

## Group of “Friends of the Chair” of FAO Council

### Programme of Work and Budget 2010-11

#### Information Note 2 - October 2009

#### *Proposed Budgetary Chapter Structure and flexibility to make budgetary transfers during implementation*<sup>1</sup>

This note provides background and additional information on the proposed Budgetary Chapter Structure for 2010-11 to assist the discussion on providing for flexibility to make budgetary transfers between Chapters during implementation.

#### *Current Regulations and Practice*

1. Financial Regulation III on the budget states that biennial budget estimates shall be prepared by the Director-General on a programme-budget basis, divided into chapters and programme objectives and, where necessary, into programmes and sub-programmes. The budget is voted by the Conference through a Budgetary Appropriations Resolution at chapter-level.
2. Financial Regulation IV on appropriations provides for the financial management of the appropriations voted, including the responsibility of the Director-General to manage the appropriations, and the requirement that transfers between chapters be approved in advance by the Finance Committee or Council.
3. Governing body financial oversight of spending against plan is provided at chapter level through regular reports on Budgetary Performance to the Finance Committee, and programme performance is in part examined through the biennial Programme Implementation Report to Conference (through the Council and its Committees). These arrangements provide financial latitude to implement programmes flexibly, with governing body oversight focused on delivery of results.

#### *Chapter Structures of Budgetary Appropriations Resolution – 2000 to 2009*

4. For the biennia 2000-01 to 2004-05, the Appropriations Resolution had seven Chapters. Then, for the 2006-07 biennium, the chapter structure was modified in two ways: i) consolidation of the seven chapters into six linked to Reforms in the Organization (CR 6/2005); and ii) creation of two new special purpose chapters on Capital Expenditure (CR 10/2003) and Security Expenditure (CR 5/2005). The chapter structures which were in effect for the past five biennia are reflected below:

<b>Chapter</b>	<b>2000-01 to 2004-05</b>	<b>2006-07 and 2008-09</b>
1	General policy and direction	Corporate governance
2	Technical and economic programmes	Sustainable food and agricultural systems
3	Cooperation and partnerships	Knowledge exchange, policy and advocacy
4	Technical cooperation programme	Decentralization. UN cooperation and programme delivery
5	Support services	Management and supervision services
6	Common services	Contingencies
7	Contingencies	
8		Capital expenditure
9		Security expenditure

<sup>1</sup> C 2009/15 paragraphs 273-285

## *2010-11 Budgetary Chapter Structure – Initial Guidance from Members*

5. For the biennial PWB from 2010-11, a new chapter structure needs to be defined in line with the new results framework for the purposes of the Budgetary Appropriations Resolution. The CoC-IEE Working Groups in July and September 2008 reviewed a possible Chapter proposal and noted that the chapter structure should<sup>2</sup>:

- a. clarify the division between technical and administrative costs;
- b. allow for flexibility to the Secretariat to deliver against Strategic Objectives and address any emerging issues; and
- c. avoid any tendency towards micromanagement by the governing bodies.

6. At the same time, the Working Groups noted that the chapter structure should permit adequate governing body oversight of significant proposals for resource shifts between priorities.

7. Similarly, the Finance Committee at its May 2009 session considered that the draft Budgetary Appropriations Resolution would need to be presented differently than in the past, in order to realign it with the newly defined Strategic and Functional Objectives, while ensuring flexibility for effective implementation. It noted that the Secretariat would present such a draft Budgetary Appropriations Resolution to the Committee at its July Session<sup>3</sup>.

8. Earlier, at its Session in October 2008, the Finance Committee had reviewed procedures regarding Financial Regulation 4.5b on budgetary chapter transfers and had requested the Secretariat to elaborate on the procedure, including a nominal margin for flexibility, which could range between 1 and 5 percent of the budgetary chapter<sup>4</sup>.

