

Group of “Friends of the Chair” of FAO Council

Programme of Work and Budget 2010-11

Information Note 3 - October 2009

Proposed Net Budgetary Appropriation¹

1. The PWB 2010-11 presents an integrated view of total resource requirements to carry out the Programme of Work directly linked to the two-year targets in the Results Frameworks, funded from the *Net Budgetary Appropriation* and *Voluntary Contributions*.
2. This note focuses on the evolution and calculation of the proposed *Net Budgetary Appropriation* for 2010-11 to be financed by assessed contributions from Member Nations.
3. The budgetary appropriations voted by the Conference for the biennium constitute an authorization to the Director-General to incur obligations and make payments for delivering the Programme of Work up to the amounts so voted². 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.
4. The evolution and calculation of the net budgetary appropriation (NAP) has three phases: programme planning, anticipated cost increases, and split assessment impact, as explained below and illustrated in *Annex 1*.

Net Appropriation – programme planning effects

5. The 2008-09 NAP level of USD 929.8 million was used as the starting point for preparing the 2010-11 budget. 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 (*Column A*) based on an *ex post* mapping of old programme entity resources to new Strategic and Functional Objectives. The derived 2008-09 resource distribution to the new Strategic and Functional Objectives is indicative at best and should be interpreted with caution, due to the inherent imprecision of associating the old and new planning frameworks, which have different approaches and assumptions. The mapping of 2008-09 TCP, FAOR, Contingencies, Capital and Security Expenditure resources to their new Chapters is exact.
6. The 2010-11 NAP planned before increments (*Column B*) represents a complete re-programming of the 2008-09 NAP of USD 929.8 million under the new Results Frameworks, at constant 2008-09 costs and using the 2008-09 budget rate of exchange of Euro 1 = USD 1.36. During planning, USD 17.4 million in savings from selective delayering of Director-level posts at headquarters was reprogrammed among the Strategic and Functional Objectives, as called for in the Immediate Plan of Action. Of this amount, 70 percent of savings were ploughed back directly into the areas of work from which the savings were derived. The remaining 30 percent of the savings were re-allocated to high priority areas of work including statistics, Right to Food, EMPRES, livestock, climate change, fisheries and forestry. Furthermore, an amount of USD 4 million was reprogrammed for implementation of the IPA mainly to cover the increase in the Evaluation budget and the implementation of the rotation policy. While the differences between the Chapter distribution of the 2008-09 NAP and proposed 2010-11 NAP should be interpreted with caution, they do give an indication of relative shifts in emphasis and resources arising from the reformulation of FAO's programmes under the new Results Frameworks.

¹ C 2009/15 paragraphs 255 to 272

² Financial Regulation 4.1

7. The incremental IPA and security requirements for 2010-11 (*Column C*) amount to USD 16.2 million. Of this, USD 15.5 million was programmed for the IPA under Functional Objectives X and Y, and Capital Expenditure. The security increment of USD 0.7 million was allocated to Security Expenditure.

8. 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, as shown in *Columns D and E*.

Net Appropriation – effect of anticipated cost increases

9. 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 separate note for details). Cost increases do not represent a programmatic increase. The distribution of the USD 49.9 million in anticipated cost increases by Chapter (*Column F*) is based on the underlying composition of the inputs and does not represent a programmatic shift among Chapters.

10. The resulting total proposed net appropriation for 2010-11 of USD 995.9 (*Column G*) represents a USD 66.1 million increase (7.1 percent) over the 2008-09 NAP, arising from the aggregate effect of incremental IPA and security costs (*Column C*) and cost increases (*Column F*). The percentage variance for each Budgetary Chapter (*Column H*), moving from the derived 2008-09 NAP distribution (*Column A*) to the proposed 2010-11 NAP (*Column G*), is due to the combined effects of shifts in programmatic emphasis (*Column B*), incremental costs of IPA and security (*Column C*), and the application of cost increases.

Net appropriation - impact of split assessments

11. 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 designed to match to the extent possible the income to FAO from the receipt of Members' assessments with its underlying currencies of regular programme expenditure. It follows that the split for financing the regular programme of work through assessments in US dollars and Euros is established by Conference in accordance with the estimated expenditures in each of these currencies.

12. 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.

13. 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.

14. 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-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 (*Column J*).

