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منظمة  
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# FINANCE COMMITTEE

**Hundred and Fifty-sixth Session**

**Rome, 3 - 7 November 2014**

**Financial Position of the Organization**

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### EXECUTIVE SUMMARY

- This document presents an update to the Finance Committee on the financial position of the Organization as at 30 June 2014.
- **Regular Programme Liquidity Position.** As at 30 June 2014, the balance of Regular Programme cash, cash equivalents and short term deposits increased to USD 173.4 million (USD 102.1 million at 31 December 2013).
- **Staff Related Liabilities.** The total liability of the four plans as at 30 June 2014 was USD 1,224.1 million of which USD 754.6 million was unfunded (After Service Medical Coverage accounted for USD 689.8 million of the unfunded liability, whilst the Terminal Payments Fund accounted for the remaining unfunded portion of USD 64.9 million). The underfunding of the After Service Medical Coverage (ASMC) liability continues to be a cause of major structural deficit on the General Fund.
- **Available-for-sale Investments.** The value of long term investments at 30 June 2014 amounted to USD 461.7 million (USD 431.6 million at 31 December 2013) which represents both a recovery in market value as well as additional funding of USD 4.8 million. The increase in market value was generated by positive movements in value of both equity and bond market investments. The EUR/USD foreign exchange rate impacted only marginally the investment performance over the six months ended 30 June 2014.
- **General and Related Fund deficit.** The General Fund deficit decreased from USD 875.4 million as at 31 December 2013 to USD 605.1 million as at 30 June 2014 due to the recognition of a full year of 2014 Member Nations assessments compared to six months of expenditure in 2014. The deficit as at 31 December 2014 is forecasted to be approximately USD 890.0 million.
- **Measures to improve timely payment on Member Nation Contributions.** As requested by the Finance Committee at its 154th Session in May 2014, the Secretariat has summarised the measures currently in place which give positive and public appreciation of Members that pay contributions on a timely basis.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note that while the liquidity position of the Organization has improved, its on-going cash flow health is dependent on the timely payment of assessed contributions, and to urge all Member Nations to make timely and full payment of assessed contributions;
- The Committee is also invited to take note that the decrease in the deficit of the Organization to USD 875.4 million as at 31 December 2013 to USD 605.1 million as at 30 June 2014 reflected the fact that only 6 months of expenditures had been incurred against a full year of assessed contributions and that it is forecast that by 31 December 2014, the General Fund deficit will reach approximately USD 890 million due to an additional 6 months' expenditures and the lack of funding available to offset charges for the After Service Medical Coverage Scheme and the Terminal Payments Fund.
- The Committee is invited to endorse a rate of 0 per cent for use in determining the amount of discount for each Member Nation that had paid its contributions in full before 31 March 2014, pending formal approval of the recommendation to abolish the Incentive Scheme by the Conference at its 39th Session of in June 2015.
- The Committee is invited to note the measures currently in place which give positive and public appreciation of Members that pay contributions on a timely basis and urge the Secretariat to continue its efforts in this regard.

### Draft Advice

#### **The Committee:**

- **urged all Member Nations to make timely and full payment of assessed contributions to ensure that FAO continued to meet the operating cash requirements for the Programme of Work;**
- **took note of the level of the General Fund deficit which was forecasted to reach USD 890 million by 31 December 2014 due principally to the lack of funding of the After Service Medical Coverage scheme and the Terminal Payments Fund;**
- **reviewed the measures currently in place which give positive and public appreciation of Members that pay contributions on a timely basis and urged the Secretariat to continue its efforts at Headquarters and in FAO offices worldwide to encourage the timely payment of contributions and arrears.**
- **Recalling the recommendation of the Committee at its 154th Session that the Incentive Scheme be abolished, and the Council's endorsement of this recommendation at its 149th Session, the Finance Committee decided that a rate of 0 per cent should be used in determining the amount of discount for each Member Nation that had paid its contributions in full before 31 March 2014, pending formal approval of the recommendation to abolish the Incentive Scheme by the Conference at its 39th Session in June 2015.**

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## Introduction and Contents

1. The Report on the Financial Position of the Organization presents an overview of the unaudited results as at and for the six months ended 30 June 2014. The report is organized as follows:

