

**Information Notes for Capitals**

November 2009

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## **OVERVIEW**

Document C 2009/15 presents the Director-General's proposed four-year Medium Term Plan (MTP) and two-year Programme of Work and Budget (PWB) to guide the work of the Organization from the year 2010. The scope and format conform to the new integrated results-based approach approved in the Immediate Plan of Action (IPA) for FAO's Renewal (2009-11). The MTP/PWB provides for clear means-to-ends linkages between the measurable outcomes that FAO commits to achieve with all the resources at its disposal, which contribute to defined impacts in Members Countries. It also provides for improving the efficiency and effectiveness of the Organization by implementing the reforms called for by the IPA, thus providing a strong basis for "reform with growth".

### *FAO's results-based plan for addressing challenges*

The eleven Strategic Objectives, two Functional Objectives and eight Core Functions agreed in the Strategic Framework define both the impacts needed to help meet these challenges in member countries and FAO's means of action for providing assistance. The MTP sets out 56 Organizational Results (outcomes) that FAO commits to deliver, through effective and efficient services and collaboration with Members and partners, focusing on: intensified crop and increased livestock production; sustainable management and use of fisheries, forests and natural resources; improved quality and safety of food; enabling environments for markets, food security, better nutrition, and gender equity; preparedness for and response to emergencies; and increased investment in agriculture and rural development.

The Organizational Results have been formulated and will be implemented under the responsibility of senior managers leading corporate multi-disciplinary strategy teams. The Results Frameworks presented in the MTP/PWB include 174 measurable indicators of achievement with two- and four-year targets to facilitate monitoring and reporting. FAO's interventions are focused through the application of its core functions – the Organization's "tool kit" based on comparative strengths and taking account of partnerships – relating to information, knowledge, statistics and perspective studies; international instruments, norms and standards; policy and strategy options and advice; technical support to promote technology transfer and build capacity; and advocacy and communication.

### *Impact of reforms in the Organization*

The IPA is an extremely ambitious plan for far-reaching change throughout the Organization and now includes the follow-up to the recommendations of the external Root and Branch Review of human and financial resources management and administration. Good progress was made in 2009 and the MTP/PWB reflects several completed or ongoing aspects, including a sequenced and prioritized plan for 2010-11 that brings 51 percent of the revised cost under the Net Appropriation. Work will focus on "managing for results" including implementation reporting and staff appraisal systems linked to the Organizational Results; "functioning as one Organization" to improve the coherence, performance and integration of the decentralized offices through investment in infrastructure, processes, training and staff rotation; and "human resources reform" following an agreed strategy.

A new Headquarters structure will be put in place comprising an apex with five advisory offices and two Deputy Directors-General (Knowledge and Operations) reporting to the Director-General. The DDG Knowledge will provide strategic direction to, and oversight of, the five technical departments (covering agriculture and consumer protection, fisheries and aquaculture, forestry, natural resources and environment, and economic and social development). The DDG Operations will do likewise with the new Corporate Services, Human Resources, and Finance Department, the restructured Technical Cooperation Department, and the Regional Offices. The Regional Offices will progressively take on new responsibilities for organizing the Regional Conferences, developing and implementing areas of priority action, overseeing country offices, and managing the non-emergency TCP programme. Incremental savings and efficiency gains of USD 19.6 million have been factored into the PWB primarily through delaying of Director-level posts at headquarters.

### *Resource requirements*

As mandated by Conference under the IPA, this PWB presents an integrated view of total resource requirements to carry out the Programme of Work directly linked to the two-year targets under the results frameworks, under the *Net Budgetary Appropriation* and *Voluntary Contributions*.

The *Net Budgetary Appropriation* reflects the requirements proposed to be funded from assessed contributions by Members. Starting from the nominal level of the 2008-09 budget (USD 929.8 million), shifts were made within the base for the IPA (USD 4 million) and for statistics, Right to Food, EMPRES, livestock, climate change, fisheries, and forestry. Incremental requirements have been added to the base for the IPA (USD 15.6 million), Security Expenditure (USD 0.7 million). Thereafter, the estimation of cost increases has re-costed inputs at 2010-11 values compared with 2008-09 values (USD 49.9 million). Accordingly, the total proposed Net Budgetary Appropriation to be funded from assessed contributions is USD 995.9 million (including a total of USD 19.6 million for the IPA), a 7.1 percent increase over 2008-09.

The *Voluntary Contributions* reflect the estimates for extra-budgetary resources totalling USD 1,265 million through a variety of established funding mechanisms that fall into two main categories:

- *Core Voluntary Contributions* are the estimated extra-budgetary resource requirements of USD 247.2 million planned in the programme of work under the results frameworks and managed closely with the net appropriation, including Trust Fund projects that support core activities at global and regional levels; non-project contributions from partners; and USD 19.1 million for IPA implementation not included in the net appropriation.
- *Other Extra-budgetary Voluntary Contributions* are estimates of voluntary contributions totalling USD 1,018 million for programmes and projects contributing to the results frameworks through support to the field programme, technical assistance to countries, and emergency assistance.

Approval of the proposed Net Budgetary Appropriation and realisation of the estimated voluntary contributions would put USD 2,260.9 million at the disposal of the Organization for implementation of the 2010-11 Programme of Work, including the Immediate Plan of Action.

### *Improving financial health, liquidity and reserves*

The PWB 2010-11 includes proposals to stabilise the General Fund deficit and avoid liquidity shortages. A "minimum" incremental funding requirement amounts to USD 31.6 million, in addition to the 2008-09 approved additional assessment of USD 14.1 million towards funding for After Service Medical Coverage (ASMC) liabilities. This comprises two specific areas where the Secretariat has already received positive guidance from the Council:

- USD 25.2 million per biennium (recurring) for the ASMC which is intended to fully fund the liability by 2038; and
- USD 6.4 million (one-time) to restore to the Special Reserve Account (SRA), an amount already disbursed in 2006.

### *Impact on assessments of cumulative funding requirements*

As in past biennia, the assessed contributions in 2010-11 will be based on the biennial net appropriation plus any other agreed funding to restore the financial health of the Organization. The overall 2010-11 funding requirement for the budget funded from assessed contributions and for providing minimum funding towards restoring FAO's financial health amounts to USD 995.9 million and USD 45.7 million respectively, as tabulated below.

