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JOINT MEETING

**Joint Meeting of the Hundred and Twenty-second Session
of the Programme Committee and Hundred and Sixty-ninth Session
of the Finance Committee**

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Use of unspent balance of the 2016-17 appropriations

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I. Background

1. Each session of the Conference approves the Programme of Work for the next biennium and votes a budgetary appropriation for its implementation. The Conference also provides guidance and authority to the Director-General on other programme and budget matters.
2. In this regard, the Conference in July 2017 approved the Programme of Work and the level of the budget as proposed by the Director General.¹
3. The Conference also authorized the Director-General, notwithstanding Financial Regulation 4.2, to use any unspent balance of the 2016-17 appropriations for one-time use to support programmes of the Organization, including for the Special Fund for Development Finance Activities, in agreement with the Joint Meeting of the Programme and Finance Committees, and the Council at their meetings in November-December 2017. The amount and use of any balance carried over would be reported to the Governing Bodies in 2018-19 in line with established regulations.
4. The Director-General, cognizant of his duty to fully obligate and spend the budgetary appropriation to implement the Programme of Work, expects to have a small unspent balance at the end of the 2016-17 biennium. The current estimate is reported to the Finance Committee in the regular update on budgetary performance.²
5. In the past, the Conference has approved carry over of any unspent balances of budgetary appropriations for a range of specific purposes on a number of occasions.³ In particular, since the 2008-09 biennium, Conference has authorized the carry-over of the unspent balance of the appropriations for specific one-time uses in the subsequent biennium:
 - USD 2.5 million from 2008-09 to 2010-11 to replenish the Capital Expenditure Facility
 - USD 8.7 million from 2010-11 to 2012-13 for full implementation of the Immediate Plan of Action for FAO Renewal
 - USD 9.4 million from 2012-13 to 2014-15 for transformational change
 - USD 5.6 million from 2014-15 to 2016-17 for consolidation of transformation change
6. As authorized by the Conference in 2017, the Director-General presents for the agreement of the Joint Meeting and Council a proposal for the use of any unspent balance of the 2016-17 appropriations for one-time use to support programmes of the Organization through replenishment of the Special Fund for Development Finance Activities (SF DFA).

II. Rationale

7. There is increasing demand by Members for FAO's technical expertise and assistance through its programmes, particularly in view of the centrality of food and agriculture in the 2030 Agenda for Sustainable Development. FAO provides technical expertise and assistance through the Programme of Work and Budget (PWB) funded by assessed contributions, and through trust funds, special programmes 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.
8. In the PWB 2018-19, the Director-General proposed, and Conference approved, the reallocation of USD 23.7 million within a flat nominal budget to increase the Organization's technical capacity in higher priority programmes and improve programme delivery. This included the creation of 58 new budgeted technical positions in agroecology, antimicrobial resistance, climate, conflict analysis/food security, fisheries, food safety, food systems, forestry, genetic resources, livestock, nutrition, one health, poverty reduction, statistics, sustainable production, and technical management.⁴

¹ C 2017/3; C 2017/REP paragraphs 73-77 and CR 12/2017

² FC 169/7

³ This was the case in 1979, 1981, 1983, 1987, 1991, 1997, 1999, 2001, 2009, 2011, 2013 and 2015

⁴ C 2017/3 paragraphs 52-63 and 108-113, C 2017/REP paragraphs 73-77.