## *Budgetary Chapter Proposals – Draft MTP 2010-13/PWB 2010-11*

9. On the basis of the principles outlined above, the Secretariat presented in the draft MTP 2010-13/PWB 2010-11<sup>5</sup> two proposed options for the budgetary chapter structure which would align the Appropriations Resolution and the PWB results frameworks, and would allow flexibility to address emerging issues and avoid tendency towards micromanagement by the governing bodies.

### Option 1

10. The first option presented included one chapter for each Strategic and Functional Objective (13 chapters), and five chapters for special items (FAOR, TCP, Capital Expenditure, Security Expenditure, and Contingencies).

11. The overall purpose of this structure was to clearly link the budget to the Programme of Work to be carried out under the results frameworks at the objective level. Technical work and other substantive work carried out in support of the Core Functions were distinguished in separate Chapters (1 through 12). The administration and overhead costs were located in Chapter 13 (Functional Objective Y).

12. This level of disaggregation provided a clear and comprehensive view of expenditures against the results framework, but also led to a significant fragmentation of the programme budget: where there were five programme-budget Chapters in 2008-09, there were now 15 (13 Chapters for the Strategic and Functional Objectives, one for FAORs, and one for TCP). This three-fold increase in the number of Chapters against which to report to Governing Bodies was potentially problematic, in particular in

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<sup>2</sup> Chairs' Aide Mémoire – Joint Meeting of CoC-IEE WG I and WG III, 19 September 2008

<sup>3</sup> CL 136/8, para 63

<sup>4</sup> CL 135/8, para 51

<sup>5</sup> PC 102/3 – FC 128/11 paragraphs 198-211

relation to the requirement that transfers between chapters be approved in advance by the Finance Committee or Council (Financial Regulation 4.5b).

13. Transfers between Chapters 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 issues; and some variation against budgets without any substantive change in programme delivery due to variances against standard staff costs or exchange rate movements. Under the previous Chapter structure there was usually sufficient room to adjust resource allocations within Chapters during implementation, and shifts between Chapters usually did not exceed 2 percent (see Annex 1). With, on average, smaller budgets under each Chapter of the proposed structure, even small variances would need to be approved in advance by the governing bodies. This may tend to impede the ability to manage variations between budgets and expenditures that already exists in implementation and could lead to micromanagement.

14. As part of Option 1, therefore, it was considered appropriate to include a clause in the Appropriations Resolution which, notwithstanding Financial Regulation 4.5b, would provide flexibility to the Director-General to authorise transfers between budgetary chapters up to a certain percentage. The World Health Organization (WHO), which has 13 Chapters for a comparable level of appropriation, has a similar clause in its appropriations resolution, which provides flexibility of up to 10 percent to the Director-General.

#### Option 2

15. Option 2 presented in the draft MTP 2010-13/PWB 2010-11 consisted of three chapters for the 11 Strategic Objectives, two for the Functional Objectives, one of which separately identified the administration and overhead costs (Functional Objective Y), and five chapters for the special items (FAORs, TCP, Capital Expenditure, Security Expenditure, and Contingencies).

16. The difference with Option 1 was the more consolidated presentation of the Strategic Objectives, with, as a result, an increase of only two programme budget chapters as compared to 2008-09. With this aggregated presentation, the concerns regarding flexibility in budgetary management outlined above could be accommodated without derogation from FR 4.5b, and the additional clause in the Appropriations Resolution would not be required.

#### *Governing Body Feedback on Proposals in Draft MTP 2010-13/PWB 2010-11*

17. At its July 2009 session, the majority of Finance Committee Members stated a preference in principle for Option 1, which consisted of one Chapter for each Strategic and Functional Objective (13 chapters) and would provide flexibility to the Director-General to authorize transfers between budgetary Chapters up to a certain percentage.

18. At the Joint Meeting of the Programme and Finance Committees in July 2009, several Members provided their views on the proposed Chapter structure under the new results framework, with the majority supporting Option 1.

