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FINANCE COMMITTEE

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Proposal to Establish a Special Fund for Development Finance Activities

Queries on the substantive content of this document may be addressed to:

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EXECUTIVE SUMMARY

- This document presents a proposal to establish a new special fund to be known as the Special Fund for Development Finance Activities.
- The proposed fund is to be established under the provisions of Financial Regulation 6.7. Accordingly, it is within the authority of the Director-General to authorize the creation of the necessary Trust Fund account. However, in the interests of keeping the Finance Committee fully informed on matters of significant financial consequence, this document is provided to the Committee for its information and comment as Members deem appropriate.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to take note of the Proposal to Establish a Special Fund for Development Finance Activities and highlight any particular issues as deemed appropriate.

Draft Advice

- **The Committee welcomed the initiative by the Director-General to consult the Finance Committee on the establishment of a Special Fund for Development Finance Activities and supported the proposal.**
- **The Committee noted the extra-budgetary nature of the Special Fund established under Financial Regulation 6.7 and recognized that the Special Fund would enable the Organization to engage proactively with the global funds and regional development banks to meet the growing technical assistance needs of Members.**
- **The Committee was informed that the Special Fund for Development Finance Activities would be set-up with a target level of USD 10 million.**

1. It is proposed to establish a new special fund under Financial Regulation 6.7, to be known as the Special Fund for Development Finance Activities. The context, purpose and operation of the proposed special fund are as follows.

Context

2. The Organization has a mandate to provide technical assistance to Members. Technical assistance is provided through the Programme of Work funded by assessed contributions, and through several special programmes, funds and agreements that have been established over the years to respond to the needs and changing circumstances of Members and partners, funded by both assessed and voluntary contributions.

3. For example, the World Bank Cooperative Programme was established in 1964 to provide technical assistance for investment formulation missions. The Technical Cooperation Programme was created in 1976 to make FAO's know-how and technical expertise available to member countries upon request, drawing from its own resources. The Telefood Special Fund was created in 1997 to finance concrete grass-roots level projects. The Special Fund for Emergency and Rehabilitation Activities was launched in 2004 to enable the Organization to rapidly initiate emergency operations.

4. Each of these special programmes, funds and agreements has a specific purpose, source of funding and reporting arrangement. They demonstrate the flexible yet prudent application of the Organization's regulations by the Director-General, as well as the foresight of the membership to provide the means to adapt the Organization to changing circumstances.

5. The environment in which the Organization operates continues to evolve, particularly concerning the provision of development finance. Traditional grant-based Official Development Assistance (ODA) funds much of FAO's technical assistance activity. Achieving the Agenda 2030 will, however, require a substantial increase in investment. More and more development finance, including in the food and agriculture sector, is being provided through special-purpose investment funds (e.g. Global Environment Facility, Green Climate Fund) and regional development banks. These institutions are calling upon FAO to provide technical assistance to members as they access and apply this type of development finance, which is likely to increase in the future.

6. Project agreements for FAO to provide technical assistance through development finance special purpose funds and regional development banks are often presenting special requirements, in particular the need to incur expenditure in advance of receipt of funds. In these cases, the project agreements set up as Trust Funds would call for FAO expenditure to be reimbursed according to a schedule on a no-gain no-loss basis. However, FAO's financial regulations and rules prohibit advance financing of expenditure, and none of the existing FAO funds and programmes would be suitable for this purpose.

7. Furthermore, the 2013 Evaluation of FAO's role in investment for food security and nutrition, agriculture and rural development¹ acknowledged FAO's critical role in providing investment support services, including technical assistance, to member countries and recommended the mobilization of additional voluntary contributions to allow an expansion of this work. In its 2015 follow-up report,² the Secretariat noted that resource availability remains a challenge for scaling up delivery of investment support as recommended by the Evaluation.

8. Given the expansion in the size of global funds and the rise of regional development banks, the Director-General has recognized the need for ready access to resources to provide advance funding for and scaling up of technical assistance for development finance. This would enable the

¹ PC 113/2

² PC 117/3

Organization to engage proactively with the global funds and regional development banks to meet the growing technical assistance needs of Members.

Purpose of the proposed Special Fund

9. The proposed special fund will have two components:
 - a) a working capital component to enable the Organization to provide advance funding for technical assistance on a fully reimbursable basis through project agreements with global funds, regional development banks and other entities that require advance financing of expenditure;
 - b) a revolving fund component to support the expansion of FAO's involvement in investment programming partnership with global funds, international financial institutions and particularly regional development banks.

Operation of the Proposed Special Fund

10. The Special Fund would have a target level of USD 10 million shared equally between the two components (working capital and revolving fund) and be under the authority of the Assistant Director-General, Technical Cooperation and Programme Management Department.

11. The Special Fund would receive funding from:
 - a) direct contributions from interested donors;
 - b) retention/transfer of fund balances on completed non-emergency projects, as authorized by donors;
 - c) retention/transfer of interest earnings on non-emergency project fund balances, as authorized by donors;
 - d) transfer on a one-time basis of the unspent balance of the 2014-15 appropriation.³

Conclusion

12. The proposed fund is to be established under the provisions of Financial Regulation 6.7. Accordingly, it is within the authority of the Director-General to authorize the creation of the necessary Trust Fund account. However, in the interests of keeping the Finance Committee fully informed on matters of significant financial consequence, this document is provided to the Committee for its information and comment as Members deem appropriate.

³ This particular funding solution would require approval by the Conference. The Conference approved carry over of unspent balances for a range of specific purposes on a number of past occasions. This was the case in 1979, 1981, 1983, 1987, 1991, 1997, 1999, 2001, 2009, 2011, 2013 and 2015.