- Financial Results for the six months ended 30 June 2014:
  - i) Statement of Assets, Liabilities, Reserves and Fund Balances as at 30 June 2014 presented by source of funds and including comparative balances as at 31 December 2013- Table 1.
  - 1)
    - ii) Statement of Income and Expenditure and Changes in Reserves and Fund Balances for the six months ended 30 June 2014 presented by source of funds and including comparative balances for the six months ended 30 June 2012 - Table 2.
- Summary Comment on Financial Results for the six months ended 30 June 2014
- Cash Flow Forecast for 2014 to 31 December 2014

Table 1

**STATEMENT OF ASSETS, LIABILITIES, RESERVES and FUND BALANCES**  
As at 30 June 2014  
(USD 000)

	Funds		UNAUDITED	AUDITED
	General and Related	Trust and UNDP	Total 30 June 2014	Total 31 December 2013
<b>ASSETS</b>				
Cash and Cash Equivalents	173,359	585,431	758,790	662,662
Investments - Held for Trading	-	376,814	376,814	357,326
Contributions Receivable from Member Nations and UNDP	293,684	8,548	302,232	115,081
less: Provision for Delays of Contributions	(12,629)	(7,717)	(20,346)	(19,741)
Accounts Receivable	55,281	-	55,281	63,443
Investments - Available for Sale	461,708	-	461,708	431,585
<b>TOTAL ASSETS</b>	<b>971,403</b>	<b>963,076</b>	<b>1,934,479</b>	<b>1,610,356</b>
<b>LIABILITIES</b>				
Contributions Received in Advance	39	779,159	779,198	729,602
Unliquidated Obligations	22,846	148,799	171,645	237,708
Accounts Payable	67,307	-	67,307	68,766
Deferred Income	113,122	-	113,122	75,916
Staff Related Schemes	1,224,084	-	1,224,084	1,213,181
<b>TOTAL LIABILITIES</b>	<b>1,427,398</b>	<b>927,958</b>	<b>2,355,356</b>	<b>2,325,173</b>
<b>RESERVES AND FUND BALANCES</b>				
Working Capital Fund	25,745	-	25,745	25,745
Special Reserve Account	19,677	-	19,677	17,558
Capital Expenditure Account	20,168	-	20,168	11,132
Security Expenditure Account	13,961	-	13,961	8,543
Special Fund for Emergency and Rehabilitation Activities	-	35,118	35,118	38,598
Unrealised Gains / (Losses) on Investments	56,040	-	56,040	45,493
Actuarial (Gains)/ Losses	13,479	-	13,479	13,479
Fund Balances (deficit) , End of Period	(605,065)	-	(605,065)	(875,365)
<b>TOTAL RESERVES AND FUND BALANCES</b>	<b>(455,995)</b>	<b>35,118</b>	<b>(420,877)</b>	<b>(714,817)</b>
<b>TOTAL LIABILITIES, RESERVES AND FUND BALANCES</b>	<b>971,403</b>	<b>963,076</b>	<b>1,934,479</b>	<b>1,610,356</b>

Table 2

<b>INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES</b>				
<b>for the six months ended 30 June 2014</b>				
<b>(USD 000)</b>				
	<b>Funds</b>		<b>UNAUDITED</b>	
	<b>General and Related</b>	<b>Trust and UNDP</b>	<b>Total</b>	<b>Total</b>
			<b>30 June 2014</b>	<b>30 June 2012</b>
<b>INCOME:</b>				
Assessment on Member Nations	527,091	-	527,091	494,304
Voluntary Contributions	21,477	311,541	333,018	297,317
Funds Received Under Inter-Oganizational Arrangements	76.0	1,198	1,274	1,137
Jointly Financed Activities	9,513	-	9,513	11,485
Miscellaneous	342	69	411	1,316
Return on Investments - Long-Term	15,150	-	15,150	1,199
Net Other Sundry Income	4,195	-	4,195	4,300
(Loss) / Gain on Exchange Differences	(2,271)	-	(2,271)	(7,401)
<b>TOTAL INCOME</b>	<b>575,573</b>	<b>312,808</b>	<b>888,381</b>	<b>803,657</b>
<b>EXPENDITURE:</b>				
Regular Programme	226,119	-	226,119	240,541
Projects	-	312,739	312,739	276,519
<b>TOTAL EXPENDITURE</b>	<b>226,119</b>	<b>312,739</b>	<b>538,858</b>	<b>517,060</b>
<b>EXCESS OF INCOME OVER EXPENDITURE</b>	<b>349,454</b>	<b>69</b>	<b>349,523</b>	<b>286,597</b>
Actuarial Gains or Losses	-	-	-	(6,600)
Interest Cost of Staff Related Liabilities	(24,862)	-	(24,862)	(24,314)
Provision for Contributions Receivable and Other Assets	(575)	-	(575)	(442)
Deferred Income	(37,206)	-	(37,206)	(34,910)
Net Movement in Capital Expenditure Account	(9,036)	-	(9,036)	(1,248)
Net Movement in Utilisation of Security Expenditure Account	(5,418)	-	(5,418)	(6,115)
<b>NET EXCESS / (SHORTFALL) OF INCOME OVER EXPENDITURE</b>	<b>272,357</b>	<b>69</b>	<b>272,428</b>	<b>212,969</b>
Transfer of Interest to Donor Accounts	-	(69)	(69)	(196)
Net Transfers from/(to) Reserves				
Working Capital Fund	-	-	-	-
Special Reserve Account	(2,118)	-	(2,118)	742
Fund Balances, Beginning of Period (as previously reported)	(875,304)	-	(875,304)	(641,371)
<b>FUND BALANCES, END OF PERIOD</b>	<b>(605,065)</b>	<b>-</b>	<b>(605,063)</b>	<b>(427,856)</b>

