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الأغذية والزراعة
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FINANCE COMMITTEE

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Review of the levels of the Working Capital Fund and the Special Reserve Account

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EXECUTIVE SUMMARY

- At its 151st Session in November 2013, the Committee requested the Secretariat to carry out a comprehensive review of the amounts required for the Working Capital Fund and Special Reserve Account and of the alternative sources of funding for these requirements.
- This document presents an analysis of the purposes of each of these funds and the recommended levels at which they should be set in order that they can fulfil those purposes.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to review the information and analysis presented in the document, and provide its guidance as deemed appropriate.

Draft Advice

The Committee:

- **noted the analysis presented on the amounts required for the Working Capital Fund and Special Reserve Account;**
- **recalled that proposals to replenish the reserves of the Organization would be presented in the proposed Programme of Work 2016-17 and noted that the Committee would refer to the analysis when reviewing those proposals.**

1. At its 151st Session in November 2013, the Committee noted that the levels of the Working Capital Fund (WCF) and the Special Reserve Account (SRA) were both below their optimal level to guarantee the financial stability of the Organization, and recalling the previous recommendations of the Finance Committee and the Conference to review this matter, requested the Secretariat to carry out a comprehensive review of the amounts required for these reserves and of the alternative sources of funding for these requirements.

2. This document presents an analysis of the purposes of each of these funds and the recommended levels at which they should be set in order that they can fulfil those purposes.

Working Capital Fund

3. Financial Regulations 6.2 to 6.6 govern the establishment and use of the Working Capital Fund. The purposes of the fund are for:

- i. advancing moneys to the General Fund to finance budgetary expenditures pending receipt of contributions to the budget;
- ii. advancing moneys to the General Fund to finance emergency expenditures not provided for in the current budget;
- iii. making reimbursable loans for such purposes as the Council may authorize in specific cases.

4. The authorized level of the Working Capital Fund was set by Conference resolution 15/91 at USD 25 million and has been subsequently increased by WCF Assessments on new Member Nations. The authorised level presently stands at USD 25.8 million.

5. When the current authorized level of the Working Capital Fund was established, it represented approximately one month of Regular Programme expenditures. Based on the 2014-15 biennium budget, it now represents 5.1% of the annual budget and is insufficient to cover even one month of regular programme expenditures (approximately USD 42 million per month).

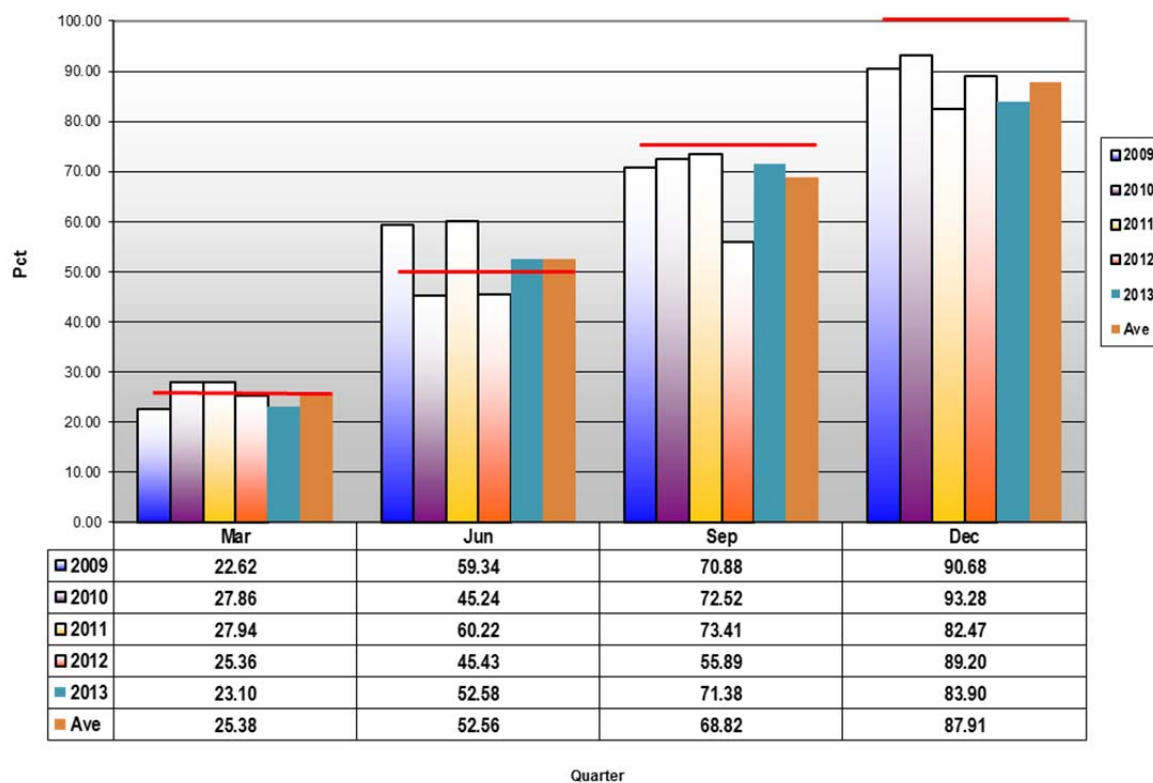
6. The table below presents the collection rate of current assessments at the end of each quarter during the past ten years together with the average collection rate.

