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FINANCE COMMITTEE

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Funding situation – Risks, Management Responses and Mitigation Measures

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EXECUTIVE SUMMARY

- This document follows from the document *Update on analysis of funding to FAO – Risks, opportunities and transparency* presented to the 202nd Session of the Finance Committee in November 2024.[1]
- It includes detail on the current resource mobilization landscape and resource trends to date in 2025, including the decreasing trends in voluntary contributions alongside the challenges associated with maintaining FAO's core technical delivery and adequate support and oversight functions amidst significant and ongoing erosion to the Regular Programme budget over the last 14 years. It complements the Programme of Work and Budget (PWB) 2026-27 documents and describes the impacts and risks at different levels of the Organization associated with the overall contraction to FAO's integrated budget. It outlines the ongoing efforts of FAO Management to ensure FAO effectively mitigates risks, to promote future resource mobilization to deliver fully on the priorities outlined in the PWB, and through efforts to increase efficiencies, introduce process improvements, build capacities and improved impact at country level.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to review this document and make such observations as it considers appropriate within the context of its mandate.

Draft Advice

The Committee:

- **welcomed the extensive overview of FAO's integrated funding model, including its challenges and opportunities;**
- **noted the current resource mobilization landscape and resource trends, and the impacts and risks at different levels of the Organization associated with the overall contraction to FAO's integrated budget; and**
- **noted FAO's efforts to safeguard the Organization's priorities and to enact internal reforms to ensure the Organization's resilience.**

[1] FC 202/5

Funding Dynamics and Scenarios (2025-2027)

1. FAO's integrated budget brings together assessed contributions and voluntary contributions to form the consolidated means available for implementation of the Programme of Work. This integrated budgeting method, introduced following the 2007 Independent External Evaluation (IEE) and Immediate Plan of Action (IPA), responds to Members' request for greater transparency and accountability, and ensures that all sources of funds are presented in a unified framework. It is similar to approaches used in other UN agencies and is central to how FAO aligns resources with agreed priorities.

2. The Regular Programme budget remains the backbone of FAO's technical mandate, sustaining normative work, global public goods and essential technical expertise. In 2022-23, assessed contributions accounted for about 24 percent of the integrated budget. However, FAO has faced progressive erosion in the real value of these resources: over the six biennia from 2012 to 2023, the Organization lost the equivalent of USD 67 million (about 7 percent) in purchasing power. Although Conference approved inflationary adjustments in 2024-25, the 2026-27 budget resumes a flat nominal trajectory, requiring the abolition of 177 vacant posts across technical, business, and administrative services. This contraction, equivalent to USD 40 million, is significant given the growing demands placed on FAO to respond to climate change, conflict, global food insecurity, and heightened Member expectations.

3. At its 44th Session, the Conference underscored the critical importance of maintaining FAO's core competencies and delivery in areas such as the Technical Cooperation Programme (TCP), Codex Alimentarius, the International Plant Protection Convention (IPPC), data and statistics, Statutory Bodies and oversight functions. Members also reaffirmed their decision to increase the TCP share to a minimum of 17 percent of the net appropriation beginning in 2028-29 and requested FAO to continue mobilizing complementary voluntary resources to support the TCP. In the PWB 2026-27, Management has sought to protect these core areas and minimize disruption, but the sustainability of this approach under a flat regular budget trajectory remains a serious concern.

4. Voluntary contributions remain indispensable to the integrated budget, enabling delivery of the Programme of Work. Since 2021, FAO has mobilized historically high levels of voluntary resources, reaching USD 2.1 billion in 2022, followed by USD 2 billion in 2023 and USD 1.8 billion in 2024. In 2025, however, contributions are projected to fall to USD 1.5 billion – a 15 percent decline from 2024. This shift reflects both broader global trends in aid financing and the impact of donor-specific policy changes, such as the termination of the majority of United States Agency for International Development (USAID) funded projects.

5. Importantly, the profile of voluntary funding has changed. Over the past six years, FAO has deliberately diversified its donor base to mitigate risks of over-reliance on a few partners in light of policy shifts at national level, e.g. the graduation of many developing countries to middle-income status resulting in a shift in reliance from Official Development Assistance (ODA) to other funding sources to de-risk and facilitate investments. By 2024, 50 percent of voluntary contributions came from "emerging partners" such as International Financial Institutions (World Bank, Asian Development Bank, African Development Bank), vertical funds (Green Climate Fund, Global Environment Facility, the Pandemic Fund), intra-UN transfers and private philanthropic foundations. In 2025, as bilateral funding declined, this share rose further to 75 percent, enabling FAO to offset part of the decline from traditional donors. This diversification has been a source of resilience but also introduces new challenges, as some vertical funds and international financing institution (IFI) projects provide lower levels of indirect support cost recovery, limiting resources available for FAO's enabling functions.

6. The global aid landscape suggests that these shifts could be long term. Projections indicate that global ODA may contract by one third by 2026. Several major bilateral donors have announced reductions of 15-30 percent in forward plans, with resources increasingly directed to domestic priorities such as health, defence, and inflation relief. Where ODA is available, it is often more transactional, tied to national trade or, in some cases, political objectives, or structured through blended finance arrangements rather than stand-alone grant funding.