## Summary Comment on Preliminary Financial Results of the six months ended 30 June 2014

### Liquidity position and outstanding contributions

2. The liquidity of the Organization under the General Fund as represented by cash and cash equivalents totalled USD 173.4 million at 30 June 2014 (USD 102.1 million as at 31 December 2013). As at 30 June 2014 the rate of collections of Member Nation assessments was in line with expectations and requirements.

### Investments - held for trading

3. The value of Investments - held for trading as at 30 June 2014 amounted to USD 376.8 million and together with term deposits of USD 716.6 million, disclosed within cash and cash equivalents, represented mainly unspent Trust Fund balances held pending disbursements on project implementation. Term deposits and investments - held for trading combined as at 31 December 2013 amounted to USD 979.8 million. During the six months ended 30 June 2014, the combined term deposits and investments - held for trading increased by USD 113.6 million due to additional investments of new Trust Fund contributions and a reallocation from cash in bank to term deposits.

4. FAO's prudent, low risk investment style and the continuing near zero interest rate environment in 2014 kept the returns on the held for trading investment portfolio very low, with a year to date return of 0.08%. However, this exceeded the benchmark return by 0.07%. In 2013 the full year return figures were at 0.19 % compared to a benchmark return of 0.16 %.

### Investments - available-for-sale

5. Available-for-sale investment portfolios, which represent those investments set aside to fund the Organization's Staff Related Schemes, increased in value from USD 431.6 million at 31 December 2013 to USD 461.7 million as at 30 June 2014. The increase was due to several factors including:

- additional funding totalling USD 4.8 million was injected into the portfolio in line with the receipt of contributions which include specific Conference-approved funding towards the ASMC liability;
- during the six months ended 30 June 2014, the return on the available-for-sale portfolio of investments generated a net gain of USD 24.5 million. Overall, the gain was due to favourable market conditions, in both the bond market and the equity market, and comprised USD 4.8 million of interest income, USD 9.3 million of net unrealised gains, net realised gains of USD 11.9 million, and offset by USD 0.3 million of management fees charged by the Organization's investment portfolios managers.
- the EUR/USD foreign exchange rate impacted only marginally the investment performance over the six months ended 30 June 2014.

### Staff Related Schemes

6. FAO has four staff-related plans (the "Plans") that provide benefits to staff members either upon completion of service or as a result of work related illness or injury. The Plans are as follows:

- After-service Medical Coverage (ASMC)
- Separation Payments Scheme (SPS)
- Compensation Plan Reserve Fund (CPRF)
- Termination Payments Fund (TPF)