9. The PWB 2018-19 also maintains the level of ring-fenced resources for corporate technical activities and commitments related to support for the Codex Alimentarius Commission and scientific advice on food safety; treaty bodies related to plant protection, pesticides, and plant genetic resources; the Committee on World Food Security; and international and inter-agency initiatives on fisheries, forestry and nutrition.
10. The delivery of FAO's Programme of Work is facilitated by the generous voluntary contributions of Members provided through trust funds for technical and emergency assistance. In 2018-19, the level of voluntary contributions is expected to be fifty percent more than the level of assessed contributions.
11. FAO also provides technical assistance through several special programmes and agreements funded from assessed and/or voluntary contributions. For example, through the long-standing World Bank Cooperative Programme FAO provides technical assistance for investment formulation missions, and the Technical Cooperation Programme makes FAO's know-how and technical expertise available to member countries upon request.
12. At the same time, the environment in which the Organization operates continues to evolve, particularly concerning the provision of development finance. While traditional grant-based Official Development Assistance (ODA) supports the majority of FAO's technical assistance activity through trust funds, achieving the 2030 Agenda for Sustainable Development will require a substantial increase in investment in food and agriculture.
13. In this regard, more and more development finance in the food and agriculture sector is being provided through special-purpose investment funds, such as the Global Environment Facility (GEF), the Green Climate Fund (GCF), and regional development banks. These institutions are calling upon FAO to provide technical assistance through its programmes as Members access and apply development finance. FAO has positioned itself to provide technical assistance in preparation and implementation of development finance packages by countries through its Strategic Programmes.
14. In the case of the GCF and regional development banks, these funds often require that FAO provide technical assistance on a reimbursable basis, rather than through the use of pre-financed trust funds. In 2016, the Director-General recognized the need for ready access to resources to provide advance funding for, and scaling up of technical assistance for development finance and, with the concurrence of the Finance Committee, established the Special Fund for Development Finance Activities (SFDFA). This will enable the Organization to engage proactively with the global funds and regional development banks to meet the growing technical assistance needs of Members.
15. However, while other programmatic needs are being addressed through budgeted resources in the PWB and related voluntary contributions as noted above, the SFDFA requires a one-time replenishment in order to initiate its work, as set out in *Section III*.

III. Special Fund for Development Finance Activities

16. In May 2016, the Finance Committee supported, and the Council noted the establishment by the Director-General of a Special Fund for Development Activities (SFDDA) under Financial Regulation 6.7 to enable the Organization to engage proactively with the global funds and International Financial Institutions, including regional development banks, to meet the growing technical assistance needs of Members.⁵

17. The SFDDA was established with two components:

- a) a working capital component to provide advance financing for technical assistance on a fully reimbursable basis with global funds, regional development banks and other entities requiring advance financing of expenditure;
- b) a revolving fund component to support the expansion of FAO's involvement in investment programming partnerships with global funds, international financial institutions and regional development banks.

18. The SFDDA has an initial target funding level of USD 10 million and can receive funds from four sources:

- a) direct voluntary 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 on the budgetary appropriation, to be approved by Conference.

19. To date, the SFDDA has not received any direct voluntary contributions from donors. Furthermore, no donors have authorized balances on completed non-emergency projects to be transferred to the SFDDA, and in the current economic environment short-term interest earnings on project fund balances are not material.

20. Meanwhile, there is great demand from member countries for advance financing of technical assistance and investment programming in relation to the Green Climate Fund and regional development banks.

Green Climate Fund

21. The Green Climate Fund (GCF) supports developing countries to transition to climate-resilient and low-emissions development pathways. By providing large-scale (and often concessional) financing for public and private sector projects, the GCF can play a catalytic role in supporting developing countries to leverage and unlock the investments needed to drive lasting and transformational change.

22. As part of a broader effort to support member countries to achieve the commitments in their nationally determined contributions (NDCs) and enhance ambition in the years to come, FAO is rapidly scaling-up its engagements with the GCF. FAO supports member countries to partner with the GCF in several ways:

- a) FAO leads the development and implementation of innovative and transformational projects as a GCF accredited entity. FAO is accredited to manage medium-sized (up to USD 250 million) grant-based projects. In 2017, FAO has started to support the formulation of GCF projects - which are complex and comprehensive investment-oriented projects - in 28 member countries. The development of these projects is being led by a series of qualified project preparation teams.

⁵ FC 161/7, CL 154/4 paragraphs 17-18, CL 154/REP paragraph 16c

- b) FAO supports GCF projects led by other accredited entities. For example, FAO is currently supporting the preparation of several projects led by UNDP. FAO's technical expertise can support these entities to strengthen the technical quality and transformational potential of the projects they lead. In this context, FAO assigns particular importance to supporting accredited regional, national and subnational ('direct access') entities. FAO is currently in discussions with the GCF Secretariat with a view to establishing an informal facility through which FAO can support direct access entities to prepare high-quality projects in the agricultural sectors.
- c) FAO is availing its technical expertise to support member countries under the GCF Readiness and Preparatory Support Programme. This GCF funding window supports countries to advance adaptation planning, build in-country capacity, and develop GCF country programmes and project pipelines. FAO is working with more than 12 member countries to develop GCF readiness projects aimed at building 'climate finance readiness' for the agricultural sectors.

