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منظمة الأغذية والزراعة للأمم المتحدة

联合国粮食及农业组织

Food and Agriculture Organization of the United Nations

Organisation des Nations Unies pour l'alimentation et l'agriculture

Organización de las Naciones Unidas para la Agricultura y la Alimentación

CONFERENCE

Thirty-third Session
Rome, 19 - 26 November 2005
PERFORMANCE OF THE SPLIT ASSESSMENT ARRANGEMENT 2004-05

I. INTRODUCTION

1. At its 32nd session in 2003, the Conference adopted Resolution 11/2003 to amend Regulation V of the Financial Regulations to reflect introduction of the Split Assessment methodology for the Regular Programme commencing on 1 January 2004. The methodology involves the splitting of the Regular Programme assessments between Euro and the US dollar as a means of protecting the implementation of the programme of work. As part of the same resolution, the Conference also asked the Secretariat to submit to the Thirty-third Session of the Conference in 2005 a report on the performance of the Split Assessment arrangement. This paper has been prepared in response to such request, and is based to a large extent on 2004 data and interim data for 2005.

2. The paper covers the following five areas:

- Assessments and receipts by currency
- Cash flow implications and currency management
- Comparison of estimated and actual expenditure by currency
- Accounting implications of introduction of Split Assessment
- Conclusions and proposed change

II. ASSESSMENTS AND RECEIPTS BY CURRENCY

3. The Conference Resolution on the Budgetary Appropriations for 2004-05[1] established the appropriation at US$ 749.1 million. It also prescribed the budget rate of exchange for the biennium as €1=US$1.19, and the proportion of the appropriation to be paid in US dollars and euro as 45% to be paid in US dollars and 55% in euro. After adjustments for Miscellaneous Income, funding for the After Service Medical Coverage liability and tax equalization specified in the same resolution, the biennial assessed contributions amounted to US$341.6 million (payable in US dollars) and € 348.9 million (payable in euro).

4. The experience in 2004 and so far in 2005 with processing call letters, statements and receipts in two currencies and in responding to Member Nations' queries and requests for information indicates that Member Nations have adapted to the split assessment approach relatively easily. The timing of payments in euro was somewhat slower than expected in the first half of 2004 and 2005 (see Tables 2 and 3), while the generally irregular pattern of receipts of the past years has remained unchanged under split assessments. Most countries tend to pay both the dollar and euro assessments at the same time, although some Member Nations are irregular with their payments during the year, in contrast to others who are more consistent and pay during the same period over the years. This is reflected in Table 1 which shows the payment patterns of the largest 10 contributors for the last five years (as at 30 June 2005). The high irregularity of receipts each year continues to make it difficult for the Organization to accurately forecast its cash flow.

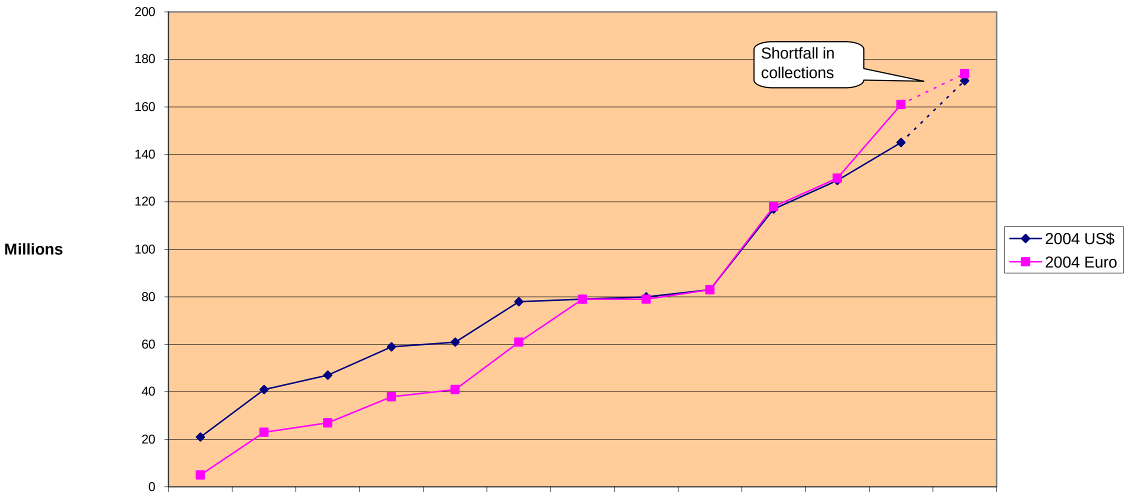
[1] Conference Resolution 7/2003

Table 1: Payment patterns of largest 10 contributors (representing approximately 78% of assessed contributions) Current Assessments Received / Unpaid 2001-2005 (millions of US Dollars and Euros)

