Industries Division	12,506	309	12,197
AG	Agriculture and Consumer Protection Department	80,735	2,893	77,842
ESD	Office of Assistant Director-General	1,902	0	1,902
ESA	Agricultural Development Economics Division	12,669	835	11,834
ESS	Statistics Division	11,328	60	11,268
EST	Trade and Markets Division	18,293	338	17,955
ESW	Gender, Equity and Rural Employment Division	8,087	357	7,730
ES	Economic and Social Development Department	52,280	1,590	50,690
FI	Fisheries and Aquaculture Department	38,523	2,095	36,428
FO	Forestry Department	24,931	501	24,430
NRD	Office of Assistant Director-General	10,473	4,113	6,360
NRC	Environment, Climate Change and Bioenergy Division	8,034	556	7,478
NRL	Land and Water Division	11,928	467	11,461
NRR	Research and Extension Division	5,858	188	5,670
NR	Natural Resources Management and Environment Department	36,293	5,324	30,969
TCD	Office of Assistant Director-General	4,610	119	4,491

Org Unit / Dept	Description	Programme of Work	Less: Income	Appropriation
TCA	Policy Assistance and Resources Mobilization Division	11,112	75	11,037
TCE	Emergency Operations and Rehabilitation Division	16,359	15,536	823
TCI	Investment Centre Division	42,955	24,570	18,385
TCO	Field Operations Division	21,002	626	20,376
TCP	Technical Cooperation Programme	99,128	0	99,128
TC	Technical Cooperation Department	195,167	40,926	154,241
AFD	Office of Assistant Director-General	12,300	622	11,678
AFF	Finance Division	17,630	652	16,978
AFH	Human Resources Management Division	13,231	1,031	12,200
AFS	Administrative Services Division	33,227	1,616	31,611
AF	Department of Human, Financial and Physical Resources	76,388	3,921	72,467
KCD	Office of Assistant Director-General	2,242	0	2,242
KCC	Conference, Council and Protocol Affairs Division	15,116	126	14,990
KCE	Knowledge Exchange and Capacity Building Division	14,923	58	14,865
KCI	Communication Division	18,623	0	18,623
KCT	Information Technology Division	30,477	0	30,477
KC	Knowledge and Communication Department	81,381	184	81,197
FAOR	FAO Representations	89,282	11,368	77,914
LO	Liaison Offices	14,222	769	13,453
RAF	Regional Office for Africa (Accra)	11,543	839	10,704
RAP	Regional Office for Asia and the Pacific (Bangkok)	18,899	1,595	17,304
REU	Regional Office for Europe and Central Asia (Budapest)	6,185	434	5,751
RLC	Regional Office for Latin America and the Caribbean (Santiago)	13,259	1,273	11,986
RNE	Regional Office for the Near East and North Africa (Cairo)	11,522	731	10,791
RO	Regional Offices	61,407	4,872	56,535
SEC	Subregional Office for Central Asia	5,344	765	4,579
SEU	Subregional Office for Central and Eastern Europe	9,748	475	9,273
SFC	Subregional Office for Central Africa	5,067	465	4,602
SFE	Subregional Office for Eastern Africa	5,523	220	5,303
SFS	Subregional Office for Southern Africa	6,347	633	5,714
SFW	Subregional Office for West Africa	4,714	588	4,126

Org Unit / Dept	Description	Programme of Work	Less: Income	Appropriation
SLA	Subregional Office for the Caribbean	4,891	392	4,499
SLC	Subregional Office for Central America	5,018	475	4,543
SLS	Multidisciplinary Team for South America	4,930	188	4,742
SAPA	Subregional Office for the Pacific Islands	2,810	33	2,777
SNEA	Subregional Office for North Africa	3,561	25	3,536
SO	Subregional Offices	57,953	4,259	53,694
AOS	Income	-5,699	26,709	-32,408
CONT	Contingencies	600	0	600
8	Capital Expenditure	13,575	8,851	4,724
9	Security Expenditure	20,444	0	20,444
Total		881,130	115,430	765,700

ACRONYMS

AFF	Finance Division
AFS	Administrative Services Division
ASMC	After-service Medical Coverage
CAADP	Comprehensive Africa Agriculture Development Programme
CEB	United Nations System's Chief Executives Board for Coordination
DRMS	Digital Records Management System
FIVIMS	Food Insecurity and Vulnerability Information and Mapping System
GIEWS	Global Information and Early Warning System on Food and Agriculture
IAAH	International Alliance Against Hunger
IEE	Independent External Evaluation of FAO
IFAD	International Fund for Agricultural Development
IPPC	International Plant Protection Convention
IPSAS	International Public Sector Accounting Standards
NEPAD	New Partnership for Africa's Development
PAIA	Priority Area for Inter-disciplinary Action
PoW	Programme of Work
PSC	Project Servicing Costs
PWB	Programme of Work and Budget
RP	Regular Programme
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
UTF	Unilateral Trust Fund
WAICENT	World Agricultural Information Centre
WFP	World Food Programme