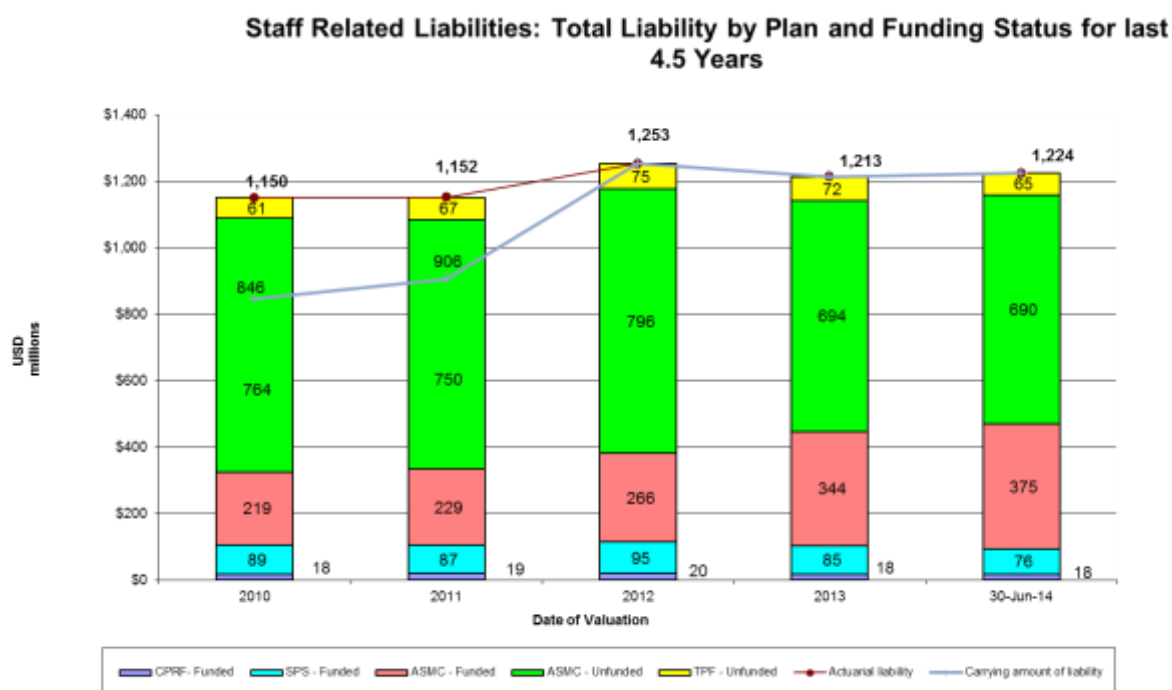
7. The results of the latest actuarial valuation as at 31 December 2013 and related funding requirements and issues were presented separately to the 154th Session of the Finance Committee in document FC 154/3, *2013 Actuarial Valuation of Staff-Related Liabilities*.

8. The total liability of the Plans at 30 June 2014 amounted to USD 1,224.1 million, an increase of USD 10.9 million compared to the balance of USD 1,213.2 million as at December 2013.

9. During the six months ended 30 June 2014, the Organization recorded a current service cost (included in Regular Programme Expenditure) for all the Plans of USD 19.1 million and interest cost of USD 24.9 million. Returns on the available-for sale Investment portfolios are intended to be used to address the interest cost associated with the accretion in present value of the staff liabilities. As the liability is not fully funded, the realised returns on the available-for sale portfolio fall short of the interest costs by some USD 8.5 million.

10. As at 30 June 2014 unfunded staff related liabilities amounted to USD 754.6 million, of which After Service Medical Coverage accounted for USD 689.8 million and the Terminal Payments Fund accounted for USD 64.9 million. Table 3 presents the analysis of the total actuarial liability by plan by funding status.

**Table 3**



### General and Related Fund Balance

11. The General Fund deficit decreased by USD 270.3 million from USD 875.4 million as at 31 December 2013 to USD 605.1 million as at 30 June 2014. The net decrease in the deficit is due to the recognition of a full year of 2014 Member Nations assessments compared to six months of expenditure in 2014. Consequently, the current deficit is not considered indicative of the final year-end closing position. The forecast deficit as at 31 December 2014 is expected to be approximately USD 890.0 million.

### TCP Expenditure and Deferred Income

12. During the six months ended 30 June 2014, TCP expenditure charged against the 2014 appropriation amounted to USD 2.4 million whilst that against the 2012-13 appropriation amounted to USD 25.2 million. The average monthly TCP expenditure increased steadily during the period to USD 4.6 million as at 30 June 2014 compared to an average of USD 3.1 million during the six months ended 30 June 2012. As at 30 June 2014, the total TCP deferred income (i.e. the available



appropriation) amounted to USD 113.1 million and was carried forward for utilisation in the 2014-15 biennium.

