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para la
Agricultura
y la
Alimentación

FINANCE COMMITTEE

Hundred and Thirteenth Session

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Flexible Use of the Special Fund for Emergency and Rehabilitation Activities

I. Background

1. The FAO Finance Committee, at its 102nd Session in May 2003, supported the proposal to establish the Special Fund for Emergency and Rehabilitation Activities (SFERA), with funding to be provided from the donor community and the Emergency Operations and Rehabilitation Division (TCE).

2. The Finance Committee at its 110th Session in September 2005 reviewed progress on use of the SFERA (FC 110/11 refers) and requested a document for the May 2006 Session reviewing possible options for a more flexible use of the SFERA, with a view to improving its capacity to allow timely advanced funding.

II. More flexible use of SFERA: issues and solutions

3. The Committee's request was prompted by a limitation in use of the SFERA mentioned during discussion of the paper FC 110/11. At issue was the validity of authorizing an advance from the SFERA on the basis of a donor pledge or "firm" commitment that was not unconditional but subject to final funding approval within the donor government agency concerned. The underlying question was whether such a conditional commitment should be treated as firm: the operational benefits for doing so were clear but what were the risks? In this regard it should be noted that the SFERA is operated in compliance with Financial Regulation 6.7 which governs the Director-General's acceptance of voluntary contributions. This means that expenditure for extrabudgetary projects should not be permitted to create financial obligations on the Regular Programme. The risk of advancing funds from SFERA that might not be reimbursed in due course by the presumptive donor was that the obligations incurred could eventually fall on the Regular Programme. However, this risk can be obviated by careful management and the approach now

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adopted to enable “firm” but conditional commitments to be accepted as a basis for action is set out below.

III. Management of firm but conditional commitments

Criteria for deciding what is a firm commitment

4. The key factor is experience, whether of FAO or of other bodies whose experience is known to FAO, of the donor concerned. For example, one major donor issues statements of funding intent that have, over many years, always led to final approval. Experience of other donors is less extensive but equally reassuring. Criteria are accordingly donor-specific and based on the practical experience of the Organization, in particular that of the TCE, and other reliable knowledge of donor practices.

Authority to take action on the basis of a firm but conditional commitment

5. The ADG, TC has the authority to commit SFERA funds. Authority to proceed on the basis of a firm but conditional commitment has been similarly delegated to the ADG, TC.

Criteria for limiting the risk to other SFERA needs

6. The factors relevant to evaluating and limiting the risks from taking action on a firm but conditional commitment of funds may be summarized as follows:

- the amount of the advance to be made based on the conditional donor commitment;
- the time before final, unconditional approval is expected;
- the feasibility of terminating the operations so funded or of securing alternative funding in case of default;
- the amount and status of other, similar advances outstanding;
- the total remaining of uncommitted SFERA funds;
- other prospective advance funding requirements, repayments of advances and receipts from donors in the foreseeable future.

In addition, under no circumstances would transfers from the SFERA be allowed to exceed the available funds balance.

Consent of SFERA stakeholders to the acceptance of financial risk and its consequences

7. Donors of unarmarked funds to the SFERA accept that their contributions will be used at the discretion of the Organization on the basis of the Fund’s agreed purposes and ways of working. The annual SFERA report to this Committee and to donors will include any instances of default and thus act as a control on this use of the SFERA.

Review and control of application of these procedures

8. The operations, accounting and financial control of the SFERA, including operations related to acceptance of firm but conditional commitments, are subject to the Organization’s usual administrative and financial controls and audit regime i.e. by the Inspector-General and by the External Auditor.

IV. Summary and Conclusion

9. This paper is presented to the Committee for information, in response to the request made at its 110th Session. Annual progress reports on SFERA operations to this Committee and to donors will include details of any problems experienced with “firm” but conditional commitments, though experience suggests these will be very rare. As is evident from the issues and solutions outlined above, SFERA operations remain consistent with the provisions of Financial Regulation 6.7 and there is no financial risk to the Regular Programme. Any observations the Committee may wish to make are nonetheless welcome.