



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
Nations

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

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

COUNCIL

Hundred and Twenty-ninth session

Rome, 16 – 18 November 2005

Report of the 110th Session of the Finance Committee
Rome, 19 – 23 September 2005

Table of Contents

	Paragraphs
Matters requiring attention by the Council	page iv
Introduction	1 - 3
Financial and Budget Reports	4 - 34
PROGRAMME AND BUDGETARY TRANSFERS IN THE 2004-2005 BIENNIUM	4 - 11
FINANCIAL HIGHLIGHTS AND STATUS OF CURRENT ASSESSMENTS AND ARREARS	12 - 19
REPORT ON SUPPORT COSTS EXPENDITURE AND RECOVERIES	20 - 25
AUDITED ACCOUNTS – FAO CREDIT UNION 2004	26 - 29
AUDITED ACCOUNTS – FAO COMMISSARY 2004	30

For reasons of economy, this document is produced in a limited number of copies. Delegates and observers are kindly requested to bring it to the meetings and to refrain from asking for additional copies, unless strictly indispensable.
Most FAO meeting documents are available on Internet at www.fao.org

PERFORMANCE OF THE SPLIT ASSESSMENT ARRANGEMENT 2004-05	31 - 34
Oversight Matters	35 - 57
PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS	35
EXTERNAL AUDIT VALUE-FOR-MONEY REPORTS	36 - 43
ISSUES FOR CONSIDERATION IN THE APPOINTMENT OF AN EXTERNAL AUDITOR OF FAO	44 - 47
UTILIZATION OF THE SPECIAL FUND FOR EMERGENCY AND REHABILITATION ACTIVITIES	48
ONGOING REVIEW OF THE MANDATE, ORGANIZATION AND SUSTAINABILITY OF FAO EMERGENCY AND REHABILITATION ASSISTANCE	49
INTERNAL CONTROLS REPORTING	50 - 51
FAO AUDIT COMMITTEE (INTERNAL) – ANNUAL REPORT TO THE DIRECTOR-GENERAL FOR 2004	52
REPORTS OF THE UNITED NATIONS JOINT INSPECTION UNIT	53 - 57
Financial Policy Matters	58 - 68
FUNDING OF THE AFTER SERVICE MEDICAL COVERAGE LIABILITY	58 - 66
ACCEPTANCE OF LOCAL CURRENCY IN PAYMENT OF ASSESSED CONTRIBUTIONS	67 - 68
Budgetary Matters	69 - 82
PROGRAMME OF WORK AND BUDGET 2006-2007	69 - 78
EUROPEAN COMMISSION FOR CONTROL OF FOOT-AND-MOUTH DISEASE – BUDGET FOR 2006-2007	79
REGIONAL ANIMAL PRODUCTION AND HEALTH COMMISSION FOR ASIA AND THE PACIFIC (APHCA) – BUDGET FOR 2006-2007	80
APPROVAL OF THE BUDGETS OF THE DESERT LOCUST COMMISSIONS	81 - 82
Human Resources Matters	83 - 96

PROGRESS REPORT ON HUMAN RESOURCES ACTION PLAN	83 - 88
RECOMMENDATIONS AND DECISIONS OF THE INTERNATIONAL CIVIL SERVICE COMMISSION AND UN JOINT STAFF PENSION BOARD TO THE GENERAL ASSEMBLY (INCLUDING CHANGES IN SALARY SCALES AND ALLOWANCES)	
HUMAN RESOURCES ISSUES RAISED BY THE FINANCE COMMITTEE	89
COSTS OF THE MEDICAL INSURANCE PLANS	90 - 96
Organizational Matters	97 - 104
INDEPENDENT EVALUATION OF FAO'S DECENTRALIZATION – FURTHER MANAGEMENT RESPONSE	97
PROGRESS REPORT ON ADMINISTRATIVE INFORMATION SYSTEMS	98 - 101
TRANSLATION SERVICES IN FAO	102 - 104
Other Matters	105 - 106
DATE AND PLACE OF THE HUNDRED AND ELEVENTH SESSION	105 - 106

Matters requiring attention by the Council

Report of the Hundred and tenth Session of the Finance Committee

	Paragraphs
FINANCIAL AND BUDGET REPORTS	
- Programme and Budgetary Transfers in the 2004-2005 Biennium	4 – 11
- Financial Highlights and Status of Current Assessments and Arrears	12 – 19
- Report on Support Costs Expenditure and Recoveries	20 – 25
- Performance of the Split Assessment Arrangement 2004-2005	31 – 34
OVERSIGHT MATTERS	
- Joint Inspection Unit Reports	
- Harmonization of the Conditions of Travel throughout the United Nations System	53 – 55
- Procurement Practices within the United Nations System	56
- Report of the Joint Inspection Unit for 2004 and Programme of Work for 2005	57
FINANCIAL POLICY MATTERS	
- Funding of the After Service Medical Coverage Liability	58 – 66
BUDGETARY MATTERS	
- Programme of Work and Budget 2006-2007	69 - 78
ORGANIZATIONAL MATTERS	
- Independent Evaluation of FAO's Decentralization – Further Management Response	97

