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# FINANCE COMMITTEE

**Hundred and Sixty-seventh Session**

**Rome, 29 - 31 May 2017**

**Commissary Accounts - Staff Welfare Fund**

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### EXECUTIVE SUMMARY

- The Finance Committee is presented with a proposal to revise the funding mechanism of the Staff Welfare Fund. In particular, it is proposed to abolish the current mechanism under which the Commissary is required to transfer one per cent of its annual sales to the Staff Welfare Fund.
- The proposed revision requires an amendment of the funding scheme established under Conference Resolution 18/93 and therefore requires the approval of the Conference. It is proposed to submit a draft Resolution to this effect to the Conference during its 40<sup>th</sup> Session in July 2017.
- The Finance Committee is advised of a special procedure that may be followed for the submission and approval of the Resolution to the Conference.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to review this document and the draft Conference Resolution. It is further invited to endorse the draft Conference Resolution and submit it to the forthcoming 40<sup>th</sup> Session of the Conference, in July 2017, for approval.
- The Finance Committee is further invited to note the special procedure that could be followed for the approval of the Resolution.

#### Draft Advice

##### **The Committee:**

- **Endorsed the draft Conference Resolution and submitted it to Conference for approval at its 40<sup>th</sup> Session in July 2017.**
- **Noted the special procedure for submission and approval of the Conference Resolution.**

1. The Staff Welfare Fund (SWF) was established by a resolution of the Conference in 1953. Its general purpose is to finance activities designed to improve the welfare of staff. The SWF - as clarified in the FAO Administrative Manual - may be used for contributions to inter alia, the Staff Benevolent Fund, general social services and other approved social, cultural and recreational group activities of a voluntary nature provided by the FAO Staff Coop<sup>1</sup> and other special activities, as approved by the Director-General in consultation with recognized Staff Representative Bodies.
2. The funding mechanisms of the SWF have evolved over time and its current regime is defined in Conference Resolution 18/93, Twenty-seventh session, November 1993, (attached as Appendix 1). This resolution provides that the SWF is financed by the profits of the Commissary, after expenditures are covered and reserves replenished, and one per cent of the total sales of the FAO Commissary. The decision to transfer any profit of the Commissary to the SWF lies with the Director-General.
3. The Commissary was established on the basis of the provisions of the Headquarters Agreement of 1951 between Italy and FAO which recognizes that officials enjoy “(j) the right to import, free of duty and other levies, prohibitions and restrictions on imports” and “(ii) through the medium of FAO, reasonable quantities, to be agreed upon in accordance with a procedure to be established between the Government and FAO, of foodstuffs and other articles for personal use and consumption and not for gift or sale” (Article XIII, Section 27 of the Headquarters Agreement). The Commissary is therefore to be seen as a pooling mechanism for the collective exercise of specific rights by entitled officials “through the medium of FAO” and to facilitate staff access to goods not available on the local market (at the time of the establishment of the Commissary in the early 1950s).
4. The main operating principles applicable to the Commissary were set forth by the Governing Bodies of the Organization, in particular the Finance Committee, and endorsed by the Conference. It has been conceived as a self-sufficient facility which operates on a quasi-commercial basis and at no cost to the Organization. Access to the Commissary services is open to FAO and WFP staff, and members of Permanent Representations accredited to these organizations, with differences in entitlements depending on the status of the officials.
5. The current funding scheme of the SWF was set up based on the business model of the Commissary that prevailed at that time and relied on the sale of a few heavily taxed items in local markets, such as gas, tobacco and spirits, which allowed for high mark-ups. Over recent years, this business model has been seriously called into question due to a combination of factors.
6. Following the elimination of the sale of petrol coupons through the Commissary in 2013, the total volume of sales significantly diminished as these coupons represented an average annual sales volume of EUR 2 million. In 2015, the decision of the World Food Programme to ban the sale of tobacco products in the Commissary unit of the Programme further affected the overall volume of sales. Also, over the years, there has been a steady decline in the sale of tobacco products and of hard liquors and spirits. Finally, with increased access to all types of goods in the local market, as well as through online retailers, staff members have greater access to goods from their home countries (one of the original purposes of the establishment of the Commissary in the 1950s).
7. In addition, it is foreseen that FAO will follow the WFP’s ban on the sale of tobacco items, in line with the non-smoking policy of the Organization and in accordance with guidance of the World Health Organization and of the United Nations.
8. In the light of these developments, the funding scheme introduced by Conference Resolution 18/93 poses a financial risk to the Commissary that may not be in a position to provide one per cent of the total sales to the SWF without incurring a deficit, e.g. minimal or no annual profit. It is therefore proposed to eliminate the provision related to the Commissary's annual sales. The revised funding

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<sup>1</sup> The FAO Staff Coop is an autonomously managed entity operating under the laws of Italy that provides a range of services to staff. It retains close links with FAO, regulated under the terms of a Letter of Agreement.

arrangement would be that part of the annual net income of the Commissary would be provided to the SWF, after an adequate share of the annual income has been transferred to the Commissary Reserve Fund. This would help safeguard the sustainability of the Commissary.

