

C 2023/3 - Medium Term Plan (Reviewed) 2022-25 and Programme of Work and Budget 2024-25

Information Note no. 1 – April 2023

PWB 2024-25 Information Note on Budgetary Scenarios

1. This information note responds to the request of the Joint Meeting of the 135th Session of the Programme Committee and 195th Session of the Finance Committee and of the Finance Committee for additional information on budgetary scenarios for the FAO Programme of Work and Budget 2024-25. Specifically, the Joint Meeting and the Finance Committee *“further recommended that Management provide an information note before the 172nd Session of the Council, with additional scenarios with a lower budgetary impact, up to and including zero nominal growth, and their potential impact on the Programme of Work, by taking into account, for example, cost recovery and details on long-term vacancies”*.¹
2. The note provides background information to assist Members in assessing the Director-General's proposal for a Programme of Work and Budget in 2024-25 which preserves purchasing power parity with 2022-23 (zero real growth), and then provides alternative budgetary scenarios as requested by Members.

I. The necessity for a strong FAO

3. The Organization is conceived as, and plays an indispensable role as a global knowledge organization in the fields of food and agriculture and agrifood systems, and Members have *“underscored the essential nature of the Organization’s support to standard-setting and normative work”* at the most recent session of the FAO Programme Committee in March 2023.² With its wide-ranging multidisciplinary expertise, FAO is in a singular position among multilateral actors to be able to address holistically, and at the highest of standards, these interlinked systems and their complex dynamics. FAO continues to transform itself to become more innovative, agile and responsive to meet the increasing challenges we collectively face. Further, FAO is a cornerstone of the UN Rome-based Agencies, which – along with a wide range of UN and other partners – rely on the Organization’s technical knowledge and expertise in order to most effectively carry out their mandates. Accordingly, the expectations on FAO from Members, UN and other partners and the global community at large are high.
4. FAO must continue to play its role as a global center of technical excellence and knowledge hub, including ensuring quality data and statistics in its areas of mandate, to catalyse and inform policies, programmes and investments, and to promote the envelope of innovation, working with Members and partners to further the achievement of the 2030 Agenda. As has been endorsed and agreed by Members in the FAO Strategic Framework 2022-31, FAO’s pivotal role in agrifood systems transformation requires that the Organization provide essential contributions across all the 17 SDGs.
5. FAO’s comparative advantage as a UN specialized technical agency is in generating excellent quality technical knowledge and, working in synergy with the Rome-based agencies and other UN and non-UN partners, supporting countries in channeling that knowledge into context-specific policies, programmes and investments to support the achievement of national goals around agrifood systems. FAO therefore plays an essential “upstream” role that has a multiplier effect on results, as it catalyses and enables a multitude of other actors to contribute collectively to positive change on the ground and hence towards the transformational outcomes stipulated by the 2030 Agenda.

¹ CL 172/7 paragraph 8.b and CL 172/9, paragraph 22.d

² CL 172/8 paragraph 5.b

6. FAO's core funding through the PWB net appropriation provides the primary source of support to enable this essential function of technical knowledge generation in food and agriculture and agrifood systems, ensuring its continuity and promoting its leverage for use by Members and other actors.³ This core funding largely supports the Organization's human capital – technical experts in the fields of FAO's mandate, and their activities. Hence, maintaining the funding necessary to support the technical areas where Members require FAO's contribution means ensuring a strong and balanced technical post establishment. Similarly, the core funding is key to the Organization's internal control capacity as well as for strong enabling functions that ensure the efficient and effective delivery of the Organization's work.