REPORT OF THE HUNDRED AND TENTH SESSION OF THE FINANCE COMMITTEE,
ROME, 19 – 23 September 2005

Introduction

1. The Committee submitted to the Council the following report of its Hundred and tenth Session.

2. The following representatives were present :

Chairperson: Mr Roberto Seminario (Peru)
Vice-Chairperson: Mr Anthony Beattie (United Kingdom)
Members: Mr Aboubakar Bakayoko (Côte d'Ivoire)
Mr Augusto Zodda (Italy)
Mr Seiichi Yokoi (Japan)
Ms Lamyia Ahmed Al-Saqqaf (Kuwait)
Ms Adele Bryant (New Zealand)
Mr Aamir Khawaja (Pakistan)
Ms Ana María Baiardi Quesnel (Paraguay)
Mr J. Michael Cleverley (United States of America)
Ms Verenica Mutiro Takaendesa (Zimbabwe)

3. The Committee noted that Mr Yokoi had been designated to complete Japan's term on the Finance Committee and that Mr Khawaja had been designated to complete Pakistan's term on the Finance Committee.

Financial and Budget Reports

PROGRAMME AND BUDGETARY TRANSFERS IN THE 2004-2005 BIENNIUM

4. In accordance with Financial Regulation 4.5(b), which required transfers from one chapter to another to be approved by the Finance Committee, the Committee reviewed document FC 110/2, *Programme and Budgetary Transfers in the 2004-05 Biennium*.

5. The Committee noted that the forecasted 2004-05 performance was mainly impacted by hold-backs of funds to cover the estimated unfavourable staff cost variance and unbudgeted security provisions for this biennium.

6. The Committee was informed that a number of elements contributed to the unfavourable staff cost variance of US\$15.3 million for 2004-05, including higher than budgeted costs for after-service benefits, entitlement travel, education grants, and medical premium claims. The strengthening of the US dollar against currencies other than the euro in which the Organization incurred staff costs resulted in only a marginal improvement since the May 2005 estimate of the unfavourable variance of US\$16 million (FC 109/3), as the impact of a stronger dollar was already taken into consideration at that time. The negative variance was distributed across the chapters, and affected in particular those chapters with a large staff component, which partially explained the large deficit forecast for Chapter 3.

7. The Committee noted the undesirable effect of the staff cost variance on the implementation of the approved programmes of the Organization. Due to its unpredictable nature, a biennium with a large favourable staff cost variance could lead to under-spending against the appropriation or a higher real level of programme expenditure, while large unfavourable variances required reductions to approved programme activities. In this regard, the Committee asked the Secretariat to review possible measures that could be put in place to improve financial management of the staff cost variance, and to outline some options to the Finance Committee in May 2006.

8. The Committee noted that the estimated unbudgeted security costs had risen by US\$0.8 million since May 2005, with the increase affecting mainly Chapter 6, where additional resources were provided to Regional and Sub regional Offices to meet Minimum Operating Security Standards (MOSS) requirements.

9. In order to alleviate some pressure on the implementation of the 2004-05 Programme of Work, the Committee approved apportioning up to US\$2.8 million of uncommitted arrears resources under Resolution 6/2001 for unbudgeted security expenditures in 2004-05, on the understanding that the Organization would make every effort to absorb these costs within the Regular Programme.

10. The Committee furthermore authorized the requested transfers between budgetary chapters of up to US\$6 million from Chapters 1, 2, and 5 in favour of Chapters 3 (US\$4.2 million) and 6 (US\$1.8 million). It noted that the required transfers were partially influenced by factors that were largely outside the Organization's direct control, and that the Director-General would report to the Committee the precise amounts transferred at its first session in 2006.

11. For the effective operation of the Capital Expenditure Facility, and in line with the funding plan presented in the Medium Term Plan 2006-11 and the Programme of Work and Budget 2006-07, the Committee also authorised the transfer of any unused balance of arrears resources under Resolution 6/2001 as at 31 December 2005 to the Capital Expenditure Facility.

FINANCIAL HIGHLIGHTS AND STATUS OF CURRENT ASSESSMENTS AND ARREARS

12. The Committee reviewed the paper on Financial Highlights and Status of Current Assessments and Arrears, which showed the results of operations for the first eighteen months of the 2004-05 biennium, and a working paper on the status of assessed contributions at 16 September 2005. The Committee noted several key messages to be drawn from the discussion of the papers.

13. The General Fund deficit following eighteen months of operations to 30 June 2005 had increased by US\$17.5 million to US\$107.6 million, an interim result at this stage in the biennium, with the following salient points:

- a) Only 46% of current 2005 assessments had been received. While the percentage of contributions received was a slight improvement compared to mid-2003 and mid-2004, it represented a decline in the percentage of collections of Regular Programme assessments compared to 2002 and prior years, a trend with serious implications for the Organization's cashflow;
- b) There continued to be a persistently high level of arrears of contributions from member nations for 2004 and prior years which amounted to US\$64 million and €12 million as at mid-2005 (79 members or 42% of the membership);
- c) Regarding the arrears allocation for one-time expenditure in accordance with Conference Resolution 6/2001, of the amount of US\$41.4 million brought forward from 2003, US\$23.8 million had been expensed as of mid-2005, leaving an unspent balance of US\$17.6 million;