**Proposed Net budgetary appropriation for implementing Programme of Work 2010-11 (USD million at the 2008-09 budget rate of exchange of 1 Euro = USD 1.36)**

	<b>PWB 2008-09 Approved</b>	<b>2010-11 Funding requirements for implementing Programme of Work</b>
Budgetary requirements at 2008-09 cost levels		929.8
<i>Incremental requirements IPA and Security Expenditure</i>		16.2
<i>Incremental requirements - Cost Increases</i>		49.9
<b>Net budgetary appropriation for implementing Programme of Work</b>	<b>929.8</b>	<b>995.9</b>

**Proposed 2010-11 Assessments for Tackling Financial Health (USD million at the 2008-09 budget rate of exchange of 1 Euro = USD 1.36)**

	<b>2008-09 Approved</b>	<b>2010-11 Funding requirements for minimum restoration of financial health</b>
Partial funding of ASMC past service liability	14.1	14.1
<i>Minimum incremental requirements for restoring financial health of FAO (increased ASMC and Replenishment of the SRA)</i>		31.6
<b>Assessments for tackling financial health of FAO</b>	<b>14.1</b>	<b>45.7</b>

## Information Note I – FAO's New Results-based Planning Framework<sup>1</sup>

As called for in the Immediate Plan of Action, **the Organization is putting in place a more robust results-based programme planning, monitoring and reporting system.** The Medium Term Plan 2010-13 (MTP) and Programme of Work 2010-11 (PWB) represent a major effort to link means to ends, to define results based on contributions to objectives and resource requirements, and to **assign accountability to managers and Members.**

FAO's Medium Term Plan is based on the eleven Strategic Objectives in the new Strategic Framework 2010-19. They broadly define FAO's contributions to the impacts needed to help meet the food and agriculture challenges in member countries, while two Functional Objectives define the internal aspects of the Organization's work for providing effective assistance. The MTP sets out 56 Organizational Results (outcomes) that FAO commits to deliver, through modalities and comparative advantages captured in eight Core Functions. These **results frameworks** include 174 measurable indicators of achievement with two- and four-year targets to facilitate monitoring and reporting.

The **results frameworks have been formulated in close consultation with the governing bodies** and will be implemented under the responsibility of senior managers leading corporate multi-disciplinary strategy teams. The MTP/PWB document provides the full elaboration of the results frameworks, which include:

- the **objective** title, being the benefits or changes expected to be achieved in a ten-year timeframe in country institutions, the international community, development partners or FAO itself;
- the statement of **issues and challenges**, being the problem(s) to be addressed, including significant demographic, environmental and macro-economic factors and trends; key development needs are highlighted, focusing on opportunities for intervention by FAO through targeted Organizational Results and Primary Tools;
- **assumptions and risks** associated with the achievement of the objective, assuming the Organizational Results are achieved. Assumptions are hypotheses about risks that could affect the progress or success of a development intervention;
- checklist of the application of the **core functions**, the critical means of action (e.g. information, knowledge and statistics; trend and perspective studies; policy advice; capacity development) to be employed by FAO to achieve each of the Organizational Results;
- **Organizational Results**, being the outcome, or effects, that are expected to be achieved over a four-year time horizon from the uptake and use of FAO's products and services; or, in the case of functional objectives, the expected standard of delivery of FAO's products and services;
- **indicators**, being the specific, measurable, achievable, realistic and time-bound factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of a development actor;
- **baselines**, being the value of the indicator measured at the beginning of the period – in this case the beginning of 2010;
- **targets**, being the value of the same indicator at the end of the two-year PWB and four-year MTP, hence reflecting what is expected to be achieved during those periods; and
- the level of **resources** (assessed and voluntary) planned for each Organizational Result across the Organization for the 2010-11 biennium (*see Notes II and III*).

During the formulation process, a logframe-based analysis was used to validate how the proposed Organizational Results addressed the key problems, and to identify any gaps, overlaps, and risks to implementation. The **determination of where FAO is best placed to intervene, as a step in priority setting, was guided by the criteria outlined in the IPA:** past organizational performance; existing technical capacity, including for cross-disciplinarity; integration of strengths in advocacy, normative work and technical cooperation; availability of alternative sources of supply and avoidance of duplication; and partnership opportunities.

There were **progressive improvements in the formulation of indicators and identification of baselines and targets** through an iterative formulation process using expert advice, including lessons learned with a similar approach at the World Health Organization. Work continues to improve consistency, establish missing baselines and prepare the monitoring and reporting system.

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<sup>1</sup> C 2009/15 paragraphs 18-64

## Information Note II – Integrated Presentation of Resources<sup>2</sup>

As mandated by Conference in the reform of programming and budgeting under the Immediate Plan of Action for FAO Renewal, the Programme of Work and Budget 2010-11 (PWB) proposes a **biennial Programme of Work funded from assessed contributions and an estimate of extra-budgetary voluntary funding**. This is a change from past practice, where the Programme of Work was essentially funded from assessed contributions; voluntary contributions, while providing direct or indirect support, were not integrated as part of the results-based planning process.

FAO's results-based **Programme of Work is based on the 56 Organizational Results (outcomes) that FAO commits to deliver**, and 174 underlying indicators of achievement with two- and four-year targets to facilitate monitoring and reporting (see Note I).

Under the integrated presentation of resources, the biennial **Programme of Work quantifies the requirements from all sources of funds to achieve the two-year targets under the Organizational Results** along with associated requirements for country offices, the Technical Cooperation Programme, and Capital and Security Expenditure.

One source of funding is the **assessed contributions** by Members (based on the agreed scale of contributions) financing the Net Appropriation voted by the Conference in the Budgetary Appropriations Resolution. The other main source stems from **extra-budgetary contributions** provided by Members and other partners on a voluntary basis through direct support to the Organization, or through technical and emergency assistance to governments for clearly defined purposes linked to the MTP.

Approval of the proposed Net Budgetary Appropriation and realisation of the estimated voluntary contributions would put USD 2,260.9 million at the disposal of the Organization for implementation of the 2010-11 Programme of Work, including the Immediate Plan of Action.

The **Net Budgetary Appropriation reflects the requirements proposed to be funded from assessed contributions by Members**. Starting from the nominal level of the 2008-09 budget (USD 929.8 million), incremental requirements have been added for the IPA (USD 15.6 million) and Security Expenditure (USD 0.7 million), along with estimated cost increases (USD 49.9 million) to recast inputs (i.e. personnel services, goods and services) from 2008-09 to 2010-11 cost levels (see Note XI). Accordingly, the total proposed Net Budgetary Appropriation to be funded from assessed contributions is **USD 995.9 million, or 44 percent of overall resource requirements**.

The **Voluntary Contributions reflect the estimates for extra-budgetary resources totalling USD 1,265 million, or 56 percent of resource requirements**, mobilized through a variety of established funding mechanisms that fall into two main categories:

- **Core Voluntary Contributions** (see Note III) are the estimated extra-budgetary resource requirements of USD 247.2 million that are planned and managed closely with the Net Appropriation, including Trust Fund projects that support core activities at global and regional levels; non-project contributions from partners; and USD 19.1 million for IPA implementation not included in the net appropriation.
- **Other Extra-budgetary Voluntary Contributions** are estimates of voluntary contributions totalling USD 1,017.8 million for programmes and projects contributing to the results frameworks through support to the field programme, technical assistance to countries, and emergency assistance.

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<sup>2</sup> C 2009/15 paragraphs 68-79

## C 2009/15 – Medium Term Plan 2010-13 and Programme of Work and Budget 2010-11

### Information Note III – Core Voluntary Contributions<sup>3</sup>

*Core Voluntary Contributions* are the estimated extra-budgetary resource requirements planned in the Programme of Work under the results frameworks and managed closely with the Net Appropriation. They include:

- *Core Trust Fund projects* that support core activities at global and regional levels (USD 177.2 million);
- *Core non-project contributions* from partners (USD 50.9 million); and
- resources for implementation of the Immediate Plan of Action (IPA) in 2010-11 that are not included under the Net Appropriation (USD 19.1 million) (see Note V).

