

Group of “Friends of the Chair” of FAO Council
Programme of Work and Budget 2010-11
Information Note 1 - October 2009

What are the incremental financial requirements to improve FAO’s financial health, liquidity situation and reserves?¹

1. The Organization’s expenditure under the Regular Programme is financed each biennium by assessed contributions from Member Nations. Members and other donors also establish individual extra-budgetary agreements with the Organization and provide voluntary contributions where expenditure is incurred against contributions actually received.
2. 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 ² (WCF)	0.0
Special Reserve Account (SRA)	15.9
Total General and Related Funds (deficit) at 31 December 2008	(396.8)

3. 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.
4. 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.
5. 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).
6. ASMC liabilities are the single largest component of the General Fund deficit at 31 December 2008. This challenge is present throughout the UN System, and Table 2 below shows the actuarial value and related funding of ASMC liabilities in 2008 and 2007 of a sample of UN Organizations. 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 million³ towards funding for ASMC liabilities. These assessments are credited to a long-term investment portfolio held towards funding the Organization’s after-service liabilities.

¹ C 2009/15 paragraphs 232 – 254 and 263 – 265

² 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.

³ 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.*”

Table 2: Actuarial value and related funding of ASMC liabilities in 2008 and 2007 of a sample of UN organizations.

Organization	Total Liability USD millions	Funding Available USD millions	Year of Actuarial Valuation
UN	2,596	0	2008
FAO	878	141	2008
WHO	649	384	2007
UNESCO	614	30	2007
ILO	415	0	2007

7. As requested by the Finance Committee and in line with past PWB documents, two sets of measures are presented in the PWB 2010-11 for Members' consideration in order to stabilize the General Fund deficit and avoid liquidity shortages. Incremental requirements for addressing the financial health of the Organization range from USD 31.6 million for "minimum" incremental funding to USD 163.0 million for "desirable" incremental funding, as summarized below and in Table 3. Both of these figures are in addition to the 2008-09 approved additional assessment of USD 14.1 million towards funding for ASMC liabilities.

8. 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 2006⁴.

9. The **desirable incremental funding level of USD 163.0 million** for 2010-11 reflects the Secretariat's judgment of the actual needs for substantially and expeditiously improving FAO's financial health, and includes:

- USD 46.4 million per biennium (recurring) for the ASMC, which would fully fund the ASMC past service liability by 2027, as per the original 30 year amortization plan which began in 1998.
- USD 29.0 million per biennium (recurring) for the Terminal Payments Fund (TPF)⁵, which would fully fund the TPF past service liability by the original target date of 2012;
- USD 49.3 million replenishment (one-time) for the Working Capital Fund (WCF) to raise the level of the WCF to USD 75 million, which is equivalent to approximately 50 days of regular programme disbursements. This would provide a superior safety net, prior to recourse to borrowing, in the face of persistent delays in Members' contributions; and
- USD 38.3 million replenishment (one-time) of the SRA to avoid depletion by the 2009 year-end if significant exchange rate losses are incurred.

⁴ 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.

⁵ Terminal Payments are end-of-service payments including accrued leave, repatriation grant and travel that will arise when staff members leave the Organization. The value of the past service liability is determined by external actuarial valuations.

Table 3 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	Desirable incremental funding in 2010-11 USD million
Recurring requirements for staff related liabilities:		
Funding ASMC past service liability	25.2	46.4
Funding TPF past service liability	0.0	29.0
Subtotal recurring incremental funding requirements for staff related liabilities	25.2	75.4
One-time requirements for replenishment of reserves		
Working Capital Fund	0.0	49.3
Special Reserve Account	6.4	38.3
Subtotal One-time requirements for building up reserves	6.4	87.6
Total incremental requirements	31.6	163.0

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

10. During the 129th 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.