	Rate	Year	Assessed	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Unpaid at period end
USA																
	22.000%	2005 EUR	38.38													
		2005 USD	38.67													
	22.000%	2004 EUR	38.38											7.90	30.48	-
		2004 USD	38.67											9.09	12.32	17.26
	22.000%	2003	72.46										17.87	40.09		14.50
	22.000%	2002	72.46										65.21			7.25
	22.000%	2001	72.74										65.46		7.28	-
Japan																
	19.611%	2005 EUR	34.21													
		2005 USD	33.22													
	19.611%	2004 EUR	34.21										34.21			-
		2004 USD	33.22										33.22			-
	19.625%	2003	63.30												63.30	-
	19.780%	2002	63.80			43.39		20.41								-
	19.749%	2001	63.50			36.11									27.39	-
Germany																
	9.817%	2005 EUR	17.13						17.13							
		2005 USD	16.63	16.63												
	9.817%	2004 EUR	17.13							17.13						-
		2004 USD	16.63	16.63												-
	9.824%	2003	31.68		15.84			7.92		7.92						-
	9.901%	2002	31.93		15.97					13.00			2.95	0.01		-
	9.885%	2001	31.79		15.93					15.86						-
France																
	6.498%	2005 EUR	11.34	11.34												
		2005 USD	11.01	11.01												
	6.498%	2004 EUR	11.34		11.34											-
		2004 USD	11.01		11.01											-
	6.502%	2003	20.97							20.97						-
	6.553%	2002	21.14					21.14								-
	6.543%	2001	21.04				21.04									-
UK																
	5.563%	2005 EUR	9.70					9.70								
		2005 USD	9.43		5.03			4.40								
	5.563%	2004 EUR	9.70						9.70							-
		2004 USD	9.43	2.38					7.05							-
	5.567%	2003	17.96							17.96						-
	5.611%	2002	18.10							18.10						-
	5.602%	2001	18.01				18.01									-
Italy																
	5.089%	2005 EUR	8.88				8.88									
		2005 USD	8.62				8.62									
	5.089%	2004 EUR	8.88						8.88							-
		2004 USD	8.62						8.62							-
	5.093%	2003	16.43	0.40			15.05				0.98					-
	5.133%	2002	16.56							15.76		0.80				-
	5.125%	2001	16.48						16.22			0.26				-
Canada																
	2.570%	2005 EUR	4.48	4.48												
		2005 USD	4.35	4.35												
	2.570%	2004 EUR	4.48	4.48												-
		2004 USD	4.35	4.35												-
	2.572%	2003	8.30	8.30												-
	2.594%	2002	8.37	8.37												-
	2.589%	2001	8.32		8.32											-
Spain																
	2.531%	2005 EUR	4.42						4.42							
		2005 USD	4.29						4.29							
	2.531%	2004 EUR	4.42				4.42									-
		2004 USD	4.29				4.29									-
	2.533%	2003	8.17				8.17									-
	2.553%	2002	8.23				8.23									-
	2.549%	2001	8.20	0.02					8.18							-
Brazil																
	2.402%	2005 EUR	4.19													
		2005 USD	4.07													
	2.402%	2004 EUR	4.19													4.19
		2004 USD	4.07													4.07
	2.403%	2003	7.75													7.75
	2.105%	2002	6.79													6.79
	2.245%	2001	7.22													7.22
Rep.of Korea																
	1860%	2005 EUR	3.24													
		2005 USD	3.15													
	1860%	2004 EUR	3.24													3.24
		2004 USD	3.15												3.15	-
	1861%	2003	6.00			6.00										-
	1877%	2002	6.05		6.05											-
	1739%	2001	5.59												5.59	-