9. This proposal is hereby submitted to the Finance Committee for consideration and advice, prior to its submission to the Conference at its Fortieth Session in July 2017. A draft Conference Resolution, structured on the basis of the format and content of Conference Resolution 18/93, is attached to this document as Appendix 2.

10. It should be underlined that various options are being considered to improve the sustainability of the Commissary, taking into account the obligations of the Organization as per the Host Country Agreement, and the factors listed above. As a principle, the Commissary should break even or generate a small surplus and, in general, these limited profits have been placed on the Commissary Reserve Fund. Since 2013, all funds transferred to the SWF have been channelled to the FAO Staff Coop, in view of the decrease of the funding level. If needed, alternative ways to provide the staff with the services currently offered by the Staff Coop or alternative funding options to support the operation of the FAO Staff Coop, will be explored.

11. The Finance Committee is further requested to consider a procedural and institutional question. Reports and recommendations of the Finance Committee, even when they result in resolutions of the Conference, are normally submitted to the Council, which, in turn, refers them to the Conference for approval. However, after the current session of the Finance Committee, there will be no session of the Council prior to the Conference. There are a few limited precedents of matters that were referred to Conference by one of the Committees without review by the Council. It is proposed to follow this approach on an exceptional basis and refer the draft Conference Resolution to the Conference for approval. It may be appropriate to stress that the Council rarely intervenes on the substance of purely financial matters such as the one at hand.

12. The proposal could be considered under “item 32 – Other administrative and financial matters” of the Provisional Agenda of the forthcoming session of the Conference. Should there be a need for some consultation, and notwithstanding the fact that the matter was not examined by the Council, the Independent Chairperson of the Council could hold some informal consultations with Chairs of regional groups prior to the Conference session as part of his general duty to facilitate decision-making processes within the Organization.

13. In light of past practice regarding matters pertaining to the operation of the Commissary, Management shall continue to ensure that the Finance Committee is kept fully apprised of key developments related to the Commissary.

## **Appendix 1 - Conference Resolution 18/93**

### **(Report of the 27th Session of the FAO Conference - Rome, 6-24 November 1993)**

Resolution 18/93

Commissary accounts

The Conference,

Having noted that over the past years the Commissary had obtained specific authorization to establish certain reserve accounts, which are reflected in the annual financial statements,

Recognizing that in consideration of the commercial nature of the Commissary operations, it would be useful to grant Senior Management, in consultation with the Finance Committee, greater discretion over related decisions,

Decides that:

1. the authority to determine the amounts for distribution to funds and reserves, as well as the transfer of any net profits to the Staff Welfare Fund, shall be vested in the Director-General who will report on such matters to the Finance Committee;
2. accountability for respective decisions shall be preserved by continuing to present the annual accounts to governing bodies, without delaying their presentation for audit;
3. starting from the year ending 31 December 1992, the equivalent of 1 percent of the total sales shall be transferred to the Staff Welfare Fund and that the Director-General decide whether any net profits of the Commissary are to be carried forward to the next year or transferred to the Staff Welfare Fund.

(Adopted 24 November 1993)

313. During the debate preceding the adoption of the Resolution, the question of the transfer of the Commissary Annex at Via Cristoforo Colombo to the future WFP premises was raised. A final decision on this matter would depend inter alia: on the coming into force of the WFP Headquarters Agreement, at which time WFP would have the right to run its own Commissary; on the exact location of the future WFP premises; and on the economic viability of such an Annex. It was pointed out that the Commissary had never operated on the assumption that all outlying premises occupied by entitled staff had to be serviced by a Commissary Annex. In this context, it was recalled that when AO was occupying premises at Via del Giorgione, no Commissary Annex had been established there as it had been found uneconomical.

314. One delegation raised questions and received answers relating to the Commissary accounts like amount and utilization of surplus, rent for Commissary space paid to the Organization, personnel paid by the Commissary and working for other purposes and rents paid by the Organization for external storage.

## **Appendix 2 - Conference Resolution \_/2017**

### COMMISSARY ACCOUNTS - STAFF WELFARE FUND

#### THE CONFERENCE,

Having considered the report of the Hundred-and-Sixty-Seventh Session of the Finance Committee held from 29 to 31 May 2017,

Recognizing that, in consideration of the commercial nature of the Commissary operations, undertaken at no cost to the Organization, and the intrinsic risk that Conference resolution 18/93 alinea 3 on the funding of the Staff welfare Fund pose to the financial health of the Organization

Decides that:

1. the authority to determine the amounts for distribution to funds and reserves, as well as the transfer of part of the annual net income of the Commissary to the Staff Welfare Fund, shall be vested in the Director-General who will report on such matters to the Finance Committee;
2. accountability for respective decisions shall be preserved by continuing to present the annual accounts to governing bodies, with particular reference to the Finance Committee without delaying their presentation for audit; and
3. the present Resolution supersedes Resolution 18/93.