#### Core Trust Fund projects

**Core Trust Fund projects were previously categorised as “Direct Support to the Regular Programme”.** They **provide direct support to work planned under the results frameworks in five main areas of work**, as tabulated below and elaborated in PWB Annex VIII.

Area of work	2010-11 Estimates (USD 000)
Development of methodologies and guidelines	31,658
Global initiatives and partnerships	82,716
Information collection, analysis and dissemination	31,951
Committees, Commissions and Supervisory Bodies	14,719
Other core activities, including Associate Professional Officers at headquarters	16,203
<b>Total</b>	<b>177,247</b>

Examples of Core Trust Fund projects expected to be active in 2010-11, showing the estimated extra-budgetary contribution and, in parentheses, the Strategic/Functional Objectives supported, include:

- FAO/WHO Global Initiative for Food-related Scientific Advice Facility: USD 2.64 million (SO D)
- FAO/SIDA Partnership Cooperation within the Field of Rural Development Pilot Phase - Knowledge Management and Capacity Building Component: USD 0.6 million (SO G)
- FAO/Belgium Partnership Programme in the Field of Knowledge Management and Gender - Capitalisation des outils en matière de sécurité alimentaire et genre: USD 2.0 million (SO H)
- Strengthening the Knowledge Base for and Implementing an Ecosystem Approach to Marine Fisheries in Developing Countries: USD 2.8 million (SO C)
- Contribution to the Global Forest Resources Assessment Programme: USD 3.82 million (SO E)
- International Treaty on Plant Genetic Resources for Food and Agriculture: USD 2.2 million (SO A)
- Global Forum on Agricultural Research Secretariat - Core Activities: USD 2.16 million (SO F)
- 51 Associate Professional Officers assigned to headquarters: USD 2.47 million

#### Core non-project contributions

**Core non-project contributions are extra-budgetary resources received from UN and other partners directly supporting the Programme of Work.** These include contributions from the World Bank for the Cooperative Programme with the FAO Investment Centre (USD 26 million under SO L), from other international financing institutions such as IFAD and regional development banks (USD 5.6 million under SO L), from the World Health Organization for Codex (USD 1.2 million under SO D), and from host Governments for offices established in their countries (USD 4.2 million under SO Y).

<sup>3</sup> C 2009/15 Annex VIII

**Information Note IV - Programmatic Comparison<sup>4</sup>**

Under the new Strategic Framework, the **foundations for planning have fundamentally changed**, with a focus on identifying priorities among the 13 new Strategic and Functional Objectives (comprising 56 Organizational Results), which were identified and formulated for 2010-11 without reference to the programme structure of 43 Programmes (with 183 Programme Entities) of the 2008-09 biennium.

To enable a programmatic comparison of the *Net Appropriation* for the 2008-09 biennium and that proposed for the 2010-11 biennium, an *ex post* mapping of old programme entity resources to new Strategic and Functional Objectives has been undertaken, based on the area of work supported. The comparison in **Figure 1 provides an indication of shifts in programmatic emphasis from the 2008-09 programme structure to the new FAO results hierarchy**. It should be interpreted as indicative at best, due to the inherent imprecision of associating the old and new planning frameworks, which have different approaches and assumptions.

Nevertheless, the comparison reflects the **adjustments to net appropriation planning targets towards certain high priority areas of work**, in line with the most recent guidance from the governing bodies. These include: statistics, Right to Food, EMPRES, livestock, climate change, fisheries and forestry. However, a number of shifts in programmatic emphasis are also embedded within the Objectives under the proposed programme of work, as summarized in the PWB 2010-11, paragraphs 94-108.

**Figure 1: Comparison of Net Appropriation between the PWB 2008-09 and the proposed PWB 2010-11 (before cost increases) (USD million) (C 2009/15 Table 2)**

Objective	PWB 2008-2009	Proposed 2010-2011	Percent Variance
A - Sustainable intensification of crop production	42.8	47.5	11.0%
B - Increased sustainable livestock production	25.5	30.7	20.4%
C - Sustainable management and use of fisheries and aquaculture resources	53.0	53.9	1.7%
D - Improved quality and safety of food at all stages of the food chain	23.3	23.9	2.6%
E - Sustainable management of forests and trees	40.0	41.3	3.2%
F - Sustainable management of land, water and genetic resources and improved responses to global environmental challenges affecting food and agriculture	50.2	51.6	2.7%
G - Enabling environment for markets to improve livelihoods and rural development	40.9	39.1	-4.3%
H - Improved food security and better nutrition	59.7	57.2	-4.2%
I - Improved preparedness for, and effective response to, food and agricultural threats and emergencies	6.3	7.4	18.3%
K - Gender equity in access to resources, goods, services and decision-making in the rural areas	9.6	9.7	1.6%
L - Increased and more effective public and private investment in agriculture and rural development	36.0	35.7	-0.9%
X - Effective collaboration with Member States and stakeholders	208.5	205.2	-1.6%
Y - Efficient and effective administration	103.1	109.2	6.0%
FAOR - FAOR Programme	77.8	77.2	-0.8%
TCP - Technical Cooperation Programme	109.2	109.2	0.0%
Contingencies	0.6	0.6	0.0%
Capital Expenditure	20.1	22.6	12.2%
Security Expenditure	23.3	24.0	2.9%
<b>Total</b>	<b>929.8</b>	<b>946.0</b>	<b>1.7%</b>

<sup>4</sup> C 2009/15 paragraphs 85-108



## Information Note V – Implementation of the Immediate Plan of Action for FAO Renewal

The 35th (Special) Session of the FAO Conference in November 2008 adopted the Immediate Plan of Action (IPA) for FAO Renewal, an interrelated set of 235 actions to be implemented over the 2009-11 period. The Conference also decided that implementation of the IPA in 2009 required funding by extra-budgetary contributions, and that its funding for 2010-11 would be treated under the Programme of Work and Budget.

**The Director-General has given top priority to reform, and the Secretariat has made good progress implementing the IPA actions** with 53 IPA actions (representing 23 percent by number of the original 235 IPA actions) completed as at 31 August 2009 and 133 actions or 56 percent of the total of all IPA actions projected for completion by the end of 2009.

In April 2009, the external consultants Ernst and Young released their report at the conclusion of the IEE-recommended **Root and Branch Review (RBR) of human and financial resources management and administration**. The costs and savings of RBR recommendations have been fully integrated into the IPA plan for 2010-11.

**The IPA (with RBR implementation) is an extremely ambitious plan for far-reaching change throughout the Organization** and the blueprint for the most comprehensive reform process that any UN organization has undergone to date. While many relatively small actions have been completed in 2009, the Organization has to address the risks of simultaneously undertaking several major and complex projects in 2010-11, which will individually and collectively have a significant impact on staff and the way they work, and on the Organization's information systems and its processes. Therefore, in treating the IPA under the full PWB 2010-11, adjustments have been made to the scope and timing of some actions.

The Joint Meeting of the Programme and Finance Committees in July 2009 stressed the importance of *guaranteed* funding for the IPA in 2010-11. In responding to the advice of the Committees, as well as the guidance previously provided in the IPA and by the Working Groups of the CoC-IEE, it was considered that **guaranteed funding (funding 100 percent of IPA costs from the Net Appropriation) would not have been possible without adversely impacting upon the proposed programme of work of the Organization for 2010-11 or increasing the proposed assessments on Members**.