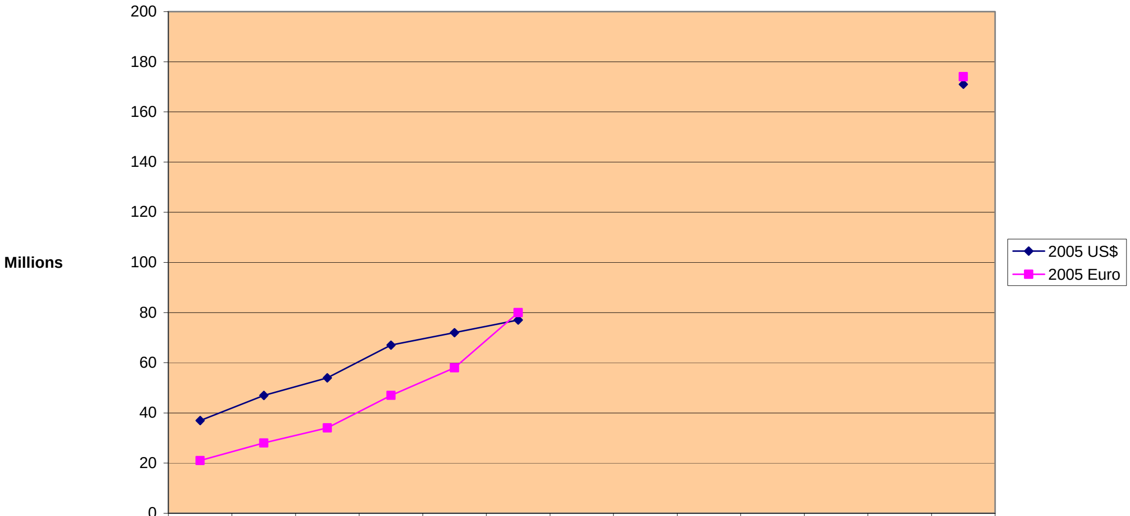
5. In terms of receipts by currency, Tables 2 and 3 show US dollar and euro receipts by month for the year 2004 and the first six months of 2005, and total amounts of assessed contributions. On 31 December 2004, the shortage of current assessment payments by Members of US$26 million and €14 million were added to arrears outstanding from previous years of US$58 million. The percentage rate of receipt of assessed contributions by month over the past five years is summarized in Table 4.

Table 2: Cumulative Receipts of Current Regular Programme Assessments in 2004



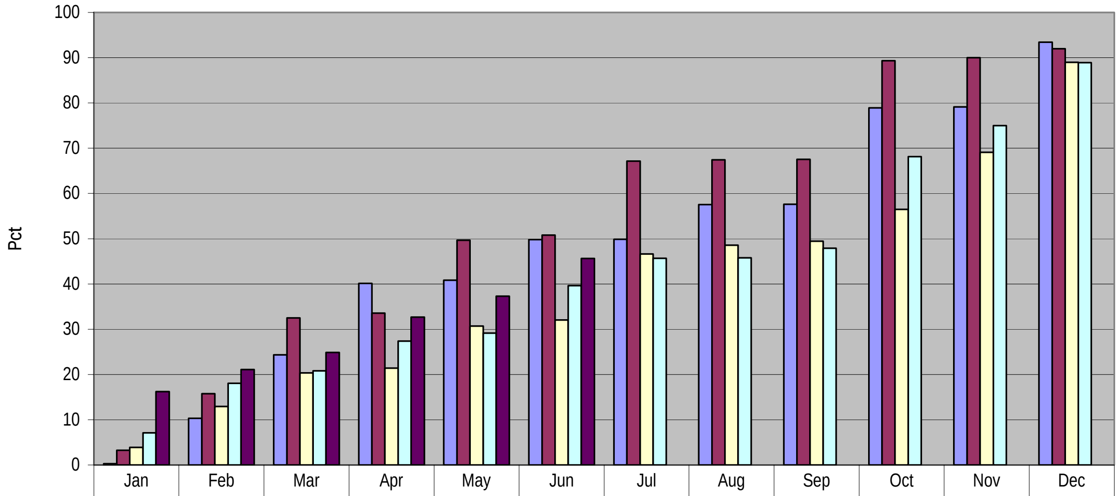
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Annual Assess.
2004 US$	$21	$41	$47	$59	$61	$78	$79	$80	$83	$117	$129	$145	$171
2004 Euro	€ 5	€ 23	€ 27	€ 38	€ 41	€ 61	€ 79	€ 79	€ 83	€ 118	€ 130	€ 161	€ 174