Table 1:³ Impact of the change in the budget rate of exchange under split assessment (USD/Euro million)

	Euro 1 = USD 1.36	Euro 1 = USD 1.385
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
Total expressed in US dollars	USD 995.9	USD 1,006.2
*Before miscellaneous income deduction of USD 2 million which is estimated 100% in US dollars		

15. The cumulative effect of the programmatic planning effects and anticipated cost increases described in paragraphs 5 through 10, 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 described in paragraphs 11-14 brings the cumulative increase in nominal dollar terms to 8.2 percent over the biennium (*Column K*). 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).

³ Derived from C 2009/15 MTP/PWB Table 18

Annex 1: Evolution of proposed 2010-11 Net Budgetary Appropriation (USD millions)

	Programme Planning Effects					Cost Increase Effects			Split Assessment Effects		
	A	B	C	D(=B+C)	E (=D/A)	F	G (=D+F)	H (=G/A)	I	J (=G+I)	K (=J/A)
Budgetary Chapter Structure	2008-09 NAP	2010-11 NAP Planned (before increment)	2010-11 Incremental resources IPA & Security	2010-11 NAP Planned with IPA & Security	2010-11 Percent Variance vs 2008-09	2010-11 Anticipated Cost Increases	2010-11 NAP Planned with IPA, Security & Cost Increases	2010-11 Percent Variance vs 2008-09	2010-11 Budget Rate of Exchange & dollar-euro split	2010-11 NAP at new budget rate of exchange & dollar-euro split	2010-11 Percent Variance vs 2008-09
A - Sustainable intensification of crop production	42.8	47.5		47.5	11.0%	2.5	50.0	16.8%	0.5	50.5	18.0%
B - Increased sustainable livestock production	25.5	30.7		30.7	20.4%	1.6	32.3	26.8%	0.3	32.6	28.0%
C - Sustainable management and use of fisheries and aquaculture resources	53.0	53.9		53.9	1.7%	2.7	56.5	6.7%	0.7	57.2	8.0%
D - Improved quality and safety of food at all stages of the food chain	23.3	23.9		23.9	2.6%	1.2	25.1	7.6%	0.3	25.4	8.8%
E - Sustainable management of forests and trees	40.0	41.3		41.3	3.2%	1.9	43.2	8.0%	0.4	43.7	9.1%
F - Sustainable management of land, water and genetic resources and improved responses to global	50.2	51.6		51.6	2.7%	2.6	54.2	7.9%	0.6	54.8	9.0%
G - Enabling environment for markets to improve livelihoods and rural development	40.9	39.1		39.1	-4.3%	2.1	41.2	0.8%	0.5	41.7	2.0%
H - Improved food security and better nutrition	59.7	57.2		57.2	-4.2%	2.8	60.0	0.5%	0.7	60.6	1.6%
I - Improved preparedness for, and effective response to, food and agricultural threats and	6.3	7.4		7.4	18.3%	0.4	7.8	24.2%	0.1	7.9	25.8%
K - Gender equity in access to resources, goods, services and decision-making in the rural areas	9.6	9.7		9.7	1.6%	0.5	10.2	6.5%	0.1	10.3	7.7%
L - Increased and more effective public and private investment in agriculture and rural development	36.0	35.7		35.7	-0.9%	2.3	38.0	5.6%	0.7	38.7	7.4%
X - Effective collaboration with Member States and stakeholders	208.5	199.2	6.0	205.2	-1.6%	9.4	214.6	2.9%	2.8	217.4	4.3%
Y - Efficient and effective administration	103.1	101.3	7.9	109.2	6.0%	5.0	114.2	10.8%	1.5	115.8	12.3%
FAOR - FAOR Programme	77.8	77.2		77.2	-0.8%	11.1	88.2	13.4%	0.1	88.4	13.5%
TCP - Technical Cooperation Programme	109.2	109.2		109.2	0.0%	2.4	111.6	2.2%	0.3	111.9	2.5%
6 - Contingencies	0.6	0.6		0.6	0.0%		0.6	0.0%		0.6	0.0%
8 - Capital Expenditure	20.1	21.0	1.6	22.6	12.2%	1.0	23.6	17.2%	0.4	24.0	19.1%
9 - Security Expenditure	23.3	23.3	0.7	24.0	2.9%	0.6	24.6	5.4%	0.3	24.9	6.8%
Total	929.8	929.8	16.2	946.0	1.7%	49.9	995.9	7.1%	10.3	1,006.2	8.2%