- d) With regard to the other components of the Organization's reserves, the Working Capital Fund (WCF) balance of US\$25 million remained at the same level as at the last biennium end while the Special Reserve Account (SRA) balance had decreased from US\$23 million to US\$11.5 million at mid-2005 due mainly to the effect of the unfavourable variance on euro salaries arising from the generally weaker US dollar exchange rates this biennium compared to the budget rate.
14. Funding of staff related liabilities had improved due to the following factors:
 - a) The long-term investment portfolio performed very well, earning US\$27.3 million for the first eighteen months of the biennium;
 - b) The After Service Medical Coverage (ASMC) liability amortization component had been partially funded for the first time by an amount of US\$7 million per year from additional member nation assessments, as approved by the Conference in 2003. Based on the actual percentage of 2004 assessments received, US\$6.3 million had been transferred to the long-term portfolio for funding of the ASMC liabilities. The Committee noted that the transfer for 2005 ASMC assessments received would be made at the end of 2005.
 15. Looking forward, the Committee requested projections of the General Fund deficit. The Secretariat estimated that the deficit would increase at the end of the biennium to US\$112 million, mainly due to the ASMC amortization charge amounting to US\$30 million, which exceeded the approved funding of ASMC for this biennium of US\$14.1 million. (The Committee would review ASMC further under another agenda item, ref. para 58 of this Report).
 16. The Committee noted with concern that payments on 2005 assessments were still due from the two major contributors and several others, and again urged all member nations to make timely payment of assessed contributions to ensure that FAO could meet the operating cash requirements for the programme of work.
 17. The Committee was informed that, as predicted at the May 2005 Session, the Organization had been required to resort to the use of reserves in July 2005 and to borrow US\$20 million externally in recent weeks in order to meet cash disbursement obligations. In the absence of receipt of significant outstanding contributions from member nations, total borrowing could reach US\$80 million by mid-November, with a total interest cost estimated at US\$323 000 (US\$1 000/day for each US\$10 million borrowed). Some members expressed dissatisfaction that resources of member nations which had paid their assessments were being used to finance interest costs incurred due to the non-payment of other member nations.
 18. The Committee noted with concern that certain countries in arrears of payment of Regular Programme contributions had nevertheless made significant voluntary contributions for extra-budgetary activities. While no detailed forecasts were considered by the Committee, it wished to emphasize to the membership that future cash flow problems could even exceed the Organization's capacity to borrow externally.
 19. Recognizing that the serious cash shortage of the Organization had persisted for a number of years and was unlikely to change soon, the Committee requested that the Secretariat consider and report to the next session of the Finance Committee on various factors to improve the situation. Specific areas to be considered included:
 - a) Available options to improve the liquidity of the Organization;
 - b) Priority of payments by member nations in respect of Regular Programme versus extra-budgetary contributions;
 - c) The outcome of the survey on timing of member nations' payments (ref. para 68 of this Report); and
 - d) Sanctions and other measures to apply to member nations in arrears.

REPORT ON SUPPORT COSTS EXPENDITURE AND RECOVERIES

20. The Committee considered the Report on Support Costs Expenditure and Recoveries. It was satisfied that PSC rates for the period under review were applied within the approved policy, and took note of the comparative summary of support cost policies in the United Nations system organizations.

21. The Committee reaffirmed the principle that the support cost rate charged to emergency projects should ensure that assessed contributions did not subsidize such projects. Accordingly, it considered a proposed change in the FAO Support Cost Policy to ensure that the Organization recovered all its indirect variable support costs incurred from administering and operating emergency assistance projects, noting that the current policy definition for emergency operations did not facilitate reimbursement of indirect variable costs to supporting units other than the Emergency Operations and Rehabilitation Division.

22. The Committee endorsed the following revised wording for the support cost policy for emergency assistance projects:

FAO emergency assistance is defined as a situation where an urgent and exceptional external response is needed in the agriculture sector to address the impact of a particular disaster, natural or man-made. If a project is characterized as an emergency, the request follows the "fast track" and is operationally treated as such. Generally, "prevention" and "preparedness" are not within the meaning of "emergency" for project operational purposes.

Rates for emergency assistance are to be determined on a case-by-case basis to recover the full variable indirect support cost of the project. When Emergency Operations and Rehabilitation Division (TCE) operates technical assistance projects because of special situations, the reimbursement rates for technical assistance shall apply.

23. The Committee was informed that, due to the greater diversity and complexity of emergency responses and modality of operations since 2003, overall support costs for emergency assistance projects had increased in 2004 for both direct operating costs of TCE and indirect variable costs attributable to other units. It took note of the overall results of the 2004 cost measurement study which indicated that a ceiling rate of 10% was now required to ensure that the PSC rate charged to such projects fully recovered FAO's variable indirect support costs.

24. The Committee was also apprised of the findings of the Independent Inquiry Committee into the U.N. Oil-for-Food Programme (Volcker Report) which reported that agencies' fees were in excess of actual direct and indirect costs incurred in the renegotiation and contract amendment exercise. It was satisfied that this had no bearing on the request for an increase in the PSC rate for emergency assistance projects in FAO.

25. The Committee endorsed by consensus the increase in PSC rate ceiling for emergency assistance projects from 6.5% to 10%.

AUDITED ACCOUNTS – FAO CREDIT UNION 2004

26. The Secretariat presented the document, which contained the accounts of the FAO Credit Union for 2004 and noted that the External Auditor had issued a clean audit opinion.