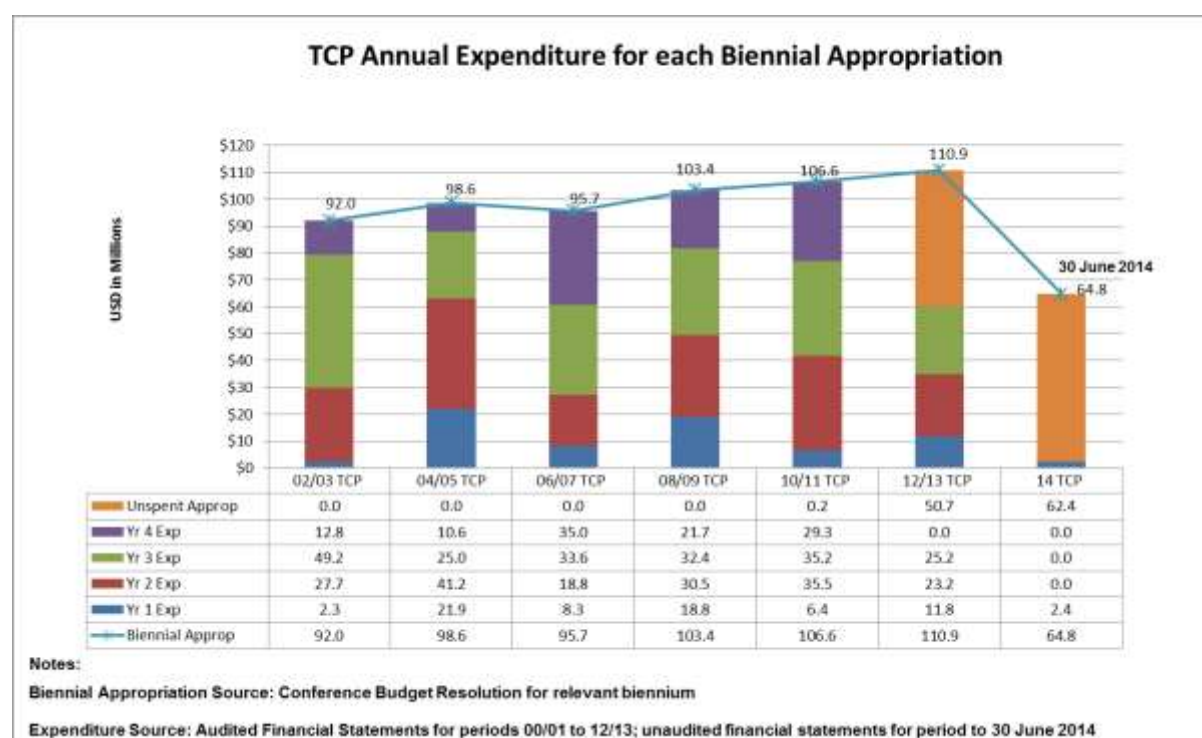
13. The average monthly TCP expenditure of all appropriations is shown in Table 4 below:

**Table 4**

Average monthly expenditure	Average monthly TCP expenditure					
	Time period					
	30-Jun-14 6 months	2012-13 24 months	2010-11 24 months	2008-09 24 months	2006-07 24 months	2004-05 24 months
	4.6	4.1	4.0	4.9	2.5	5.2

14. Table 5 presents the TCP expenditure (including accruals) for all appropriation periods and TCP available appropriation (i.e. deferred income) for each year from 1 January 2002 to 30 June 2014. The expenditure incurred against the 2014 appropriation represents 3.7% of the available appropriation. The balance is available for expenditure through 31 December 2017, together with the new appropriation for each calendar year. The expenditure incurred during the six months ended 30 June 2014 against the brought forward balance on the 2012-13 appropriation represented 33.2%. The remaining USD 50.7 million on the 2012-13 appropriation will be available until 31 December 2015.

**Table 5**



### Losses on Exchange Differences

15. During the biennium ended 30 June 2014 the Organization recorded a net loss of on exchange of USD 2.3 million. Actual cash backed foreign exchange differences incurred by the Organization

amounted to USD 2.1 million gain during the period. This gain was transferred to the Special Reserve Account, in line with the previous agreement by the Finance Committee at its 135th Session to discontinue the transfer of Euro-to-Dollar translation differences (non-cash) to the SRA. The remaining net loss of USD 4.4 million was incurred principally against the Euro portion of the Assessments on Member Nations<sup>1</sup>.