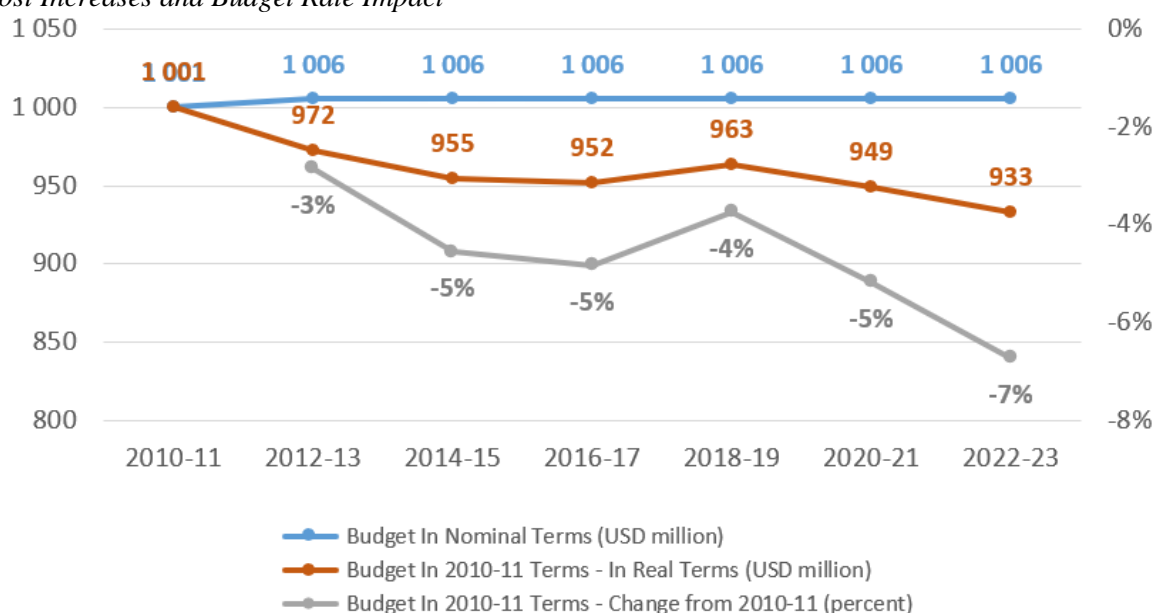
7. The current staffing structure of the Organization that creates, maintains and ensures the continuity of its technical expertise and excellence is built around key agrifood systems sectoral issues or dimensions. Regional and subregional hubs have technical multidisciplinary teams staffed by sectoral experts, while in the headquarters technical units, a set of essential “sub-disciplines” or areas of specific expertise within each technical sector are established and included in the post establishment of that unit. This is also in consideration of the need to respond to specific priorities that span the different regional dimensions of FAO's work.

II. FAO's funding situation

8. In preparing for the 2024-25 biennium, the Organization finds itself at an inflection point in its history. FAO has faced six successive biennia of a flat nominal budget in its regular assessed contributions, with the last time that inflationary cost increases were fully funded being in the 2010-11 biennium, twelve years ago. *Figure 1* demonstrates the decline in purchasing power over that period.

³ The application of knowledge, when supported by FAO, is normally funded through voluntary contributions of resource partners, including national governments.

Figure 1. Net Appropriation Budgets in Nominal and 2010-11 Real Terms
Cost Increases and Budget Rate Impact



9. Since 2010-11, FAO purchasing power in its net appropriation has declined by USD 67.2 million or approximately 7 percent. Management has made its best efforts to absorb these reductions to the maximum extent through efficiency savings and improved prioritization. However, the scope to do this without directly affecting the Organization’s capacity to deliver eventually reaches a critical limit where any further reduction in purchasing power risks triggering a “tipping point”. In this regard, the FAO Oversight Advisory Committee, in its 2022 report,⁴ “*commended FAO on achieving considerable efficiency savings over the years, but noted that budget constraints over an extended period risk working against efficiency and effectiveness.*” Further, the FAO Conference has stressed consistently that efficiency savings and gains should be identified “*without negatively impacting the delivery of the programme of work*”.⁵