27. The Committee requested information on the accounts approval process, in particular why the Finance Committee was required to approve the accounts.

28. The Secretariat referred to Article 2 of the FAO Credit Union's Statutes and Bylaws, noting that "*the audited accounts shall be submitted by the Board of Directors to the Director-*

General for examination and shall be available for presentation to the FAO Finance Committee for such action as the Committee deems appropriate”.

29. The Committee took note of the explanations and information provided by the Secretariat.

AUDITED ACCOUNTS – FAO COMMISSARY 2004

30. The Committee took note of the document FC 110/5(b) “*Audited Accounts – FAO Commissary 2004*”. External Audit confirmed that the accounts represented fairly the financial position of the Commissary and that it had been prepared in accordance with the Financial Regulations. The Committee therefore approved the accounts.

PERFORMANCE OF THE SPLIT ASSESSMENT ARRANGEMENT 2004-05

31. The Committee reviewed document C 2005/16 and discussed the performance and effects of the split assessment arrangement. The Committee noted the conclusions of the Secretariat that member nations had adapted relatively easily to the new arrangements and that the split assessment did not appear to have disrupted assessment payment patterns. Rather, the long-standing problem of late receipt of contributions remained the Organization’s most significant problem in regard to immediate cash flow difficulties.

32. The Committee also noted the results of the Secretariat’s analysis of actual expenditures by currency during the biennium to date, which were in line with the estimated ratio of US dollar and euro expenditures presented in the 2003 budget appropriation for 2004-05.

33. The Committee focussed discussion on the effects on the Special Reserve Account following the introduction of the Split Assessment arrangement. The Secretariat’s analysis was that the practice of charging to this reserve an amount representing the difference between headquarters staff costs at the budget rate and at the actual UN operational rates of exchange throughout the biennium was now redundant. The split assessments methodology was shown to make adequate provision for the euro component of expenditures, including staff costs, required for the execution of the programme of work without being impacted by the budget rate. Examples were provided showing that cessation of the reference to the budget rate would have no net effect on the Organization’s equity.

34. The Committee, noting the explanations provided by the Secretariat, recommended that the Council and Conference agree to the proposal to exclude charges to the Special Reserve Account due to variances on headquarters staff costs arising from differences between the budget rate and the UN operational rate of exchange, with effect from the 2004-05 biennium.

Oversight Matters

PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR’S RECOMMENDATIONS

35. The Committee took note of the information provided in the above-referenced document (FC 110/7).

EXTERNAL AUDIT VALUE-FOR-MONEY REPORTS

36. The Committee noted that the submission of these reports responded for the first time to its request that such “Value-for-Money” audits be issued sequentially throughout the biennium. The results of the various value-for-money audits would be presented to the Finance Committee as and when ready and subsequently incorporated into the External Auditor’s long-form report that would be presented to the Conference.

*REPORT OF THE EXTERNAL AUDITOR ON THE REVIEW OF OFFICIAL TRAVEL
IN FAO*

37. The External Auditor presented the paper that had been prepared following a value for money audit of travel in the Organization.
38. The Committee noted the recommendations of the External Auditor and appreciated that action has already been taken to call for a fresh tender for travel arrangements. The Committee further appreciated actions taken on other recommendations as well.
39. Committee members requested further information and clarification on various recommendations contained in the report, which were provided by the External Auditor and the Secretariat.
40. Following clarification, the Committee concluded that it should keep track of the implementation of the recommendations in the External Audit report and the situation should be reviewed at the next Finance Committee meeting in May 2006.

*REPORT OF THE EXTERNAL AUDITOR ON THE REVIEW OF CONTRACTS FOR
LOCAL SERVICES IN FAO*

41. The External Auditor presented his report on the “*Review of Contracts for Local Services in FAO*” contained in document FC 110/9 and drew attention to his recommendations, which included guidelines for outsourcing, balanced weighting of technical and cost factors in evaluations, strengthening the vendor database and improvements to technical specifications.
42. The Secretariat explained that it had reservations regarding the examples quoted in the report and in this regard, it also drew attention to the inappropriateness of extrapolating from such isolated examples to draw wider conclusions. However, the Secretariat had no difficulty with the general nature of the External Auditor’s recommendations. The Secretariat also emphasized that the External Auditor had not identified any irregularities or breach of established rules and procedures.
43. In view of the different perspectives of the External Auditor and the Secretariat, which was not unusual in value-for-money studies, the Committee requested the Secretariat to present a document in its May 2006 session, explaining its response on the findings and recommendations in the audit report, after further consultations with the External Auditor as necessary.

**ISSUES FOR CONSIDERATION IN THE APPOINTMENT OF AN EXTERNAL
AUDITOR OF FAO**

44. The Committee resumed discussion of this topic which had been examined in two earlier sessions (documents FC 108/8 and FC 109/10) and considered the information provided by the Secretariat regarding potential advantages and disadvantages of extending the invitation to bid for external audit of the Organization also to private sector audit firms.
45. Some Committee members supported the extension of invitation to bid for the external audit to private sector auditing firms, noting that this would increase competition and thereby lead to better bids and possible cost savings, as well as provide access to specialist competence. These members further noted that any potential disadvantage that a private sector auditor might have regarding experience in the public sector could be addressed in the terms of reference in the tender. In addition, the tender process would still apply, with the Finance Committee recommending selection of the best bidder.
46. Other Committee members expressed their disagreement with extending the invitation to bid for external audit to private sector audit firms, noting that the disadvantage of such firms’ inexperience in the public sector, in particular the UN context, outweighed any minor advantages of increased competition. Furthermore, the fact that nearly all organizations in the UN system

engage Auditors General of member states reflected satisfaction with current arrangements, which were in most cases based on common wording of the Financial Regulations.