### **Voluntary Contributions**

16. “Trust Funds and UNDP” comprise activities funded from voluntary contributions through projects, including those funded by the United Nations Development Programme.

17. Contributions Received in Advance for Trust and UNDP Funds amounted to USD 779.2 million at 30 June 2014 compared to USD 705.9 million at 31 December 2013. These amounts represent the balance of voluntary contributions received from donors which have not yet been expended on the implementation of projects.

18. Income on Trust Fund and UNDP projects for the six months to 30 June 2014 amounted to USD 312.7 million (an increase of 13.5 % against the USD 275.5 million for the six months to 30 June 2012). In accordance with FAO's accounting policy, income from voluntary contributions is recognized proportionately with the degree of project activity completed as measured in terms of expenditure.

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<sup>1</sup> The exchange differences are generated both as Assessments are received and also on the translation of the outstanding balance of Assessments at the period end.

### 2014 Cash Flow Forecast (Regular Programme)

19. Table 6 below presents the Organization's consolidated Regular Programme month end short term liquidity position (which includes cash and cash equivalents) from 1 January 2014 through 30 June 2014 and a forecast through 31 December 2014, with comparative figures for 2013. All figures are expressed in millions of USD.

20. The percentage of 2014 assessed contributions paid to the Organization by Member Nations as at 30 June 2014 was 55.54 %, a higher rate of receipts than the equivalent figure of 53.46 % for the previous year.

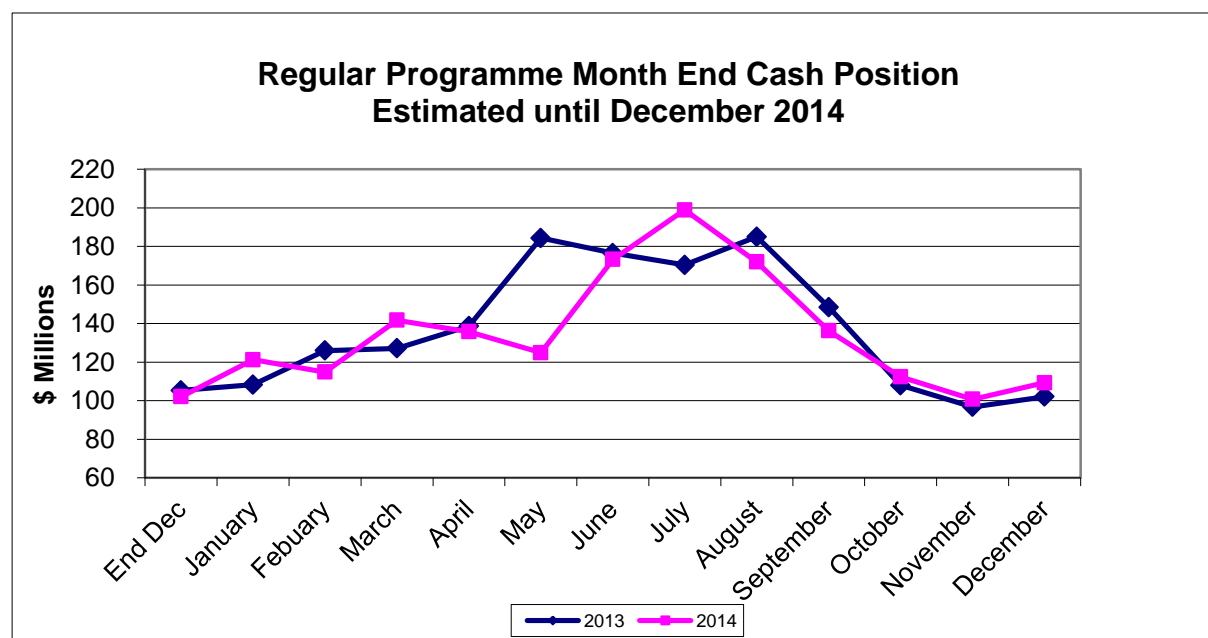
21. The majority of the major contributors have been paying their current year assessments in line with the previous year's payment pattern. The increase in collection rate compared to the previous year is due to several additional countries having settled their current year assessments earlier in 2014 than in 2013.