10. Past efficiency measures have focused on identifying efficiencies or savings in the Organization’s “non-technical” areas (i.e. administrative and other enabling functions – Functional Objectives), attempting to avert any significant impacts on FAO’s technical delivery. Efficiency savings have been defined by FAO Council as “*reductions in the costs of inputs without material negative impact on the outputs*”.⁶ In accordance with this definition, the Organization approaches achieving efficiency savings in three ways: i) by pursuing input-oriented measures, such as revising air travel arrangements; ii) by identifying process-oriented efficiency savings, which focus on changing policies, procedures and ways of working, with the aim of streamlining operations and administrative functions; and iii) by increasing recovery of the cost of various services provided by the Organization, such as support services to projects. The Organization continuously seeks to identify such efficiency savings and ensure a highly efficient enabling environment to continue its mandate in a digitally transformed world, as reported in successive Programmes of Work and Budget.⁷

⁴ FC 195/12, paragraph 23

⁵ C2019/REP paragraph 71

⁶ CL110/REP paragraph 24.a

⁷ C 2019/3, paragraphs 104-109; C 2021/3, paragraph 113; C 2023/3, paragraphs 121-127

11. Nonetheless, while all attempts have been made to focus any reductions in the non-technical areas of the Organization's work, in reality, experience has shown that after a certain threshold has been passed, the impact of further reductions on enabling functions begins to have unintended negative consequences on FAO's technical delivery. In this regard, it is worth highlighting that the cumulative effect of past measures – particularly on the administrative areas (i.e. human resources, finance, procurement, shared services) – has already negatively affected their capacity to support technical programme delivery, while at the same time increasing internal control and compliance risks. Therefore, a balanced and strategic approach to cost-savings measures is necessary to ensure the continued effectiveness and success of the Organization.

12. FAO has been successful in mobilizing increased extrabudgetary resources to support Members in applying FAO's knowledge, particularly at country level. However, while voluntary contributions play an important role in supporting the implementation of the FAO Strategic Framework, they cannot provide the necessary continuity in the technical areas of FAO's mandate and in its core knowledge generation role, or guarantee a level of functioning of its enabling areas that ensures the efficient and effective delivery of the Organization's work. As a result, the decline in Regular Programme resources remains a concern for FAO, despite the Organization's success in securing additional resources.

III. Outlook and opportunities

13. As we look forward to 2024-25, the Organization has come to the realization that, despite the considerable efforts made, it is now facing a critical tipping point, with significant pressure on its ability to continue to effectively deliver across all of the areas of its technical work to meet Members' demands. This pressure has come to a head in the face of ever-increasing requests due to more frequent and overlapping climatic events, natural disasters, the war in Ukraine and other conflicts, and other economic challenges that have persisted since the onset of the 2008 economic crisis – and the increasing urgency to act decisively if we are to re-establish a viable course to achieving SDGs 1 and 2 as per our shared commitments to the 2030 Agenda.

14. Following the constructive dialogue of the Programme and Finance Committees at their March 2023 Sessions, the Director-General would like to make Members aware of how additional funding in assessed contributions could strengthen key high-priority areas, as well as fill critical skills gaps across the wide breadth of FAO's multisectoral expertise that FAO has not been able to address due to the current budgetary limitations.

15. In addition to the priority areas that were already included in the PWB 2024-25 proposal through the re-allocation of funds, a biennial "real growth" increase of USD 39 million would allow the Organization to further strengthen key priority areas, including:

- 32 new technical posts (USD 13 million) at headquarters, regional and subregional offices to address long-standing needs for additional technical expertise (example areas are shown in *Annex 3*);
- USD 5 million to further strengthen key areas of normative work, including the International Plant Protection Convention (IPPC) and Codex Alimentarius;
- USD 5 million for high-priority programmatic areas, including antimicrobial resistance (AMR) and One Health; and
- USD 16 million to bring the Technical Cooperation Programme (TCP) to 15 percent of the net appropriation.⁸

⁸ The 40th Session of the Conference in 2017 increased the TCP to 14 percent of the net budgetary appropriation (Conference Resolution 12/2017), in line with Conference Resolution 9/89 and recommendation in Conference Resolution 6/2015 which invited the Director-General to make every effort in order to restore the resources available to TCP to the former level of 14 percent and, if possible, to raise it to 17 percent.