47. As no consensus could be reached despite thorough examination of the issue in the course of three sessions, the Committee postponed further consideration of the matter.

UTILIZATION OF THE SPECIAL FUND FOR EMERGENCY AND REHABILITATION ACTIVITIES

48. The Committee reviewed the progress report on utilization of the Special Fund for Emergency and Rehabilitation Activities (SFERA), which had been requested at its 108th Session in September 2004. It appreciated the quality of the document and comprehensiveness of the information provided. The Committee further requested that a document reviewing possible options for a more flexible use of the SFERA, with a view to improving its capacity to allow timely advanced funding, be submitted to its May 2006 Session.

ONGOING REVIEW OF THE MANDATE, ORGANIZATION AND SUSTAINABILITY OF FAO EMERGENCY AND REHABILITATION ASSISTANCE

49. The Committee was informed on the concept and business model for FAO's role in emergency activities which had been developed through a participatory process over the previous six months. The Committee appreciated the Secretariat's presentation which underlined that, in the areas of emergency and rehabilitation, FAO needed to build further on the Organization's main comparative advantage, the matching of know-how with resources, and to focus on protecting and better reconstructing the livelihoods of farmers, herders and fishers by firstly providing information for action by all relevant actors, and secondly through direct assistance in partnership with other organizations. The Committee appreciated the presentation and requested that a copy of the Secretariat's statement be made available to members of the Finance Committee.

INTERNAL CONTROLS REPORTING

50. The Committee reviewed document FC 110/13 and took note of the information provided by the Secretariat in connection with the possible introduction of formal internal control reporting.

51. Noting that the Organization currently had many other higher priority projects under implementation and that the report of the Independent Inquiry Committee into the United Nations Oil-for-Food Programme (Volcker Report) recommended the introduction of internal control reporting in the UN system, the Committee concluded that, rather than take a unilateral decision at this point in time, the Secretariat should raise the matter of introducing internal control reporting with the High Level Committee on Management (HLCM). The Committee agreed to return to the discussions of the matter in 2006 following receipt of advice and conclusions from the meeting of the HLCM.

FAO AUDIT COMMITTEE (INTERNAL) – ANNUAL REPORT TO THE DIRECTOR-GENERAL FOR 2004

52. The Committee took note of the information provided in the above-referenced document (FC 110/14).

REPORTS OF THE UNITED NATIONS JOINT INSPECTION UNIT

HARMONIZATION OF THE CONDITIONS OF TRAVEL THROUGHOUT THE UNITED NATIONS SYSTEM

53. The Committee reviewed the paper which included the JIU Report (ref. JIU/REP/2004/10) and the Director-General's comments thereon. The report addressed the elements of travel where disparities still existed among the organizations of the UN system.

54. The Committee noted the recommendations contained in the report, which proposed possible action with a view to further improving the harmonization of travel policies and practices.

55. Following clarification of certain points arising from the report, the JIU Report and the Director-General's comments were accepted by the Committee.

PROCUREMENT PRACTICES WITHIN THE UNITED NATIONS SYSTEM

56. The Committee took note of document JIU/REP/2004/9 "*Procurement Practices within the United Nations System*", supplemented by document CL 129/INF/9. It also took note of the fact that FAO procurement operations were quoted by the JIU as best practices on several important indicators.

REPORT OF THE JOINT INSPECTION UNIT FOR 2004 AND PROGRAMME OF WORK FOR 2005

57. The Committee took note of the information provided in the above-referenced document (CL 129/INF/10).

Financial Policy Matters

FUNDING OF THE AFTER SERVICE MEDICAL COVERAGE LIABILITY

58. The Committee recalled that current ASMC funding of US\$14.1 million for the 2004-05 biennium had been approved by the Conference in 2003 based on the then latest available (2001) actuarial valuation. The next actuarial valuation performed for the 31 December 2003 audited accounts showed a higher ASMC liability because it was based on FAO demographics only, instead of being combined with all the Rome-based agencies as in the past. This resulted in an increased ASMC amortization, and recommended matching funds, of US\$30 million for the 2006-07 biennium.

59. As a result of the Finance Committee's request at its May 2005 session, a new actuarial valuation of the ASMC liability as at 31 December 2004 updated the financial, demographic and other assumptions to reflect the period covered by 2004 as well as considering relevant data of the first half of 2005. Changes from the 2003 valuation assumptions for projections into future years included the following:

- an increase in medical cost inflation from a fixed 4.5% to 6.3% declining linearly to 4.5% over 10 years;
- a decrease in the discount rate from 5.5% to 4.5%;
- utilization of average US\$/euro exchange rates of the 2004-05 biennium;
- utilization of actual claims performance for 2004.