Table 3: Cumulative Receipts of Current Regular Programme Assessments in 2005



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Annual Assess.
2005 US$	$37	$47	$54	$67	$72	$77							$171
2005 Euro	€ 21	€ 28	€ 34	€ 47	€ 58	€ 80							€ 174

Table 4: Cumulative Percentage Receipt of Current R.P. Assessments



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2001	0.32	10.29	24.35	40.1	40.85	49.81	49.87	57.56	57.61	78.9	79.1	93.42
2002	3.27	15.78	32.51	33.56	49.65	50.78	67.14	67.42	67.57	89.34	90.01	91.97
2003	3.89	12.96	20.37	21.44	30.71	32.04	46.62	48.59	49.45	56.46	69.05	88.98
2004	7.12	18.05	20.80	27.40	29.14	39.64	45.69	45.75	47.90	68.12	74.97	88.90
2005	16.22	21.10	24.86	32.66	37.27	45.65						

Month

6. Table 4 above shows that the overall patterns of receipts since the introduction of split assessments has been largely in line with prior years (2004 receipts in line with 2003 but lower than in previous years). There has been no marked impact upon the rate of receipts attributable to the introduction of split assessments. The aggregate of US$ and Euro receipts was 45.65% at 30 June 2005 compared to 39.64% at 30 June 2004 and to 32.04 % at 30 June 2003 (but down from the 50.78% level at 30 June 2002). Also at 31 December 2004, the aggregate collection rate was 88.90%, essentially in line with the rate of 88.98% at the same date in 2003 but down from the rate of 91.97% at 31 December 2002. Collections continue to be irregular which complicates cash flow forecasting.

III. CASH FLOW IMPLICATIONS AND CURRENCY MANAGEMENT

7. Table 5 shows monthly Euro expenditures and receipts from January 2004 to June 2005. As reported to the Finance Committee in May 2004 and May 2005 (FC 107/3 paragraph 16 and FC 109/4 paragraph 14), the effect of late and irregular receipt of contributions with respect to monthly expenditure, together with the fact that no Euro reserves were held at the start of 2004, caused the Organization to face a shortage of Euros through a large part of the biennium.

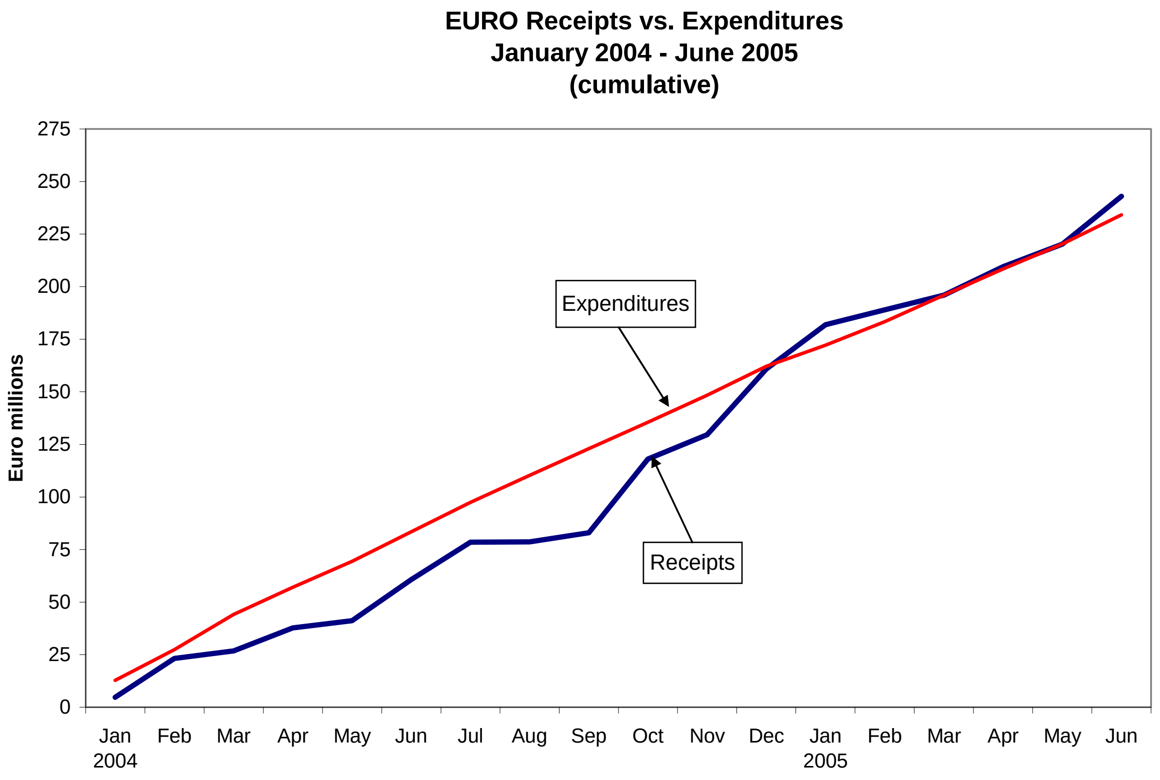
8. As anticipated in 2003 (see FC 102/18 INF paragraph 15) such shortfall has been addressed by effecting treasury swaps with US Dollar holdings to obtain Euro currency. A treasury swap is the simultaneous purchase and sale of the same amount of a given currency for two different dates - one spot and the other forward. In other words, an entity uses one currency to acquire another currency for a limited period of time and when this time elapses, exchanges it back for the original currency. Rather than directly borrowing in the required currency, an entity can swap one currency to gain liquidity in another currency. In effect, the underlying amount in each currency is simultaneously borrowed and loaned and results in lower cost of funding in the required currency compared to direct borrowing. Throughout the biennium Finance Division's