16. Taken together, these measures would strengthen significantly the Organization's ability to deliver on its technical mandate in support of the 2030 Agenda through the FAO Strategic Framework 2022-31.

IV. Rational Budget Proposal

17. The Programme of Work and Budget document outlines the proposal put forward by the Director-General for 2024-25. Key aspects of the budgetary proposal are recalled below:

- it presents a budget which preserves purchasing power parity with 2022-23 ("zero real growth");
- estimated incremental recoveries for direct and indirect support costs associated with the implementation of Trust Fund projects are incorporated;
- resources are re-allocated to strengthen programming and programmatic support, including for the Data Protection Unit, the Office of Innovation, the Joint FAO/IAEA Centre, the Science and Innovation and Climate Change Strategies, multilingualism, and various technical units;
- resources are re-allocated to strengthen management and oversight, including in the Office of the Inspector General and the Office of Evaluation;
- resources are re-allocated to strengthen support services in the context of the growing extrabudgetary programme, including for information technology, finance, human resources and logistics; and
- an increase under the TCP of USD 2.3 million is included to maintain the Programme at 14 percent of the net budgetary appropriation after cost increases.

V. Budgetary Reduction Scenarios

18. Considering Members' request to receive possible budgetary scenarios up to and including zero nominal growth (ZNG), two scenarios are presented below for Members' consideration.

19. Both scenarios take the PWB 2024-25 proposal as the starting point. This is considered the most appropriate starting point for any reduction scenarios, as it already incorporates the estimated cost increases, the estimated level of additional cost recoveries (no further change to cost recovery is anticipated at this time), and it includes important re-allocations as outlined above.

20. The scenarios are presented both in terms of USD reductions and budgeted Professional post reductions.

21. Both reduction scenarios reflect the zero nominal growth level of USD 1 005.6 million at the 2024-25 Euro/USD budget rate of exchange of Euro 1 = USD 1.12 (equivalent to a USD 16.7 million reduction at the 2022-23 budget rate of exchange).

22. Descriptions of the two scenarios and their likely impacts are provided below. *Annex 1* provides a more detailed view of the two reduction scenarios in USD millions by Organizational unit. *Annex 2* provides a more detailed view of the likely required post reductions under the two scenarios, and includes information on long-standing vacant posts (more than 2 years).

Scenario 1: Across-the-board reduction

Scenario description

23. This scenario applies an across-the-board reduction across all Organizational units (USD 14.4 million) and a reduction of USD 2.3 million of the Technical Cooperation Programme to bring it to 14 percent of the net budgetary appropriation at the ZNG level. The only areas protected are those where FAO has legal or contractual obligations to maintain the funding level, i.e. commitments to conventions, treaty bodies, UN cost sharing, and other special needs.⁹

Impact

24. This scenario has the benefit of not unduly penalizing any particular unit or level of the Organization and the impact would span across both technical and non-technical areas. Some additional elements are provided below:

- a) For a majority of the technical units (e.g. plant protection, animal health, fisheries and aquaculture, forestry, trade and markets, nutrition, statistics, inclusive rural transformation and gender equality, among others), whose non-staff resources have already been reduced to the absolute minimum over the past twelve years, and decentralized offices, the reduction would necessitate the abolition of budgeted posts and the related loss of technical expertise.
- b) The non-technical areas of FAO's work (e.g. partnerships, resource mobilization, communications, finance, information technology, governance support, human resources, logistics, audit) would also need to absorb reductions that could not be materially offset by efficiencies due to the history of progressive reductions in these areas, and which would also necessitate post abolitions and corresponding reduction in service provision.
- c) In both technical and non-technical areas, there could be a partial offset to the post reductions for some units in terms of non-staff budget increase, but in any case, the amounts would not be sufficient to maintain delivery of the abolished functions.

Number of budgeted post abolitions

25. Under Scenario 1, Management estimates that approximately 43 budgeted professional posts would need to be abolished (27 headquarters and 16 decentralized posts), of which approximately 21 technical and 22 non-technical posts. While vacant posts would be targeted in the first instance to minimize the disruption on staff, the loss of the post resources would mean that the relevant areas of work could no longer be covered by other means (e.g. temporary positions, consultancies), and would therefore need to be cut.