60. The Committee was informed that the ASMC liability at 31 December 2004 was estimated at US\$467.9 million compared to US\$313.6 million at 31 December 2003. This would result in an increased ASMC amortization for the 2006-07 biennium amounting to US\$40.8 million compared to US\$30 million in the 2003 valuation. The annual current service cost for active staff in the Regular Programme also increased to US\$11 million compared to US\$6.1 million in the 2003 valuation.

61. The options for funding the ASMC liability, originally presented at the May 2005 session and updated to reflect the December 2004 valuation, were considered by the Committee.

62. The Committee noted that a report of the United Nations Secretariat to the General Assembly on the UN after-service health insurance liability (ASHI) had been under preparation for some time, but had not yet been released.

63. The Committee recalled that the Organization had made considerable progress in addressing the ASMC liability and together with five other agencies was at the forefront of UN organizations in terms of recognizing and funding the after service medical liability. However, the problem had wide impact among members and it was felt that the anticipated UN report could help orient member nations towards a common approach to address ASMC within the UN, in view of the common UN system for staff entitlements and common membership. The Committee recognized that the UN report would have no impact in terms of financial obligations of FAO for the liability. However, some members of the Committee expressed the preference to await the UN report in order to allow a consolidated approach to the UN system-wide liability.

64. The Committee reviewed the various funding options and supported, in principle, the option whereby funding for each biennium would need to be matched to the level prescribed by the latest actuarial valuation. However, given the financial and budgetary issues confronting FAO at present, the Committee agreed that in practice full funding in 2006-07 was not a viable option to recommend to Council.

65. The Committee, in summary, decided to recommend to Council to continue the ASMC funding for the 2006-07 biennium at the current level of US\$14.1 million. The Committee expressed its intention to review the UN report on after service health insurance liability, when available, and further address the funding issue with the objective, if permitted by financial circumstances, to recommend funding at the level prescribed in the latest actuarial valuations in future biennia.

66. The Committee also agreed to recommend to Council that the ASMC funding be made in both US dollars and euro in the proportions recommended in the Asset and Liability Study, i.e. 60% in euro and 40% in US dollars, at the agreed budget rate for the 2006-07 biennium.

ACCEPTANCE OF LOCAL CURRENCY IN PAYMENT OF ASSESSED CONTRIBUTIONS

67. In the context of the debate on the general decline in the rate of receipt of contributions in recent years, the Committee reviewed document FC 110/17 and discussed the merits and associated risks of accepting local non-freely convertible currencies from developing countries. The Committee noted that the Financial Regulations permit acceptance of local currencies in payment of Regular Programme contributions only where these are freely convertible into US dollars or euro and that other UN organizations have similar provisions.

68. A survey of member nations regarding reasons for the timing of their payment of contributions or non-payment of contributions had been requested by the Committee at its May 2005 session and results were to be considered at its May 2006 session. The Committee expected that survey responses could assist in determining the extent to which the difficulty faced by certain member nations in meeting their financial obligations towards the Organization could be attributed to the limitations they encounter in procuring freely convertible currencies. Accordingly, the Committee resolved to defer further review of the matter of acceptance of local currencies to the May 2006 Session.

Budgetary Matters

PROGRAMME OF WORK AND BUDGET 2006-2007

69. The Committee reviewed the proposals for the Programme of Work and Budget 2006-07 (PWB), contained in document C 2005/3, and its Supplement (C 2005/3-Sup.1). As per its normal practice, the Finance Committee focused its review on the Financial Framework section (paragraphs 138–207), and the Programme Budget Proposals for Chapters 5, 6, 8 and 9 in the main document. The sections on “Risk Assessment” (paragraphs 10–35), and “Efficiencies and Productivity Improvements” (paragraphs 101–137) were also reviewed. In the Supplement, the Committee focused its review on the Import of the Reform Proposals, the Financial and Budgetary Overview, and Chapter 5 and Programme 3I.

70. The Committee noted that, should the Director-General’s proposal at a growth rate of 2.5% be approved, coupled with the previously-approved provision for After Service Medical Coverage of US\$14.1 million, this would result in an overall increase of assessed contributions of 12%. There was a risk that this would exacerbate the cash flow difficulties described in para 18 of this Report.

71. On the proposal for a Security Expenditure Facility, the Committee recognized the need for consolidated and comprehensive coverage for security costs within a single budgetary provision and the requirement for financial flexibility through a funding mechanism that could be supplemented by voluntary contributions. The Committee therefore supported the Director-General’s proposal to establish a Security Expenditure Facility as a means of grouping all staff and non-staff costs that were directly related to headquarters and field security in a new Chapter 9 of the PWB and supported the related draft Conference Resolution. The Committee recognized that the acceptance of the proposal for the Security Facility and the related Conference Resolution did not preclude the discussion on the overall level of the budget.

72. The Committee recognized the difficult cash flow situation of the Organization, which was evidenced by the requirement to borrow externally. It also acknowledged the deteriorating accumulated deficit under the General Fund. As a means to help address these difficulties, all but two members expressed support for the Director-General’s proposal and the related Conference Resolution to require members to pay their contributions without deduction of forecast of miscellaneous income, recognizing that the proposal was of a temporary nature.