In the PWB 2010-11, **highest priority for funding IPA actions from the Net Appropriation** was given to:

- **Managing for Results**, including development of the results-based monitoring system, preparation of a new planning and budgeting model and standardized reporting system, and full introduction of the staff appraisal system;
- **Functioning as One**, including introducing benchmarks and performance based reporting for decentralized offices, upgrading the IT infrastructure to enable staff in decentralized offices to be able to use the same corporate tools and facilities as their colleagues in headquarters, and staff rotation to double the number of staff rotating between headquarters and decentralized offices;
- **Human Resources reform**, including culture change and investment in additional professional staff in the Human Resources Management division to support their role as business partners to the Organization (see separate Note).

The costs of other projects (e.g. IPSAS, FAO Manual) are also covered under the Net Appropriation provisions in the PWB 2010-11, but the cost of these projects is not quantified within the IPA. Furthermore, some significant reform actions already implemented in 2009 are incorporated directly in the programme of work, such as the new results frameworks, the organizational structure and decentralized business model. If the 2010-11 costs of these reform initiatives were included, this would substantially increase the proportion of the IPA funded from the proposed Net Appropriation.

## C 2009/15 – Medium Term Plan 2010-13 and Programme of Work and Budget 2010-11

### Information Note VI – How is FAO Headquarters being Restructured?<sup>5</sup>

The Immediate Plan of Action called for a comprehensive restructuring of FAO headquarters, to be initiated in 2009 for completion by 2012. The proposed structure for 2010-11 stems from an ongoing process of internal and external review, and close consultation between the Secretariat and Members, taking account of the results frameworks in the Medium Term Plan.

Six principles were applied in carrying out the restructuring:

- manageable span of control on the number of reports to managers at all levels, including the Director-General;
- delayering of senior managerial posts, consolidation of units and flexible unit structure;
- effective development and use of human resources (see separate Note)
- managing for results, including delegation and accountability (see Note I);
- better integrate headquarters and decentralized offices with representation of the decentralized offices in senior management decision making process (see Note VII);
- where possible, share services with other UN agencies and outsourcing;

The new structure reduces to seven the number of direct reporting lines to the Director-General, whose office includes a Cabinet.

- The **DDG Operations** will provide strategic direction to, and oversight of: the *Corporate Services, Human Resources, and Finance Department, the Technical Cooperation Department, and the five Regional Offices*. With respect to decentralized offices, the DDG Operations will be assisted by the *Office of Support to Decentralization*. In direct response to a Root and Branch Review (RBR) recommendation aimed at reducing fragmentation and duplication, the responsibility and accountability for information systems, communications and technology is consolidated under a new *Chief Information Officer Division* reporting to this DDG.
- The **DDG Knowledge** will provide strategic direction to, and oversight of, the five technical departments of the Organization: *Agriculture and Consumer Protection; Economic and Social Development; Forestry; Fisheries and Aquaculture; and, Natural Resources Management and Environment*. The DDG Knowledge will promote integration of technical knowledge and sharing of information, and provide incentives for cross-departmental work, with support from the *Office of Knowledge Exchange, Research and Extension*.
- The **Office of Corporate Communications and External Relations**, and the **Office of Strategy, Planning and Resources Management**, will provide strategic advice and coordinate corporate actions in their areas of mandate. The new **Office of Evaluation** (with also a direct reporting line to governing bodies), the **Legal and Ethics Office** (with a new Ethics Officer who will be functionally responsible to the Director-General) and the **Office of the Inspector-General** will provide oversight of corporate activities.

A process of delayering 40 Director-level posts started in 2008-09 will be completed in 2010-11. It will facilitate the introduction of flexible team-based management below the divisional level aligned with the results frameworks. Managerial and knowledge sharing skills will be developed at all levels through an extensive training programme.

The Headquarters structure will continue to be refined through 2012 based on consultation between the Secretariat and the governing bodies. As recommended by the RBR, a separate follow-on external review of the role of the Office of the Director-General with regard to administrative activities will inform the refinement of roles and responsibilities in the apex structure.

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<sup>5</sup> C 2009/15 paragraphs 124-150

### Information Note VII – Decentralized Offices Network<sup>6</sup>

The Immediate Plan of Action for FAO's Renewal (2009-11) calls for **FAO's decentralized offices and headquarters to work as a coherent and effectively integrated organization** contributing, in the results-based framework, to achievement of the Strategic Objectives agreed by Members.

**FAO provides services to its 192 member countries, through a network** linking its central Headquarters in Rome, five Regional Offices, 11 Subregional Offices, two Subregional Multi-disciplinary Teams, six Liaison Offices and 74 FAO Country Representations. Another 55 countries are covered by other modalities in the network: multiple accreditation of an FAO Representative in a neighbouring country, outposted technical officers, or national correspondent. The decentralized offices network allows FAO to extend, apply and enhance the knowledge it produces to address the food and agriculture development challenges faced by member countries at national, regional and global levels.

To **improve the coherence, performance and integration of the decentralized offices network** in consonance with headquarters, from 2010 FAO will:

- jointly undertake, at headquarters and decentralized offices, a **corporate programme of work at country, regional and global levels** guided by the Strategic Framework;
- **focus its field work** where the results can contribute most effectively to the local development agenda by preparing, jointly with governments and regional counterparts, areas of priority action;
- **improve facilitation of knowledge exchange / networking** between headquarters and the field, as well as with global and local partners;
- **pro-actively support the United Nations' "Delivering as One" and Coherence agendas** in particular with the other two Rome-based food agencies, IFAD and WFP; and
- fully involve decentralized offices in **corporate decision making**.

**"Functioning as One"** is an important guiding theme for FAO in aligning its structures, roles and responsibilities to the results-based Strategic Framework. Specific actions are planned for 2010-11, implemented through changes in policies, delegations of authority, and targeted training of staff.

The Regional Offices, working as appropriate with subregional and country offices, will progressively take on new responsibilities, including:

- leading the strategic planning, programming and budgeting process for the region;
- supervising regional technical officers in consultation with technical divisions;
- overseeing the country offices, including management of resources of the FAO Representations (FAOR) network;
- managing the non-emergency TCP programme in the region;
- organizing and servicing the Regional Conferences to fulfill their new role as part of the governance structure, providing advice on policy and regulatory matters to Conference and programme and budget matters to Council;
- leading partnerships, particularly with regional organizations; and
- supporting country offices on matters dealing with UN reforms.

**Changes in programmatic, managerial and administrative policies in the 2010-11 biennium** are intended to support "Functioning as One" and include:

- doubling the number of staff rotating between headquarters and decentralized offices, to ensure the flow of knowledge and expertise between the offices, and enrich the experiences and knowledge of staff;
- introducing a staff Performance Evaluation and Management System, linking staff competencies, work and training to the Strategic Framework;
- investing in the information and communications infrastructure to enable staff in the decentralized offices to be able to use the same corporate tools and facilities as their colleagues in headquarters;

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<sup>6</sup> C 2009/15 paragraphs 163-177

- further delegating administrative authorities (for example of procurement) and providing the requisite training;
- benchmarking and performance-based reporting by decentralized offices; and
- developing strategies on national and regional capacity development, and information and knowledge management.