26. Adjusting the technical staffing while maintaining delivery and continuity is complex and fraught with risk, normally requiring the identification of the "least worst" option, as for each technical expertise there is normally only one dedicated position in a headquarters technical unit or region. Even when such posts are vacant, ad hoc solutions utilizing affiliate personnel are adopted to ensure the continuity of the programme of work.

27. Under Scenario 1, therefore, the combined direct and indirect effects of the budgetary reductions would negatively impact the Organization's delivery and reduce its capacity to contribute to the Agenda 2030 under the FAO Strategic Framework 2022-31.

⁹ C 2023/3, paragraph 76

Scenario 2: Reduction confined to non-technical (functional) areas and TCP

Scenario description

28. This scenario applies a proportional reduction totaling USD 14.4 million to the non-technical programmes of the Organization, budgetary Chapters 7 through 10 (Functional Objectives), including those elements located in regions. Furthermore, as in Scenario 1, the Technical Cooperation Programme is reduced by USD 2.3 million to bring it to 14 percent of the net budgetary appropriation at the ZNG level. In this scenario, units delivering the Organization's technical work are protected to not further erode FAO's technical excellence, as are the areas where FAO has legal or contractual obligations to maintain the funding level.

Impact

29. This scenario focuses reductions on non-technical work areas, and thus has the benefit of avoiding direct reductions to the Organization's technical post establishment. Nonetheless, the reductions would have a significant impact in both non-technical and technical areas, as described below:

- a) The administrative and other enabling functions of FAO's work (e.g. partnerships, resource mobilization, communications, finance, information technology, governance support, human resources, logistics, audit) would bear an even heavier burden, triggering a significant abolition of posts in these areas. Positions providing the equivalent functions located in regional hubs that service regions, subregions and country offices would also need to be reduced.
- b) In view of the budgetary evolution described above, any further reduction to these work areas that the Organization could not fully offset through efficiencies or synergies would result in a further reduction in services, exacerbating the existing strain on client technical units, regions and countries, and compromising their capacity for technical delivery.
- c) As in Scenario 1, there could be a partial offset to the post reductions for some units in terms of non-staff increase, but the amounts would not be sufficient to maintain delivery of the abolished functions.

Number of post abolitions

30. Under Scenario 2, Management estimates that approximately 43 non-technical professional posts would need to be abolished (35 at headquarters and 8 regional posts). As in Scenario 1, while vacant posts would be targeted to minimize the disruption on staff, the loss of the post resources would mean that the relevant areas of work could no longer be covered by other means (e.g. temporary positions, consultancies), and would therefore need to be cut.

31. In summary, while on the surface Scenarios 1 and 2 are distinct in terms of the areas targeted for reduction, both scenarios share a common element. That is, whether by direct or indirect means, the net effect of the reductions under each would be to reduce the Organization's ability to fully deliver its technical programme of work to support Members in the achievement of the Agenda 2030 through the FAO Strategic Framework 2022-31.

Annex 1: Reduction Scenarios (USD million)