73. The Committee recalled that, at its May 2005 session, it had reviewed the methodology adopted by the Secretariat for calculating cost increases and considered the calculations to be consistent with the agreed methodology. The Committee noted that estimates for the current service costs of After Service Medical Coverage (ASMC) constituted a significant element of cost increases, and were based on an estimate which was prepared in June 2005. The additional full actuarial valuation which was completed in late July 2005 had indicated that the current service cost liability had increased by an additional US\$9 million for the biennium. The Committee accepted that this additional amount did not need to be reflected in the cost increase estimates in the PWB 2006-07 and was informed that the charges in 2006-07 would be aligned to the budgeted amount in the PWB. Based on information already available in the latest actuarial valuation, this entailed the risk of a substantial cost increase for current service cost in the PWB 2008-09.

74. The Committee took note of planned capital expenditure and resource inflows under the Capital Expenditure Facility.

75. The Committee welcomed the presentation of the new framework for efficiencies and productivity improvements in paragraphs 101-137 of the main PWB. It also commended the additional streamlined processes to achieve efficiency and performance gains described in paragraphs 105-131 of the reform proposals. The Committee encouraged the Director-General to implement the proposed measures as soon as possible. It further noted the importance of applying

efficiency savings to high priority programmes and essential services that might be under-funded, and asked the Secretariat to research ways to involve the Governing Bodies more in this process.

76. Related to the reform proposals in the Supplement, the Committee thanked the Director-General for putting forward far-reaching reform proposals. It acknowledged that the principles, as outlined in paragraphs 26-39, were constructive, and represented a useful basis for formulating reform proposals. It looked forward to the reform proposals being pursued in complementarity with the Independent External Evaluation.

77. In its review of Chapter 5 of the Supplement, the Committee recognized that the programme re-groupings were acceptable, but it could not draw direct resource comparisons *vis-à-vis* Chapters 5 and 6 in the main document. Furthermore, the Committee did not feel able to express a complete judgement on the proposed organizational structure at this time.

78. The Committee recognized that the reform could not be implemented at once and that the pace of reform would depend upon the budget level. It suggested that, if the reforms were approved by the Conference, an implementation plan would provide a constructive way forward. The Committee further suggested that the Director-General establish a discussion process involving Regional Groups to improve understanding of the reform proposals and seek further views to be submitted to Conference. Finally, it requested that additional information be provided on one-time and transition costs.

EUROPEAN COMMISSION FOR CONTROL OF FOOT-AND-MOUTH DISEASE – BUDGET FOR 2006-2007

79. The Committee reviewed and approved the proposed budget for the European Commission for Foot-and-Mouth Disease for the years 2006-2007.

REGIONAL ANIMAL PRODUCTION AND HEALTH COMMISSION FOR ASIA AND THE PACIFIC (APHCA) – BUDGET FOR 2006-2007

80. The Committee reviewed and approved the proposed budget for the Regional Animal Production and Health Commission (APHCA) for the years 2006-2007.

APPROVAL OF THE BUDGETS OF THE DESERT LOCUST COMMISSIONS

81. In accordance with the treaties covering the agreements for the establishment of the three regional Desert Locust Commissions (South-West Asia, Central Region, Western Region) and the relevant articles that require that the budgets of the Commissions be submitted to the Finance Committee as delegated by the Council, the Committee reviewed the budgets as presented.

82. The Committee noted that the Commissions had demonstrated their value during the desert locust emergency of the last 18 months and agreed to approve the budgets without further discussion.

Human Resources Matters

PROGRESS REPORT ON HUMAN RESOURCES ACTION PLAN

83. The Finance Committee welcomed the progress report on the Human Resources Action Plan and took note of the progress achieved. It appreciated the accomplishments achieved by the Human Resources Management Division, but noted that a number of deadlines for implementation still needed completion.

84. The Committee further noted the measures adopted by the Secretariat to promote a proactive recruitment approach aimed at enhancing the geographical representation of member states. In this respect, the Committee invited the Secretariat to develop a recruitment strategy that would

further redress the geographical representation issue. The Committee invited the Secretariat to monitor progress of these activities.

85. The Committee encouraged the Secretariat to pursue its efforts to improve the gender balance in the Organization and to undertake the necessary measures to attain gender parity and to address the problems of retention related to family issues.

86. The Committee encouraged the Secretariat to expedite the introduction of a new performance management system to improve organizational performance.

87. Regarding employment opportunities in Italy for staff members' spouses and children, the Committee welcomed the Italian proposal to start negotiations jointly with the three Rome-based UN organizations (FAO, IFAD and WFP). The Committee noted, however, that this item had been on its agenda for a considerable period of time and urged the Organization to continue in its efforts in cooperation with the other Rome-based UN organizations, as appropriate.

88. The Committee reaffirmed that human resources constituted a core asset of the Organization and given the fundamental role of the human resources function for the effective management and development of these key resources, it should be adequately funded, especially in the context of the reform proposals.

RECOMMENDATIONS AND DECISIONS OF THE INTERNATIONAL CIVIL SERVICE COMMISSION AND UN JOINT STAFF PENSION BOARD TO THE GENERAL ASSEMBLY (INCLUDING CHANGES IN SALARY SCALES AND ALLOWANCES)

HUMAN RESOURCES ISSUES RAISED BY THE FINANCE COMMITTEE

89. The Committee took note of the information provided in the above-referenced documents (FC 110/23, FC 110/23-Add.1 and FC 110/24).