7. Emergency and resilience funding has been especially volatile. Resource mobilization for FAO's emergency and resilience programme rose sharply between 2020 and 2022, increasing from USD 728 million in 2020 to USD 1.3 billion in 2022, largely in response to the Desert Locust crisis and the global food security impacts of conflict and climate shocks. However, this growth proved unsustainable: by 2023-24, humanitarian funding for agriculture had contracted steeply, with allocations to FAO's emergency agriculture work declining to USD 901 million in 2023 and just USD 693 million in 2024. Emergency agriculture represented only 5 percent of overall humanitarian food-sector funding in 2024, despite acute hunger more than doubling since 2016. Projections for 2025 suggest a further 20-25 percent reduction, potentially returning to funding levels last seen in 2016-17. This sharp mismatch between rising needs and falling resources highlights the fragility of agricultural emergency assistance in the broader humanitarian system.

8. For FAO, diversification has provided a relatively soft landing, spreading reductions over several years instead of abrupt shocks. Nevertheless, absent new sources of ODA, FAO will operate in an environment where the overall pool of grant funding is structurally smaller. While opportunities exist – such as leveraging FAO's partnerships with IFIs, its established cooperation with the World Bank and its alignment with initiatives like the European Union's Global Gateway – these opportunities come with execution models that differ from traditional donor funding and carry implications for FAO's cost recovery and internal capacities.

9. Despite these trends, given the focus on cost-effectiveness and the very low level of historical funding for emergency agricultural assistance, FAO sees opportunities to expand funding for its activities in this area, even if overall bilateral donor funding may be under pressure.

Impacts and Risks to FAO

10. The combined contraction of assessed and voluntary contributions is creating operational disruptions and poses long-term risks to FAO's technical, normative, and field capacities. The most visible impacts were triggered by the termination of 108 US-funded projects in early 2025. These included global, regional, and country-level initiatives across all five FAO regions, covering a wide range of thematic areas such as animal health, plant protection, resilience programming, food security coordination and country-level capacity development. At the time of their approval, these projects carried an aggregate value of approximately USD 430 million, with an actual value of USD 209 million at closure. The sudden loss of this portfolio led to significant disruptions in technical and operational delivery, and to the separation of 358 personnel – including national and international staff, non-staff human resources, and project-based experts – with immediate consequences for FAO's presence and credibility in affected countries. This experience underlines the vulnerability of FAO's delivery model to abrupt shifts in donor policy.

11. The most significant impacts have been in areas where FAO provides global public goods, including the Organization's work on managing transboundary animal diseases, and programming on emergencies and resilience.

Transboundary animal diseases

12. Established in 2004, co-led by the Animal Production and Health Division (NSA) and the Office of Emergencies and Resilience (OER), the Emergency Centre for Transboundary Animal Diseases (ECTAD) has been FAO's flagship platform for preventing and controlling animal disease outbreaks, supporting pandemic preparedness, and safeguarding international trade. The United States of America historically provided 86 percent of ECTAD's funding, through USAID and the Defense Threat Reduction Agency, complemented by smaller contributions from Australia, the United Kingdom of Great Britain and Northern Ireland (DEFRA and the Fleming Fund), Italy, the Republic of Korea, and UNDP. In 2025, the termination of 64 US-funded projects worth USD 161 million accounted for around 60 percent of all US terminations at FAO. This has severely weakened a global asset built over two decades. Without sustained support, FAO and its Members face heightened risks of delayed outbreak detection, collapse of surveillance networks, weakened pandemic preparedness, loss of trained veterinary response teams, and major disruptions to trade and food security.

Emergencies and resilience programme coordination

13. FAO's emergency and resilience work is almost entirely funded through voluntary, short-term projects, leaving it highly exposed to sudden shifts in donor priorities. In 2025, projected delivery fell from USD 800 million to USD 620 million, largely due to the termination of 98 US-funded projects across high-need countries including Ethiopia, Mozambique, Nigeria and Somalia, and in light of wider cuts to emergency agriculture programming outlined above. This situation has required swift planning and action from the Office of Emergencies and Resilience (OER) to stabilize its finances. OER has enacted an 18.5 percent budget reduction (USD 4 million) and reduced staff by 20 percent (from 294 to 235). Measures included workforce adjustments, reduced travel, and consolidation of administrative costs. While these steps helped balance the biennial budget, they are stop-gap measures. Prolonged funding declines will undermine FAO's ability to sustain emergency surge capacity, coordinate humanitarian food security responses and ensure agriculture remains central to UN crisis responses.

Impacts on cost recovery and cost shared central enabling functions

14. Beyond programmatic impacts, FAO's enabling functions are increasingly vulnerable. The Organization delivers its Programme of Work using assessed and voluntary contributions under the integrated budget. In accordance with Financial Regulation 6.7, voluntary contributions may only be accepted when all costs associated with their implementation are fully covered, so as not to create additional obligations for Members. FAO's Cost Recovery Policy operationalizes this principle, ensuring that administrative and operational support costs are recovered from project budgets.