PWB 2024-25: Reduction Scenarios by Organizational Unit grouping (USD millions)				
FAO Organizational Units		PWB 2024-25 (C 2023/3)	Scenario 1 (across-the- board reduction)	Scenario 2 (functional areas reduction)
Headquarters		663.2	(9.2)	(11.9)
	<u>Offices</u>			
1	Director-General and Core Leadership / Legal / Strategy, Programme and Budget / Ethics / Ombudsman	72.8	(1.1)	(1.7)
2	Inspector General / Evaluation	21.8	(0.3)	(0.9)
3	Communications	31.3	(0.5)	(1.2)
4	Innovation / Chief Statistician / SIDS, LDCs, LLDCs / Emergencies and Resilience / Climate Change, Biodiversity and Environment	32.1	(0.4)	-
	<u>Centres</u>			
5	Investment Centre / Joint FAO WHO Centre / Joint FAO IAEA Centre	58.2	(0.6)	-
	<u>Divisions</u>			
6	Partnerships and Outreach	39.7	(0.6)	(1.4)
7	Natural Resources and Sustainable Production	126.4	(1.6)	-
8	Economic and Social Development	108.3	(1.6)	-
9	Corporate Logistics and Operational Support	156.9	(2.4)	(6.6)
	<u>Other</u>			
10	Inter-agency coordination, MDF, JPO programme	15.7	-	-
Decentralized Offices		349.4	(5.3)	(2.6)
11	Africa	120.0	(1.8)	(0.4)
12	Asia and the Pacific	67.5	(1.0)	(0.5)
13	Europe and Central Asia	29.3	(0.4)	(0.2)
14	Latin America and the Caribbean	70.8	(1.1)	(0.5)
15	Near East and North Africa	44.8	(0.7)	(0.4)
16	Liaison Offices	17.0	(0.3)	(0.7)
Technical Cooperation Programme - Projects		143.9	(2.3)	(2.3)
17	Technical Cooperation Programme - Projects	143.9	(2.3)	(2.3)
Other		(95.0)	-	-
18	Contingencies, Capital Expenditure, Security Expenditure, Corporate Income (net)	(95.0)	-	-
Total (at 2022-23 budget rate of exchange)		1 061.4	(16.7)	(16.7)
Total (at 2024-25 budget rate of exchange)		1 021.7	(16.1)	(16.1)
ZNG budget (at 2024-25 budget rate of exchange)			1 005.6	1 005.6

Annex 2: Reduction Scenarios in budgeted posts

PWB 2024-25: Post Reduction Scenarios (number of Professional posts)				
FAO Organizational Units	2024-25 Prof. Posts (C 2023/3 Annex 8)	Scenario 1 (across-the-board reduction)	Scenario 2 (Functional areas reduction)	Long-standing Vacant Prof Posts
Headquarters	948	(27)	(35)	59
<u>Offices</u>				
1 Director-General and Core Leadership / Legal / Strategy, Programme and Budget / Ethics / Ombudsman	89	(3)	(5)	3
2 Inspector General / Evaluation	36	(1)	(3)	-
3 Communications	45	(2)	(4)	1
4 Innovation / Chief Statistician / SIDS, LDCs, LLDCs / Emergencies and Resilience / Climate Change, Biodiversity and Environment	41	(1)	-	2
<u>Centres</u>				
5 Investment Centre / Joint FAO WHO Centre / Joint FAO IAEA Centre	97	(2)	-	15
<u>Divisions</u>				
6 Partnerships and Outreach	56	(2)	(4)	3
7 Natural Resources and Sustainable Production	205	(5)	-	13
8 Economic and Social Development	175	(5)	-	10
9 Corporate Logistics and Operational Support	179	(7)	(20)	12
<u>Other</u>				
10 JPO programme	25	-	-	
Decentralized Offices	335	(16)	(8)	29
11 Africa	98	(5)	(1)	6
12 Asia and the Pacific	73	(3)	(1)	6
13 Europe and Central Asia	37	(1)	(1)	3
14 Latin America and the Caribbean	69	(3)	(1)	6
15 Near East and North Africa	45	(2)	(1)	7
16 Liaison Offices	13	(1)	(2)	1
Total	1 283	(43)	(43)	88

Annex 3: Example list of new budgeted posts under a “growth” scenario (number of posts)

Priority area	Decentralized Offices	Headquarters	Total
Emergency and Resilience		1	1
Statistics and SDG Monitoring	1	1	2
Climate change and biodiversity	1	1	2
Legal		1	1
Investment	1	1	2
Fisheries and Aquaculture	1	1	2
Forestry	1	1	2
Animal Health	1	1	2
Agrifood Economics	2	1	3
Statistics	1	1	2
Land and Water	1	1	2
Plan production and protection	1	1	2
Agrifood Systems	2	1	3
Nutrition	1	1	2
Trade and Markets	1	1	2
Rural Transformation and Gender Equality	1	1	2
Grand Total	16	16	32