#### *Budgetary Chapter Proposal – Full MTP 2010-13/PWB 2010-11*

19. On the basis of the guidance received, the Director-General proposed a Chapter structure that would have a one-to-one alignment of the Appropriations Resolution and the results-based programming framework in the full MTP 2010-13/PWB 2010-11, the same as Option 1 in the draft PWB.

20. Technical work and other substantive work carried out in support of the Core Functions are distinguished in separate Chapters (1 through 12), and the administration and overhead costs are separately identified in Chapter 13 (Functional Objective Y). The FAOR Programme and the

Technical Cooperation Programme are presented in separate chapters for budgetary planning purposes only. The special purpose chapters on Contingencies, Capital Expenditure and Security Expenditure remain in line with the current Financial Regulations, but with new chapter numbers (16, 17 and 18).

21. The full proposed Chapter structure for 2010-11 is shown below:

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
Chapter 19:	Transfer to Tax Equalization Fund

22. It is noted that under this structure the FAOR programme and TCP would not be fully integrated into the results framework. Recognizing that this matter is work in progress, it will be further considered by the Secretariat and the relevant governing bodies during 2010-11 biennium aiming at implementation in 2012 to the extent possible.

### Budgetary flexibility

23. As outlined in the PWB 2010-11 and elaborated under Option 1 above, it is important to consider whether, with such a detailed Chapter structure:

- the Secretariat retains sufficient flexibility to handle variations against budget that are caused by technical adjustments;
- the Secretariat has sufficient flexibility to deliver against the Strategic and Functional Objectives and to address any emerging issues; and
- micromanagement by the governing bodies is avoided.

24. As part of this proposal, therefore, it is considered desirable to include a clause in the Appropriations Resolution which, notwithstanding Financial Regulation 4.5b, would provide flexibility to the Director-General to authorise transfers from budgetary chapters up to 5 percent. The proposed wording in the draft Appropriations Resolution in the PWB 2010-11 is as follows:

*“Notwithstanding the provisions of Financial Regulation 4.5b, the Director-General is authorised to make transfers between budgetary chapters up to an amount not exceeding 5 percent of the amount appropriated to the chapter from which the transfer is made; 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 4.5b.”*

25. Reporting to the governing bodies would naturally continue to take place on a regular basis during implementation.

*Governing Body Feedback on Chapter Proposal in Full MTP 2010-13/PWB 2010-11*

26. The Finance Committee at its September 2009 Session welcomed the proposed Chapter structure. The Committee also appreciated that it was foreseen in future biennia to plan FAOR resources directly against the Strategic and Functional Objectives and that the contributions of FAOR and TCP activities and resources to the Strategic and Functional Objectives in 2010-11 would be detailed in implementation reporting.

27. The Finance Committee also generally agreed on the proposed clause, included in the draft Budgetary Appropriations Resolution 2010-11, that would provide flexibility to the Director-General to make transfers between budgetary Chapters up to 5 percent of the amount appropriated to the Chapter from which the transfer is made.<sup>6</sup>

28. At the Council session in September-October 2009, Members generally appreciated the proposed Chapter structure and supported the need to provide some flexibility to the Director-General in effecting Chapter transfers. Members provided a range of views on the appropriate percentage or level to be established in the Budgetary Appropriations Resolution.

29. The Secretariat, on its part, recognizes that the level of desirable flexibility in effecting chapter transfers under the proposed chapter structure is a matter of judgement, and variations to the proposal are possible.

*History of Budgetary Chapter Transfers and 2010-11 Flexibility Proposal*

30. Some additional information is provided below on the history of budgetary chapter transfers and on the 2010-11 proposal, with the aim of assisting the debate on the appropriate percentage level up to which the Director-General could authorize transfers.

31. The proposed clause refers to a percentage of the amount appropriated to the chapter from which the transfer would be made. Over the past four biennia (2002-03 to 2008-09), the range of Chapter transfers was from USD 0.05 million to USD 5.8 million. Annex I provides more detail.