Looking forward, the Conference Committee for IEE Follow-up found that further clarifications of the functions of some units will be required. It has proposed to the FAO Conference that: *“Management will prepare a medium to long-term vision related to the structure and functioning of the decentralized offices Network, taking account of the IPA actions on decentralization. After receiving inputs from the Regional Conferences, Management will formulate and present in 2010 proposals to the relevant Governing Bodies for review, approval and implementation. The whole process will take place with active participation and guidance of the CoC-IEE.”*<sup>7</sup>

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<sup>7</sup> C 2009/7 paragraph 72

Information Note VIII – Calculation of Cost Increases for 2010-11<sup>8</sup>

Cost increases for 2010-11, prepared following the methodology approved by the governing bodies, represent the incremental cost of personnel services and other goods and services arising from the recosting of these inputs at 2010-11 values compared with 2008-09 values. The cost increases on the proposed Net Appropriation of USD 945.9 million for 2010-11 have been calculated at USD 49.9 million, which corresponds to a biennial cost increase of 5.3 percent, equivalent to a 3.5 percent annual increase. The cost increases are summarized in Table 1 and explained below.

USD 42.9 million of cost increases (or 86 percent of the total) are for **Personnel Services** equivalent to a 6.2 percent increase in the biennium (or 4.1 percent per year). Personnel services comprise all staff costs, including salaries, pension fund contributions, dependency and other allowances, social security and other staff-related entitlements and after-service benefits for both the Professional and General Service staff categories at the new lapse factor.

Total **Goods and Services** include other human resources, travel, general operating expenses, furniture and equipment, and present an estimated inflation of USD 7 million, equivalent to a 2.8 percent increase in the biennium (or 1.9 percent increase per year).

**Table 1<sup>9</sup>: Summary of cost increases under the Net Appropriation in 2010-11 at 2008-09 lapsed rates (USD million)\***

	PWB 2010-11 proposed Net Appropriation at 2008-09 costs	Biennialization	Inflation	Lapse Factor Adjustment	Cost increases for 2010-11	Percent Cost Increase (biennial)	Percent of cost increase attributable to each cost component
Personnel Services							
Salaries, Pension Fund Contributions and Allowances	654.2	16.3	19.4	-	35.7	5.5%	72%
After Service Benefits	37.4	-	4.6	-	4.6	12.3%	9%
Agreed Termination	4.0	-	-	-	-	0.0%	0%
Lapse Factor Adjustment	-	-	-	2.6	2.6	-	5%
<b>Total Personnel Services</b>	<b>695.6</b>	<b>16.3</b>	<b>24.0</b>	<b>2.6</b>	<b>42.9</b>	<b>6.2%</b>	<b>86%</b>
Total Goods and Services	250.2	-	7.0	-	7.0	2.8%	14%
<b>Budget level for Net Appropriation and additional requirements</b>	<b>945.9</b>	<b>16.3</b>	<b>31.0</b>	<b>2.6</b>	<b>49.9</b>	<b>5.3%</b>	<b>100%</b>

\* The breakdown of the budget by input category as shown in the column entitled PWB 2010-11 Proposed Net Appropriation at 2008-09 Costs reflects the proposed input mix of the 2010-11 proposal at 2008-09 costs.

The cost increase estimates are developed on a biennial basis from: actual cost adjustments that are occurring in the current biennium (**biennialization**); projected adjustments to unit costs that will take effect in the next biennium (**inflation**); and, the **lapse factor** on established posts.

<sup>8</sup> C 2009/15 paragraphs 197 to 223

<sup>9</sup> Based on C 2009/15 Table 6

**Biennialization** of USD 16.3 million is the incremental financial effect in 2010-2011 of staff cost adjustments that are occurring in the 2008-09 biennium. Biennialization is the consequence of two factors:

- *under-budgeted or over-budgeted costs in the current biennium (2008-09)*, that is, where actual staff costs per work month are at variance from the budgetary estimates prepared two years earlier, which amount to USD 5 million;
- *current (2008-09) cost adjustments* that took effect at some point during the 2008-09 biennium (whether budgeted or not) that have to be applied to a full 24 month period in the 2010-11 biennium, which amount to USD 11.3 million.

**Inflation** of USD 31.0 million represents the cost impact in 2010-11 of those adjustments that are expected to take effect at various points in the next biennium, in three cost areas.

- Inflation estimates for salaries, pension fund contributions and allowances are derived from the latest external forecasts by the Economist Intelligence Unit, published data of authoritative bodies such as the International Civil Service Commission, and independent verification. They have been calculated at USD 19.4 million for 2010-11.
- Inflation estimates for the current service cost of after-service benefits are based on the latest results of the actuarial valuation for the staff related liabilities schemes of 31 December 2008, which was completed in early 2009 and reviewed by the Finance Committee. The increment amounts to USD 4.6 million, of which USD 3.7 million for current services costs of the After Service Medical Coverage and USD 0.9 million for Terminal Payments Fund, Separation Payment Fund, and Compensation Fund.
- Inflation estimates of USD 7 million on goods and services resulting from a combination of the latest external forecasts.

The **lapse factor** is a reduction of the budgetary provision for the estimated cost of established posts to account for the fact that some of them will be vacant for some time as a result of staff movements. The lapse factor methodology, approved by the Council, captures the change in the reduction factor from one biennium to the next. The lapse factor adjustment of USD 2.6 million for 2010-11 includes USD 1.8 million from not applying the lapse factor to Country Offices to reduce unfunded staff costs in these small offices, as agreed by the CoC-IEE.

Anticipated **cost increases have always been carefully reviewed by the governing bodies of FAO**. In the past, there has been a tendency to keep the unit cost projections for the next biennium to the lowest possible level, in full knowledge of the associated **risk of under-budgeting staff costs**. Indeed, this resulted in significant negative staff cost variance in the 2004-05 and 2006-07 biennia, while a smaller negative staff cost variance is also anticipated for 2008-09.

The **Rome-based agencies collaborate on the definition of cost increase factors**. Due to their differing cost structures, the aggregate **cost increases calculated by each agency are not strictly comparable**, although the estimates for 2010 are similar.

## Information Note IX – Efficiency Savings<sup>10</sup>

The IEE acknowledged that since the mid-1990s the Organization has been vigorously pursuing efficiency savings through the reduced cost of inputs, process improvements and improved cost recovery measures and noted that FAO has regularly reported on its achievements to the satisfaction of the governing bodies.<sup>11</sup> **Efficiency measures implemented since 1994 through 2009 have yielded savings totalling USD 95.6 million per annum**, as reported to the governing bodies, arising from:

- Achieving lower costs of human resource and other inputs (USD 40.0 million per annum);
- Streamlining of administrative and operational support processes (USD 32.3 million per annum);
- Selective delayering of staff positions (USD 9.9 million per annum);
- Increasing the funding base of the Programme of Work through improved cost recovery of extra-budgetary services (USD 13.4 million per annum).