The current forecast reflects that pending receipts of current assessments from the major contributors will be received as follows:

- U.S.A. - USD 61.67 million and EUR 41.96 million are not expected to be received until early 2015.
- Germany - EUR 13.62 million in July 2014
- China - USD 13.36 million and EUR 9.82 million in July 2014
- Spain - USD 7.71 million and EUR 5.67 million in July 2014

22. Based on Members' past payment patterns and the Regular Programme cash level as at 30 June 2014, the Organization's liquidity is expected to be sufficient to cover operational needs through the end of 2014.

**Table 6**



### **Incentive Scheme to Encourage Prompt Payment of Contributions – Determination of Discount Rate**

23. At its 154th Session in May 2014, the Finance Committee concluded that the Incentive Scheme did not have an impact on encouraging prompt payment of contributions, was not cost effective, and recommended that the Council propose to the 39th Session of the Conference that the scheme be abolished<sup>2</sup>. The 149th Session of the Council in June 2014 endorsed the recommendation of the Finance Committee that the Incentive Scheme be abolished and that this be forwarded to the Conference for approval<sup>3</sup>.

24. Pending formal approval by the 39th Session of the Conference in June 2015 that the Incentive Scheme be abolished and consistent with the prior recommendations of the Finance Committee and the Council, it is proposed to set the rate of 0 per cent for use in determining the amount of discount for each Member Nation that had paid its contributions in full before 31 March 2014.

### **Measures to improve timely payment on Member Nation Contributions**

25. At its 154th Session in May 2014, the Finance Committee requested the Secretariat to present to the Autumn 2014 Session of the Committee under the agenda item on the Financial Position of the Organization, measures which give positive and public appreciation of Members that pay contributions on a timely basis<sup>4</sup>. The following section responds to this request.

26. The measures which are already in place to encourage timely payment of contributions and arrears and which emphasize positive and public appreciation of Members that pay contributions on a timely basis include:

- Country briefs are provided to the Director-General on an ongoing basis to assist him in his high level talks with Heads of State and Ministries where he stresses the importance of timely payment of contributions;
- Positive appreciation is expressed for receipt of timely payments when attending official meetings with Member Nations representatives and Governing Bodies;
- Ongoing contacts with Permanent Representations and Representatives to FAO;
- Month-end arrears reports are regularly posted and available to all Permanent Representatives on the Permanent Representatives' Website;
- Several reports on Regular Programme contributions by country are posted on FAO's public website.
- Following the recommendation of the Finance Committee to discontinue the Incentive Scheme, the Secretariat proposes to expand the existing reports on Member Contributions published on the FAO website to include a report that highlights those countries that have paid in full by 31 March of each year.

27. The Secretariat is implementing these measures on an ongoing basis both at Headquarters and in FAO offices worldwide in addition to other measures to encourage timely payment of assessed contributions and which include:

- A Circular State Letter is sent to all Member Nations each December in accordance with Financial Regulation 5.4 informing of their obligation to the Budget for the following calendar year and of arrears of contributions outstanding;
- Statements of contributions outstanding are sent by the Finance Division to Member Nations on a quarterly basis;
- Specific action is taken to notify those Council Members who are considered to have resigned their seat due to non-payment of contributions in accordance with General Rule XXII.7 of the

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<sup>2</sup> CL 149/4 para 15a and 15b

<sup>3</sup> CL 149/REP para 18b

<sup>4</sup> CL 149/4 para 15c

General Rules of the Organization (GRO), to encourage them to regularize their positions well before the Council session;

- Similarly, specific action is taken at the highest level to ensure that those Member Nations with potential voting rights problems are notified well in advance of the Conference session and have ample time to regularize their contributions position or clarify the reasons for the non-payment of assessed contributions;
- The Finance Division writes directly to each FAO Representative office of Member Nations with outstanding amounts on a quarterly basis, with the request for follow-up with local authorities to ensure payment is made;
- Letters are sent periodically by the Assistant Director-General, CS to Ministries reminding of their country's obligations to pay outstanding contributions and providing explanations of the Organization's rules and regulations regarding loss of voting rights;
- Month-end arrears reports are regularly posted and available to all Permanent Representatives on the Permanent Representatives' Website;
- To facilitate the payment of contributions by those Member Nations with limited availability of convertible currency, the Conference approved a derogation from Financial Regulation 5.6 to allow the Director-General to accept contributions in non-freely convertible local currencies under certain conditions (Resolution 14/2007).