32. With the proposal for the Director-General's authority level to be established at 5 percent, amounts which could potentially be transferred out of the Strategic Objective Chapters (1 through 11) would range from USD 0.4 million to USD 3.0 million. The potential transfers out of the Functional Objective and FAOR Chapters would be higher given the size of those budgets, ranging from USD 4.4 million (FAORs) to USD 10.9 million (Functional Objective X). The Chapters for TCP, Capital Expenditure and Security Expenditure fall under special financial regulations which allow surpluses to be carried over to the next biennium and would, therefore generally not be subject to resource transfers out.

33. If the Director-General's authority were established at 1 percent, the potential transfers out of the Strategic Objective Chapters would range from USD 0.1 million to USD 0.6 million, while at 3 percent they would range from USD 0.3 million to USD 1.8 million. Annex II provides more detail.

34. It is reiterated that, under any scenario, the Director-General would continue to report on budgetary chapter transfers to the Finance Committee on a regular basis during the biennium. The

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<sup>6</sup> CL 137/9, paras 19 and 20

flexibility percentage would be established as part of the more detailed Chapter structure to allow for flexibility to the Secretariat to deliver against Strategic Objectives and address any emerging issues, and to avoid micromanagement by the governing bodies.

**Annex I****Budgetary Transfers by Chapter (in USD 000s)**

Chapter	2002-03		2004-05		2006-07		2008-09	
	Budget	Actual Transfer Amount	Budget	Actual Transfer Amount	Budget	Actual Transfer Amount	Budget	Estimated Transfer Amount
1	51,800	100	67,355	-300	18,100	1,700	26,700	-600
2	292,300	-5,800	329,136	-2,540	209,600	-3,300	261,000	1,700
3	120,800	6,000	140,773	1,540	189,100	1,600	236,000	3,900
4	95,200	-300	103,027	0	212,700	-1,600	228,200	-1,100
5	52,600	0	59,415	-50	110,500	350	134,000	-3,900
6	38,400	0	48,794	1,350	600	0	600	0
7	600	0	600	0		NA		
8	NA	NA	NA	NA	4,700	1,700	20,100	-
9	NA	NA	NA	NA	20,400	-450	23,300	2,200
<b>Total</b>	<b>651,700</b>	<b>0</b>	<b>749,100</b>	<b>0</b>	<b>765,700</b>	<b>0</b>	<b>929,900</b>	<b>0</b>

<b>Annex II</b>					
<b>Budgetary Transfers by Chapter (in USD 000s) – Simulation for 2010-11</b>					
<b>Chapter</b>	<b>Description</b>	<b>Budget</b>	<b>Transfers at 5%</b>	<b>Transfers at 3%</b>	<b>Transfers at 1%</b>
1	Objective A	50,476	-2,524	-1,514	-505
2	Objective B	32,634	-1,632	-979	-326
3	Objective C	57,210	-2,861	-1,716	-572
4	Objective D	25,390	-1,270	-762	-254
5	Objective E	43,660	-2,183	-1,310	-437
6	Objective F	54,759	-2,738	-1,643	-548
7	Objective G	41,699	-2,085	-1,251	-417
8	Objective H	60,636	-3,032	-1,819	-606
9	Objective I	7,864	-393	-236	-79
10	Objective K	10,306	-515	-309	-103
11	Objective L	38,724	-1,936	-1,162	-387
12	Objective X	217,376	-10,869	-6,521	-2,174
13	Objective Y	115,756	-5,788	-3,473	-1,158
14	FAOR Programme	88,389	-4,419	-2,652	-884
15	TCP	111,928	-5,596	-3,358	-1,119
16	Contingencies	600	-30	-18	-6
17	Capital Expenditure	23,968	-1,198	-719	-240
18	Security Expenditure	24,866	-1,243	-746	-249