**Starting in the 2006-07 biennium the Organization set a typical public sector target rate for efficiency savings of 1.0 to 1.5 percent per annum.** Complex business process and structural changes were set in motion aimed at achieving efficiency savings over several biennia<sup>12</sup>. **Savings of USD 14.1 million per annum were achieved and reported for 2006-07<sup>13</sup>, exceeding the per annum target range.**

The same framework was applied to identify and implement biennial efficiency savings in **2008-09**, totalling USD 17.6 per annum. Of this target, **USD 16.3 million in annual efficiency savings measures will be in place by the end of 2009.** This is equivalent to an annual rate of 1.8 percent, **exceeding the per annum target range.** The remaining USD 2.5 million in efficiency savings measures will be identified and implemented in 2010-11.

Planning for **efficiency savings in 2010-11** has been guided by the experience in 2008-09 and by the outcome of the external Root and Branch Review (RBR) as recommended by the IEE. The special circumstances in the 2010-11 biennium are also a period of intense reform focussed on improving organizational effectiveness. The large number of simultaneous reform projects coupled with hitherto unidentified and unsubstantiated measures to achieve efficiencies could put at risk the achievement of planned improvements.

The RBR also provides the basis for longer-term savings. It reviewed all important aspects of administrative servicing, contracting, purchasing, financial management and systems, human resources and information technology and communication systems<sup>14</sup>. It provided a set of recommendations for improvements and an evidence-based analysis of the opportunities for quantified efficiency savings in 2010-11 that were reviewed by management and by Members. The costs and savings of the RBR recommendations have been fully integrated into the IPA<sup>15</sup> and those RBR actions planned for 2010-11 are treated under the PWB 2010-11. However, the potential for monetary savings in 2010-11, which has been examined by Members, is modest but substantiated by expert advice that was sought by the IEE and the membership.

Aside from the balance of unidentified efficiency savings sought in 2008-09 to be fully realised in 2010-11, taking into account the RBR and the risks arising from IPA implementation during 2010-11, realistic efficiency savings measures have been identified for 2010-11 with forecast biennial savings of USD 19.6 million, equivalent to 1.0 percent per annum.

Most of the savings are concentrated under one area of savings, namely *Selective delayering of Director-level posts at headquarters* which amounts to **USD 17.4 million of costs reductions in**

<sup>10</sup> C 2009/15 paragraphs 179-190

<sup>11</sup> C 2007/9/A.1 paragraphs 1222 - 1225

<sup>12</sup> CL 131/18 table 21

<sup>13</sup> C 2009/8 PIR 2006-07 paragraphs 305-309

<sup>14</sup> C 2008/4 paragraph 39

<sup>15</sup> CL 137/8 Annex II and C 2009/7 Annex 5

**2010-11.** Delaying entails the reduction of 40 director-level positions at headquarters (of which 27 in 2010-11), as well as a number of General Service positions that may need to be abolished, downgraded or their functions revised. However, in line with the guidance provided in the IPA and discussed by the Working Groups of the CoC-IEE as well as the Finance Committee during 2009, these savings have been reinvested in programmes in the proposed PWB 2010-11<sup>16</sup>. Of this amount, seventy percent was reinvested in the same technical area where the delaying occurred in recognition of the substantive sectoral work undertaken by these positions. The remaining thirty percent (USD 5.2 million) provided resources that were actively reprogrammed and reallocated to ensure that certain high priority areas of work received additional resources in the 2010-2011 PWB, in line with governing bodies' guidance<sup>17</sup> (statistics, Right to Food, EMPRES, livestock, climate change, fisheries and forestry).

Other quantified areas of savings are related to the FAO Medical Insurance Plans (which will result in a savings to the Organization of about **USD 1.1 million** in 2010-11), and the decentralization of Technical Cooperation Programme operations from 2010 (which will reduce the cost of TCP management, monitoring and coordination by about **USD 0.9 million**).

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<sup>16</sup> Paragraph 46 of IPA states that 'Recurrent savings will be achieved through restructuring for redeployment in undertaking the technical work of the Organization'.

<sup>17</sup> C 2009/15 paragraph 88



**C 2009/15 – Medium Term Plan 2010-13 and Programme of Work and Budget 2010-11**

**Information Note X – Proposed Budgetary Chapter Structure and flexibility to make budgetary transfers during implementation<sup>18</sup>**

*Chapter Structure*

The biennial budget estimates are prepared by the Director-General on a programme-budget basis, divided into chapters and programme objectives. The budget is voted by the Conference through a Budgetary Appropriations Resolution at chapter-level. The **Director-General is responsible for managing the appropriations voted**, and the **governing bodies exercise financial oversight through review of regular reports on budgetary performance**, with the **requirement that transfers between chapters be approved in advance by the Finance Committee or Council**. Under previous budgetary chapter structures, these arrangements provided financial latitude to implement programmes flexibly.

For the biennial **PWB from 2010-11, a new chapter structure has been proposed** in line with the new results framework for the purposes of the Budgetary Appropriations Resolution. The 18 Chapters are shown in Figure 1.

Figure 1: Proposed Chapter structure for 2010-11

Chapter 1	A - Sustainable intensification of crop production
Chapter 2	B - Increased sustainable livestock production
Chapter 3	C - Sustainable management and use of fisheries and aquaculture resources
Chapter 4	D - Improved quality and safety of food at all stages of the food chain
Chapter 5	E - Sustainable management of forests and trees
Chapter 6	F - Sustainable management of land, water and genetic resources and improved responses to global environmental challenges affecting food and agriculture
Chapter 7	G - Enabling environment for markets to improve livelihoods and rural development
Chapter 8	H - Improved food security and better nutrition
Chapter 9	I - Improved preparedness for, and effective response to, food and agricultural threats and emergencies
Chapter 10	K - Gender equity in access to resources, goods, services and decision-making in the rural areas
Chapter 11	L - Increased and more effective public and private investment in agriculture and rural development
Chapter 12	X - Effective collaboration with Member States and stakeholders
Chapter 13	Y - Efficient and effective administration
Chapter 14	FAOR Programme
Chapter 15	Technical Cooperation Programme
Chapter 16	Contingencies
Chapter 17	Capital Expenditure
Chapter 18	Security Expenditure

The overall purpose of this new chapter structure is to **link the budget to the Programme of Work to be carried out under the results frameworks at the objective level** (see Note III). This level of disaggregation provides a clear and comprehensive view of expenditures against the results framework, but also leads to a significant fragmentation of the programme budget, **moving from eight Chapters in 2008-09 to 18 Chapters in 2010-11**. This increase in the number of chapters against which to report to governing bodies is potentially problematic for the flexible financial management of the budget.

*Budgetary transfers during implementation*

**Transfers between chapters** are approved in advance by the Finance Committee or Council. They **result from two main aspects of implementation of the programme of work: resource shifts needed to deliver against the Strategic and Functional Objectives** and to address any emerging

<sup>18</sup> C 2009/15 paragraphs 273-285

issues; and **some variation against budgets without any substantive change in programme delivery** due to matters beyond the Organization's direct control, such as variances against standard staff costs or exchange rate movements.

Under the previous budgetary chapter structure there was usually sufficient room to adjust resource allocations within chapters during implementation. With, on average, smaller budgets under each chapter of the proposed structure, even small variances arising on account of matters beyond the Organization's direct control would need to be approved in advance by the governing bodies. During implementation, this may tend to impede the ability to manage variations between budgets and expenditures that already exist.