COSTS OF THE MEDICAL INSURANCE PLANS

90. The Committee considered the document on the Costs of the FAO Medical Insurance Plans (FC110/25) with particular emphasis on the recent increases in premiums and the resulting cost to the Organization. The document provided an analysis of the major factors driving the recent increase in the plan premiums as well as a comparison with similar United Nations medical insurance plans.

91. The Committee was informed that the Plan was split into two schemes based on the currency of the premiums paid by staff/retirees: a euro scheme (originally Italian lira) which was extended to staff in headquarters and some retirees residing in Italy, and a US dollar scheme, extended to all other staff and retirees.

92. The Committee recalled that the FAO Medical Insurance Plan – extended to all Rome based United Nations Staff (FAO, WFP, IFAD and ICCROM) – was comparable to and competitive with the other UN organizations' plans in both benefits and cost sharing arrangements, according to the comprehensive study conducted by a recognized consulting actuary.

93. In noting the factors to which the recent premium rate increases had been attributed, namely, currency exchange rate; family growth; number of insured per family; number of bills submitted per insured person and the amount of reimbursement per bill, the Committee inquired as to measures taken to mitigate the effect of exchange rates. The Committee was apprised that the inclusion of the plan costs as part of the newly introduced split-assessment budgeting process, as of the current biennium, was envisaged to mitigate to a large degree the effect of the exchange rate fluctuations.

94. In response to the Committee's concerns regarding incentives for the insurers to decrease the costs of the plan, the Committee was informed of the cost containment measures currently in place, namely, the reimbursement of reasonable and customary expenses only and the contractual obligation on the Insurer to establish a network of preferred providers with whom discount arrangements were made. Furthermore, the contractual (15%) cap on annual premium increase was considered by the Secretariat to be an incentive to the Insurers to closely monitor the plan cost and contain its annual increase.

95. In noting that the current insurance contract was due for tendering in 2006, some Committee members requested the Secretariat to incorporate further cost containment incentives in the insurance contract. Other Committee members called for further matching of the currency of the premiums and claims within the current schemes.

96. The Committee reiterated its previous concerns regarding the increase in the Staff Medical Insurance Plan costs and requested the Secretariat to provide it in the May 2006 meeting with the findings of the FAO-commissioned Review of the Staff Medical Insurance Plans, including a detailed analysis of the major sources of claims' costs for the various categories/groups of participants including currency related issues. The Committee requested to be updated during the same meeting on the study being conducted by the Joint Inspection Unit (JIU) of the United Nations on the UN system-wide Medical Insurance Plans.

Organizational Matters

INDEPENDENT EVALUATION OF FAO'S DECENTRALIZATION – FURTHER MANAGEMENT RESPONSE

97. The Committee welcomed the Deputy Director-General's introduction to the third management response to the recommendations of the Independent Evaluation of FAO's Decentralization. It also thanked the representative of the Evaluation Team for his reactions to the document. The Committee appreciated the general thrusts and vision of the document. It asked for - and received - explanations on: (i) the implications of decentralization on financial and human resource systems and procedures; (ii) the allocation of resources between headquarters and decentralized offices; (iii) the proposed control measures to accompany increased delegation of authority; (iv) the comparative advantages of locating technical staff at the sub regional level; (v) the responsibility for oversight of technical staff in the regions; and (vi) the increased delegation of authority to FAO Representatives for TCP Facility approvals. The Committee welcomed the progressive introduction of National Medium-term Priority Frameworks (NMTPFs). The Committee recognized that decentralization was an ongoing and dynamic process of change and that it might wish to review progress on implementation at some future session.

PROGRESS REPORT ON ADMINISTRATIVE INFORMATION SYSTEMS

98. The Committee reviewed the *Progress Report on Administrative Information Systems* that provided further information on the scope, costs and benefits of the Oracle Human Resources Management System (HRMS).

99. The Committee was pleased to note the efforts of the Secretariat to reduce project costs whilst maintaining the original project scope and encouraged the Secretariat to continue with these efforts.

100. The Committee repeated the statement made at the session in May 2005 that administrative information systems were not an optional extra. It noted that the HRMS was central to the Director-General's Reform Proposal and an enabler of the human resources reform. It urged the Secretariat to ensure that this project was appropriately resourced.

101. The Committee encouraged the Secretariat to utilize the resulting system effectively once implemented.

TRANSLATION SERVICES IN FAO

102. The Committee reviewed document FC 110/28, *Translation Services in FAO*, and welcomed the additional information provided as requested at its 109th session.

103. The Committee noted the information provided on the practice and experience in other organizations in terms of backcharging mechanism and centralized funding and noted that FAO's translation services compared favourably with other UN organizations. Given that some of the contacted organizations had not provided information yet, the Committee requested that a further and more complete review of this topic together with concrete proposals for implementation be presented at its next session in May 2006.

104. The Committee recommended that the review should also include information on the methodology in place to guarantee the quality of the translations, both managed through backcharged translation services or outsourced directly by the technical divisions for the FAO web site and technical publications.

Other Matters

DATE AND PLACE OF THE HUNDRED AND ELEVENTH SESSION

105. The Committee was informed that the Hundred and eleventh Session was scheduled to be held in Rome from 20 – 21 October 2005.

106. The Committee was informed that the Hundred and twelfth Session was tentatively scheduled to be held from 8 – 12 May 2006. The final dates of the session would be decided in consultation with the Chairperson.