Collection Rates of Current Assessments

	Mar	Jun	Sep	Dec
2004	20.8	39.6	47.9	88.9
2005	24.9	45.7	50.1	74.7
2006	28.2	34.5	39.5	88.4
2007	24.3	56.0	63.9	91.2
2008	30.9	44.8	70.3	81.6
2009	22.6	59.3	70.9	90.7
2010	27.9	45.2	72.5	93.3
2011	27.9	60.2	73.4	82.5
2012	25.4	45.4	55.9	89.2
2013	23.1	52.6	71.4	83.9
5 year Ave	25.4	52.6	68.8	87.9
10 year Ave	25.6	48.3	61.6	86.4

7. This is presented graphically for the last five years below. The graph also highlights the variance between the collection rate and an averaged expenditure rate over the biennium (Q1 - 25%; Q2 - 50%; Q3 - 75%; and Q4 - 100% of annual budget).

Cumulative Percentage Receipt of Current R.P. Assessments



8. Financial Regulations 4.1 and 4.6 authorize the Director-General to incur obligations and make payments within the appropriation voted by the Conference and in line with the financial plans in the approved Programme of Work and Budget. The analysis demonstrates that while the collection rate in the first two quarters of the year typically matches a smoothed spend rate over the period, delays in the collection of contributions during the last two quarters of the year create a shortfall in contributions compared to an averaged spend rate. The analysis over the last 5 years shows an average shortfall by the end of the third quarter of 6.2% and by the fourth quarter of 12.1%.

9. Accordingly, an increase of the authorised level of the WCF from the currently authorized level of USD 25.8 million to at least one-month's Regular Programme Cash Flow (USD 42 million) would enable mitigation against potential vulnerability of the Organization with respect to delays in payments of Members nations. Similarly, an authorized level covering two-months' case flow (USD 84 million) would provide an even superior safety net..

Special Reserve Account

10. First established by Conference Resolution 27/77, the purposes and uses of the Special Reserve Account (SRA) have been modified over the years by a series of Conference Resolutions. Its main purposes are :
- i. advancing moneys to the General Fund to finance budgetary expenditures pending receipt of contributions to the budget whenever the WCF is insufficient;
 - ii. , to finance unbudgeted extra costs of approved programmes due to unforeseen inflationary trends, to the extent that such costs cannot be met through budgetary savings
 - iii. to cover foreign exchange gains and losses which have a cash impact on the Organizations reserves
11. The authorized level of the SRA was set at 5 percent of the subsequent biennium budget by Conference Resolution 13/81 and amounts to USD 50.3 million in 2014/15.
12. The actual balance on the SRA has depleted over the years primarily due to losses on exchange and was USD 17.6 million at 31 December 2013.
13. In addition to the depletion of the SRA due to losses on exchange, an amount of USD 6.4 million was charged to the SRA to cover a portion of the unforeseen and unbudgeted General Service salary increase of 2006-07 biennium arising from the Rome-based General Service Salary Survey results. Proposals to replenish the SRA for this amount as part of PWB proposals in subsequent biennia have been deferred by the Conference.
14. With regard to inflation, with the exception of the unbudgeted General Service salary increase of 2006-07, FAO has not encountered any significant and unforeseen expenditure in the past, for which it has had to resort to SRA as a funding source. Considering these historical trends, unbudgeted costs due to inflationary factors are assessed as posing a relatively low risk in the management of the regular budget of the Organization.
15. With regard to foreign exchange risks, the most significant foreign exchange risk facing the Organization is that between the US Dollar and the Euro. Since 2004, this risk has been addressed by the Organization through the split assessment arrangement under which the Regular Programme budget of the Organization is built up and billed to Member Nations in both US Dollars and in Euro. To the extent to which the split assessment arrangement functions as intended (i.e. Members are billed and pay the right levels of US Dollars and Euro to meet obligations in these currencies), the Euro-Dollar exchange risk is mitigated and there is therefore no requirement that the SRA address this risk. In recognition of this, the Finance Committee agreed at its 135th Session in October 2010 to discontinue the practice of transferring non-cash Euro to Dollar translation difference to the SRA and to only transfer gains and losses that have a cash impact¹.
16. During the period since the inception of split assessments, a total of USD 3.6 million of cash-backed foreign exchange difference have been charged to the SRA. On this basis, the present level of the SRA is considered to be adequate to address the residual risk for non-Euro based exchange transactions.

¹ CL 140/21, para 11