Based on the guidance of the Finance Committee and the CoC-IEE, the PWB 2010-11 proposed that the Director-General be accorded flexibility to transfer resources in or out of every chapter up to a level of 5 percent of the amount appropriated. During discussions by the Friends of the Chair of Council on 26 October, there was a reaffirmation of the views previously expressed by Members that the **Director-General needs flexibility during the biennium to effectively implement the approved programme of work**, and that **Members require adequate means of oversight through the governing bodies**. The Secretariat recognized that the **level of desirable flexibility in effecting chapter transfers under the proposed budgetary chapter structure is a matter of judgment** and welcomed the ideas put forward by the Friends of the Chair, which are accommodated in the following revised proposal.

*Revised proposal for flexibility to make budgetary transfers*

The Friends of the Chair of Council have observed that the proposed budgetary chapters fall into three different groups based on their size and characteristics: Strategic Objectives (Chapters 1-11); Functional Objectives (Chapters 12 and 13); and special purpose Chapters 14-18 for FAOR Programme, Technical Cooperation Programme, Contingencies, Capital Expenditure and Security Expenditure.

The eleven budgetary Chapters devoted to the Strategic Objectives are small compared with the two aggregated Chapters in which these resources were mainly appropriated in the PWB 2008-09. In view of this increased fragmentation and in order to manage more effectively within the resources appropriated for each of the Strategic Objectives under Chapters 1 through 11, it is **proposed that the Director-General be accorded flexibility to transfer resources in or out of Chapters 1 through 11 up to a level of 5 percent of the amount appropriated for these Chapters**, notwithstanding Financial Regulation 4.5 (b).

It is furthermore **proposed that the remaining Chapters 12 through 18 be managed in line with FR 4.5 (b), with transfers from one chapter to another thus requiring prior approval of the Finance Committee or Council**. The rationale for this proposal is that these chapters either aggregate resources at the level similar to current chapters (i.e. Functional Objective X - Effective Collaboration with Member States and Stakeholders) or would benefit from scrutiny by the governing bodies before effecting resource transfers (i.e. Functional Objective Y - Administration, FAOR Programme, TCP, Contingencies, Capital Expenditure, Security Expenditure).

Irrespective of the level of flexibility granted, the **Director-General shall continue to report on a regular basis to the Finance Committee on budgetary performance**, including proposed and actual resource transfers between budgetary chapters. As foreseen in the IPA, the performance reports will also be reviewed by the Programme Committee.

The above proposal would be consistent with the parameters for oversight by the governing bodies, while providing adequate flexibility to the Director-General during implementation. With the above proposal, the **additional clause in the 2010-11 Appropriations Resolution** would read as follows:

*"Notwithstanding the provisions of Financial Regulation 4.5 (b), the Director-General is authorized to make transfers to and from budgetary Chapters 1 through 11 up to an amount not exceeding 5 percent of the amount appropriated to the Chapter; all such transfers shall be reported in the budgetary reports for the 2010-11 period; any other transfers required shall be made and reported in accordance with the provisions of Financial Regulation 4.5 (b)."*

## C 2009/15 – Medium Term Plan 2010-13 and Programme of Work and Budget 2010-11

### Information Note XI – Proposed Net Appropriation and Impact on Assessments<sup>19</sup>

The biennial **budgetary appropriations voted by the Conference** constitute an authorization to the Director-General to incur obligations and make payments for delivering the Programme of Work up to the amounts so voted. The net appropriation is **presented by budgetary Chapter**, in line with the Programme of Work, and is **expressed in US dollars**. The net appropriation is **financed by assessments from Members that are due in US dollars and Euros** in accordance with the estimated expenditures in each of the two currencies, as per the split assessment methodology.

The **evolution and calculation of the net budgetary appropriation (NAP) has three phases**: programme planning, anticipated cost increases, and split assessment impact.

#### *Programme planning effects*

The 2008-09 NAP level of USD 929.8 million was used as the starting point for preparing the 2010-11 budget, which represents a **complete re-programming** of resources under the new Results Frameworks, including some reallocations for priority technical areas (30 percent of delayering savings) and the IPA (USD 4 million).<sup>20</sup> **Incremental programmatic requirements** of USD 15.5 million for the IPA were programmed under Functional Objectives X and Y, and Capital Expenditure, and an increment of USD 0.7 million was allocated to Security Expenditure. The total increment of USD 16.2 million results in a planned 2010-11 NAP of USD 946.0 million, a 1.7 percent increase over the level of the 2008-09 NAP at current budgeted prices and exchange rates.

#### *Effect of anticipated cost increases*

**Cost increases** represent the estimated incremental costs of personnel services and other goods and services to re-cost these inputs at 2010-11 values compared with 2008-09 NAP (see Note VIII). Cost increases, which are estimated at USD 49.9 million, do not represent a programmatic increase.

#### *Impact of split assessments*

FAO's regular programme expenditure occurs in many currencies – mainly the US dollar and Euro. Under the split assessments methodology established by Conference in 2003, contributions to the budget are **financed** by assessments from Members partly in US dollars and partly in Euro. This split assessment in two currencies is established by matching to the extent possible the income to FAO from the receipt of Members' assessments with the regular programme expenditure in US dollars and Euros.

However, the net appropriation in the Budgetary Appropriations Resolution approved by Conference is **expressed** in only one currency - US dollars - which is FAO's currency for budgeting and accounting. The net appropriation is "revalued" every biennium, in accordance with an approach outlined by the 2003 Conference. This entails updating from one biennium to the next the US dollar -Euro exchange rate and applying it to FAO's estimated Euro expenditure.

Regarding the exchange rate to be used for 2010-11, the 2008-09 net appropriation was established on the basis of US dollar – Euro exchange rate prevailing in July 2007 (Euro 1 = US dollar 1.36), while the 2010-11 net appropriation is revalued to a new budget rate of US dollar – Euro exchange (Euro 1 = US dollar 1.385), which was the prevailing rate when the PWB 2010-11 was finalized in July 2009. Regarding the estimated proportion of regular programme expenditures in US dollars and Euros for 2010-11, these amount to 43.1 percent US dollars and 56.9 percent Euro.

It is important to note that a **change in budget rate affects the value of the programme of work expressed in US dollars, but has no impact on assessed amounts** under the Conference-

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<sup>19</sup> C 2009/15 paragraphs 255 to 272

<sup>20</sup> To facilitate comparison with the proposed 2010-11 budget, a distribution of the 2008-09 NAP against the new 2010-11 chapter structure was derived based on an ex post mapping of old programme entity resources to new Strategic and Functional Objectives (see Note IV).

approved split assessment methodology **or the resources available for regular programme expenditures**. Thus, as shown in PWB Table 18 (reproduced in Table 1 below), the assessed split contributions in US dollars and Euro do not vary under different exchange rate conditions: USD 434.0 million and Euro 413.1 million. However, the US dollar value of the contributions due in Euro does change under different exchange rate conditions: from USD 561.9 million at 1.36 to USD 572.2 million at 1.385, a difference of USD 10.3 million. Therefore, the proposed net appropriation at the revalued exchange rate and using the estimated split of US dollar and Euro expenditure for 2010-11 as expressed in US dollars in the Budgetary Appropriations Resolution is USD 1,006.2 million.