Treasury Branch has executed swaps on a weekly basis with the Bank for International Settlements in Basel at the most favourable interbank market rates. A weekly covering of the Organization's Euro requirements has minimized funding costs.

9. The funding cost in 2004 was represented by a charge of approximately Euro 300,000 which was partly compensated by the interest earned on US currency which amounted to US$ 250,000, resulting in a net cost of approximately US$ 122,000 for the year 2004. In view of the changed short term interest rates for the US dollar and the euro so far in 2005 this net cost may become a small net gain for the current year. It should be noted that the funding cost referred to is not the direct result of implementation of the split assessment methodology but rather a way of coping with the long-standing problem of irregular and generally late payment of contributions by Member Nations. Unless contributions are paid on time (thereby permitting a build-up of Euro balances) it will continue to be necessary to make frequent use of swap arrangements to have Euro on hand in time to meet operational requirements.

10. Finally, it is noted that in previous biennia the single large forward contract which provided the Organization with a full biennium's Euro (and previously Lira) currency in exchange for US Dollars included the same discount/premium factor referred to for swaps, which results from the interest rate differential of the two currencies. By using a forward contract the discount or premium was fixed for the complete biennium at the moment of concluding the transaction without regard to changing interest market conditions over the next two years.

Table 5



IV. COMPARISON OF ESTIMATED AND ACTUAL EXPENDITURE BY CURRENCY

11. To arrive at the 2004-05 split assessments of 45% US Dollars and 55% Euro at the budget rate of € 1 = US$ 1.19, the Secretariat undertook in the first instance a historical analysis of expenditures incurred by currency. The same analytical techniques were used to arrive at a forecast of expenditure for 2004-05. The emphasis is on the economic currency of a transaction, i.e., the currency underlying the obligation to the Organization. Currencies which presently track the euro more closely than the US dollar are considered in the projection of the euro portion of expenditures. All other currencies are considered in the US dollar portion of the split.

12. An analysis of actual expenditures to date in the 2004-05 biennium indicates that the proportional expenditure by currency is very close to the projected split, with a slightly higher US dollar proportion and lower Euro proportion than the proportions applied in the assessments. The analysis of the 2004-05 expenditures will be used to establish the split for the 2006-07 budgetary appropriation, and is proposed at 46% US Dollars and 54% Euro at the 2006-07 budget rate, which remains € 1 = US$ 1.19. The split appropriation is further described in the PWB 2006-07 section entitled "Funding of the Budget".

V. ACCOUNTING IMPLICATIONS OF INTRODUCTION OF SPLIT ASSESSMENT

13. Split assessments follow the standard accounting treatment applied to invoices. Annual call letters to Member Nations are the basis for issuance of invoices which are recorded in US Dollars and Euro. As the official accounts of FAO are maintained in US Dollars, Euro invoices are translated into US Dollars using the UN monthly operational rate of exchange in force when the call letter is issued, which is typically the January rate.