23. In all of these cases, there is an urgent need for one-time replenishment of the SFDDFA to accelerate FAO's support by providing advance financing of technical assistance and investment programming on a reimbursable basis for the formulation of, and preparation for technically sound GCF projects.

Regional Development Banks

24. A similar advantage applies to FAO's expanding work with Regional Development Banks in promoting investments aimed at economic growth, poverty alleviation, food security and nutrition, protection of the environment, as well as interventions addressing climate change. While individually Regional Development Banks's lending is smaller compared to global International Financial Institutions such as the World Bank, many tend to be the first source of borrowing for the countries in their respective region. In this respect, the African Development Bank (AfDB), the Central American Bank for Economic Integration (CABEI) or the Asian Development Bank (AsDB) are the first lending institution in several countries in their respective regions. Financing for agriculture, food and rural development represents a share of 7 percent in the World Bank funding, 20 percent in AfDB financing, less than 6 percent for AsDB, and less than 5 percent for CABEI.

25. FAO has long-standing partnerships with Global IFIs such as the FAO-World Bank Cooperative Programme (since 1964) and collaboration with IFAD (since 1978), as well as more recent engagements with the GEF and the GCF. However, FAO's collaboration with Regional Development Banks remains rather limited, with the exception of the European Bank for Reconstruction and Development (EBRD) with whom FAO has a very active cooperation. Recently, several Regional Development Banks have devised strategies to substantially scale-up their investments in food, agriculture, and sustainable natural resource management. For example, the AfDB plans to triple its agricultural lending from USD 707 million in 2014 to USD 2.4 billion annually for the next ten years, starting in 2017 and AsDB plans to bring its lending in food and agriculture from USD 1.45 to USD 2 billion, starting in 2017. In this context, strengthening FAO's collaboration with Regional Development Banks is strategic for scaling-up investments in food and agriculture in member countries.

26. As part of FAO's effort to support member countries to achieve impact at scale, building on its Strategic Programmes, FAO will strengthen its collaboration with Regional Development Banks by collaborating on the following fronts:

- a) Support to public investments in areas including: policy and strategy development; pre-investment studies; identification, preparation and appraisal of investment projects and programmes; as well as project implementation support. For example, collaboration to support public investments could be scaled-up with CDB⁶ to develop investments in water resources and irrigation in Caribbean countries, and with CABEI to prepare climate change-resilience enhancing investment proposals.

⁶ Caribbean Development Bank (CDB)

- b) Support to private investments, focusing on public goods such as policy analysis, facilitation of public-private dialogue, creation of enabling environment, and thematic studies. For example, support to private investments could be developed with AfDB to promote an enabling environment for the development of value chains, facilitation of private-public policy dialogue, and capacity development.

27. A one-time replenishment of the SFDDFA would enable FAO to support both public and private investments in collaboration with Regional Development Banks by providing advance financing for technical assistance in the areas mentioned above.

Conclusion

28. As shown by these examples, the Special Fund for Development Finance Activities can accelerate FAO's technical and programmatic support to Members through advance financing to provide technical assistance and investment programming for development finance. There is growing demand for this type of assistance that cannot be met from FAO's assessed budget, and that has not attracted voluntary contributions. A one-time replenishment of up to the agreed level of USD 10 million would enable the SFDDFA to function as intended in support of FAO's Members through its programmes. Therefore, the Director-General proposes to allocate any unspent balance of the 2016-17 appropriations for one-time use to support programmes of the Organization through replenishment of the SFDDFA.

IV. Guidance Sought

29. The Joint Meeting is requested to recommend Council to agree that the unspent balance of the 2016-17 appropriations be used for one-time support to programmes of the Organization through the Special Fund for Development Finance Activities as described in *Section III* above, to be reported to the Finance Committee as part of regular reports on budgetary performance.