**Table 1:<sup>21</sup> Impact of the change in the budget rate of exchange under split assessment (USD/Euro million)**

	<b>Euro 1 = USD 1.36</b>	<b>Euro 1 = USD 1.385</b>
Assessments due in US dollars for 2010-11 programme of work	USD 434.0	USD 434.0
Assessments due in Euro for 2010-11 programme of work	Euro 413.1	Euro 413.1
Assessed contributions due in US dollars	USD 434.0	USD 434.0
Assessed Euro contributions of Euro 413.1 million, expressed in US dollars at two distinct budget rates of exchange of 1.36 and 1.385 respectively	USD 561.9	USD 572.2
<b>Total expressed in US dollars</b>	<b>USD 995.9</b>	<b>USD 1,006.2</b>

\*Before miscellaneous income deduction of USD 2 million which is estimated 100% in US dollars

*Cumulative effects on assessments*

The **cumulative effect** of the **programmatic planning effects** and **anticipated cost increases** amount to a **7.1 percent increase** in net appropriation (equivalent to 4.7 percent per year). The impact of also revaluing the net appropriation under the **split assessments methodology** brings the cumulative increase in nominal dollar terms to 8.2 percent over the biennium. However, the **financial impact on individual Member Nations** of the split assessments due for the 2010-11 programme of work will **depend on rate of exchange of their own currency for US dollars and Euro at the time of payment**. The final assessments due will be adjusted for Miscellaneous Income and any additional assessments voted by Members (e.g. ASMC past service liability).

<sup>21</sup> Derived from C 2009/15 MTP/PWB Table 18

**Information Note XII – Measures to Improve FAO’s Financial Health<sup>22</sup>**

The **Organization’s overall financial condition, when expressed as the net difference between all assets and all liabilities under the Regular Programme, shows a deficit of almost USD 400 million as of the end of 2008.** The balances on General and Related Funds as at 31 December 2008 (unaudited) are summarized in Table 1.

**Table 1: General and Related Funds balances as at 31 December 2008** USD million

General Fund (deficit)	(412.7)
Working Capital Fund <sup>23</sup> (WCF)	0.0
Special Reserve Account (SRA)	15.9
<b>Total General and Related Funds (deficit) at 31 December 2008</b>	<b>(396.8)</b>

The **deficit has developed over a period of ten years** (the 1997 balance was a positive USD 27 million) due to a number of charges and expenditures, which were not matched with funding by budgetary appropriations or additional assessments.

The accumulation of unfunded charges has contributed to cash depletion in recent years and, in periods when Members have been late in settling assessed contributions, the Organization has been obliged to borrow from banks to meet operating expenses.

**All unbudgeted and unfunded costs since 1998 have been reported to the governing bodies.** They include payments for redeployment and separation costs, unforeseen salary cost increases and unfunded past service costs for the Organization’s share of After Service Medical Coverage (ASMC).

ASMC liabilities amount to USD 878 million and are the single largest factor contributing to the General Fund deficit as at 31 December 2008. ASMC liabilities are present on a similar scale throughout the UN System, and organizations are actively pursuing individual funding strategies to face this challenge. In the case of FAO, positive action towards funding the unfunded past service costs for ASMC liability has been taken since 2004-05 with the Conference having approved a biennial additional assessment of USD 14.1 million<sup>24</sup> towards funding for ASMC liabilities. These assessments are credited to a long-term investment portfolio held towards funding the Organization’s after-service liabilities.

As requested by the Finance Committee and in line with past PWB documents, the **PWB 2010-11 includes proposals to stabilize the General Fund deficit and avoid liquidity shortages.** A “minimum” incremental funding requirement for addressing the financial health of the Organization amounts to USD 31.6 million<sup>25</sup>, as summarized below and in Table 2. This figure is in addition to the 2008-09 approved additional assessment of USD 14.1 million towards funding for ASMC liabilities.

<sup>22</sup> C 2009/15 paragraphs 232 – 254 and 263 – 265

<sup>23</sup> The WCF primarily advances monies to the General Fund to finance expenditures pending receipt of assessed contributions. Its balance is normally at its authorized level of USD 25.7 million. The end-2008 balance of zero was due to full utilization of the WCF prior to the Organization’s recourse to external borrowing at the time.

<sup>24</sup> In 2003 governing bodies recognized that the Organization’s share of after-service medical costs was consuming increasing amounts of operational cash and required a funding source. The additional biennial assessment of USD 14.1 million towards funding the ASMC liability was approved by Conference in 2003, based on a 2001 actuarial valuation. The Conference has not agreed to adjust the amount since then, and the Finance Committee has recently re-iterated that the amount “remained far short of the biennial funding target which would be needed to fully fund the liability by 2027.”

<sup>25</sup> The PWB 2010-11 also included a “desirable” incremental funding requirement for an amount of USD 163 million, which reflected the Secretariat’s judgement of the actual needs for substantially and expeditiously improving FAO’s financial health.

The **minimum incremental funding of USD 31.6 million** for 2010-11 comprises the two specific areas where the Secretariat has already received positive guidance from the Council, as follows:

- USD 25.2 million per biennium (recurring) for the ASMC which is intended to fully fund the liability by 2038. This is in accordance with the November 2005 Council *“recommending funding at the same level prescribed by the latest Actuarial Valuations in future biennia”* and Council’s advice in November 2007 to pursue *“longer term...strategies to ensure that significant obligations such as after-service liabilities become fully funded.”* However, the funding requirement assumes a later target date of 2038 to fully fund the liability, as opposed to the plan foreseen by the Conference in 2003 to fully fund the liability by 2027; and
- USD 6.4 million (one-time) to restore to the Special Reserve Account (SRA) the equivalent charge for a portion of the unbudgeted headquarters General Service staff salary increase disbursed in 2006, as already recommended by Council at its 131st session in November 2006<sup>26</sup>.

**Table 2 Incremental requirements for addressing the financial health of the Organization (in USD millions)\***

Elements for improving FAO’s financial health, liquidity and reserves	Minimum incremental funding in 2010-11 USD million
<b>Recurring funding requirements for staff related liabilities:</b>	
Funding ASMC past service liability	25.2
<b>One-time funding requirements for replenishment of reserves</b>	
Special Reserve Account	6.4
<b>Total incremental requirements</b>	<b>31.6</b>

\* In addition to the 2008-09 approved additional assessment of USD 14.1 million towards funding for ASMC liabilities

During the 129<sup>th</sup> session of the Finance Committee in September 2009, Committee members recognized, that taken together with the other financial obligations included in the PWB, including the estimated cost increases and the need to guarantee funding of the IPA, the minimum incremental funding proposed to improve the financial situation would substantially increase the total assessed contributions required for 2010-11 and that this would need to be reviewed by Council. The Committee stressed that while it might be possible to defer decisions on funding proposals to improve the financial health of the Organization, **postponement would contribute to further increases in unfunded liabilities, the accumulated deficit and cash depletion.**

<sup>26</sup> The SRA has multiple purposes established by Conference Resolutions, including protecting the programme of work against the effect of unbudgeted extra costs arising from adverse currency fluctuations and unbudgeted inflationary trends.