14. When Euro assessments are received from Member Nations, the receipts are recorded as Euro transactions which are then translated into US Dollars at the UN operational rate in force during the month of receipt. Any realised exchange differences (i.e. between the UN operational rate of the month of issue of the call letter and UN operational rate of the month of receipt) are recorded in the "gains/losses on exchange" account. In accordance with Conference Resolution 17/89 such exchange differences are transferred to the Special Reserve Account (SRA).

15. The SRA account was established by Conference in 1977[2] to protect against the effects of unbudgeted costs principally arising from fluctuations in exchange rates. The purpose of the SRA was expanded by Conference Resolutions 13/81 and 17/89 and includes (a) transfer of realised gains/losses on exchange and revaluations due to changes in the UN operational rate of exchange; and (b) variances on headquarter staff costs arising from differences between the budget rate and UN operational rate. The SRA did not foresee any exchange rate protection versus the budget rate for the headquarters portion of non-staff expenditures.

16. Regarding item (a) above, in 2004 net foreign exchange differences resulted in a loss of only $0.2 million, made up of a loss of $0.9 million on Euro transactions and a gain of $0.7 million on non-Euro transactions. In the first six months of 2005, the net foreign exchange difference was a loss of $3.3 million, made up of a loss of $3 million on Euro transactions and a loss of $0.3 million on non-Euro transactions.

17. With reference to point (b) in paragraph 15 above, the variance on staff costs transferred to the SRA from the General Fund is computed based on the difference between the UN operational rate and the budget rate. It should be noted that this is the only instance where

[2] Conference Resolution CR 27/77

variances from budget rate, instead of UN operational rates, are computed and transferred to the SRA.

18. In 2004, with the Euro strengthening against the budget rate, an unfavourable variance on staff costs was calculated which, in line with the SRA resolution mentioned above, was transferred from the General Fund, and charged to the SRA. This caused the SRA balance of $23 million at the start of the biennium to decrease to $15.6 million at the end of 2004.

19. Under split assessments, however, to the extent that Euro receipts are collected before Euro expenditures are effected, the € assessments adequately meet the needs of all Euro disbursement and, hence, exchange differences could be expected to be considerably less than in previous biennia.

20. Therefore, the split assessment mechanism, with timely receipt of contributions, should limit the occurence of exchange differences and in accounting terms, the budget rate should not have an impact. Consequently, the accounting within the SRA of variances against the budget rate can be considered redundant under split assessments. For this reason, beginning in the 2004-05 biennium, the Secretariat proposes excluding charges to the SRA due to variances on headquarters staff costs arising from differences between the budget rate and UN operational rate. The Finance Committee and Council are asked to endorse this proposal for approval by the Conference.

21. The Finance Committee was informed at its 102nd session in 2003[3] that the current biennium would be treated as a transitional biennium for the split assessments methodology. The Secretariat will continue its analyis of the impact of split assessments, and report to the Finance Committee any further proposed changes in the next biennium.

VI. CONCLUSIONS AND PROPOSED CHANGE

22. The key conclusions which can be drawn from the experience of split assessments in the 2004-05 biennium are as follows:

a) Member Nations have adapted relatively easily to the new arrangements although the timing of payments of contributions (in total) has remained irregular as in past years. Late receipt of contributions remains the Organization’s biggest problem;

b) Euro holdings were nil at the start of the biennium and euro receipts have been consistently slower than euro outflows for expenditures. The Organization has dealt with this problem by means of frequent swap transactions using US dollar holdings to procure the euro needed to meet expenditure requirements. Such transactions have a small net cost and until euro payments are received on a more timely basis, the use of swaps will need to continue;

c) Analysis of actual expenditures by currency so far in 2004-05 indicates US dollar/euro proportions very close to the ratio estimated for the budgetary appropriation approved in November 2003. The ratio proposed for 2006-07 will be one percentage point higher for US dollars and one point lower for euro. To the extent that future budgets are based on comparison of euro and dollar assessments between biennia, as opposed to a comparison in US dollars, the scheme can be said to have met a key objective of affording some protection in the implementation of the organization’s regular programme of work between biennia;

d) Introduction of the split assessment methodology has implications for the feature of the Special Reserve Account which concerns the budget rate of exchange. In this regard, the Finance Committee and Council are asked to endorse for approval by the Conference the proposal to exclude charges to the SRA due to variances on headquarters staff costs arising from differences between the budget rate and UN operational rate, with effect from the 2004-05 biennium.

[3] FC 102/18 document on “Split Assessments”