15. In 2022-23, approximately 61 percent of project delivery fell under the new Cost Recovery Policy, which recovers both Direct Support Costs (DSC) and Indirect Support Costs (ISC). As reported in the Programme Implementation Report (PIR) 2022-23, recoveries under this model rose significantly compared with 2020-21, from USD 125.7 million to USD 203.9 million, reflecting increased extrabudgetary delivery. The remaining 39 percent of delivery was governed by projects under the legacy cost recovery policy dating back to 1998-99. Under those terms, reimbursements for Administrative and Operational Support (AOS) totalled USD 109.4 million in 2022-23, which was sufficient to cover associated costs.

16. While the overall system is functioning, the profile of cost recovery is changing. Increasing reliance on IFIs and vertical funds (GEF, GCF, Pandemic Fund) poses risks because these funding mechanisms often use special execution modalities, channelling resources through partners rather than directly through FAO. This reduces the ISC base, leaving semi-fixed organizational capacities – such as shared services, project support units, and regional operational hubs – reliant on income streams that are less flexible and harder to predict. Accumulated unspent project balances should sustain cost recoveries through 2026, but from 2027 onward, FAO may face shortfalls if overall delivery declines or the funding mix shifts further toward vertical funds.

Impacts of regular budget constraints

17. Finally, constraints in the Regular Programme budget amplify these risks. Maintaining a flat nominal budget in the face of cost increases steadily erodes FAO's capacity to deliver normative and technical work, even in areas Members have emphasized as priorities (TCP, Codex, IPPC, data/statistics, statutory bodies, oversight and accountability, and the country office network).

Impacts of arrears and liquidity constraints

18. Delays in the payment of assessed contributions and high levels of arrears of contributions from prior years continue to pose liquidity risks and threaten FAO's ability to meet its operating cash requirements for the approved Programme of Work. As of 30 June 2025, 82 Member Nations had paid their contributions for the year in full. However, 112 Member Nations still owed part or all of their 2025 assessments, amounting to USD 142.3 million and EUR 93.8 million. In addition, 74 Member Nations had outstanding arrears from 2024 and earlier years, totalling USD 119.6 million and EUR 71.5 million. These arrears represent approximately 40.2 percent of the total current

assessments. These figures are based on document FC 206/INF/2 and highlight the ongoing need for timely payments to support the Organization's operations.

Management Responses and Mitigation Measures

19. In the face of these funding pressures, FAO has adopted a proactive and deliberate approach to ensure that the Organization continues to deliver on Members' priorities. Management is adjusting programme priorities, reallocating resources where required, and developing new instruments to strengthen resilience. Actions focus on three main areas: (i) safeguarding core priorities; (ii) protecting flagship programmes through targeted appeals and new approaches; and (iii) strengthening efficiencies and accountability across all levels of delivery.

Safeguarding core programmatic priorities

20. Members have consistently emphasized the importance of protecting core functions of the Organization, including the TCP, normative and standard-setting work (such as Codex Alimentarius and the IPPC), global data and statistics, oversight and accountability mechanisms, statutory bodies and the country office network. These areas have been preserved to the maximum extent possible in the 2026-27 Programme of Work and Budget; however, the progressive erosion of the regular budget resources can no longer be managed through efficiency gains and savings alone and will increasingly require cuts to services and capacity, resulting in reduced ability to deliver FAO's mandate.

Protecting flagship initiatives through targeted appeals and new approaches

21. Two areas that have experienced the most acute reductions are receiving specific and sustained attention:

- Transboundary Animal Diseases (ECTAD): To safeguard two decades of investment in global animal health systems, FAO is preparing a Global Challenge Programme on Transboundary Animal Diseases (GCP-TADs), envisaged for launch in 2026. This initiative would broaden the funding base beyond a single bilateral donor, bringing in additional bilateral partners, IFIs, vertical funds, and foundations, while embedding transboundary disease management within a One Health framework.
- Emergencies and Resilience: To counter declining humanitarian financing for agriculture, FAO is developing a Global Emergency and Resilience Appeal 2026. This consolidated platform will align advocacy and resource mobilization with country-level Emergency and Resilience Plans and highlight FAO's comparative advantage in agricultural emergency response: cost-effective seed, feed, veterinary, and livelihood interventions that reduce dependency on food aid and help families remain self-reliant.

22. Additional options are under active consideration to strengthen FAO's financing model. These include the establishment of a TCP Trust Fund as a means of mobilizing further voluntary contributions to the TCP as requested by FAO Conference (C 2025/REP, para. 61.d), to complement Regular Programme resources, and a potential restructured Flexible Voluntary Contribution (FVC) to provide more predictable support for priority technical areas. In parallel, FAO is scaling up engagement with the private sector through the new Private Sector Engagement Strategy (2026-2030), which aims to leverage blended finance, philanthropic contributions, and innovative financing instruments, while applying strong safeguards through due diligence and risk management.

Efficiencies, accountability, and improved delivery

23. In parallel, FAO is implementing measures to strengthen efficiency, improve accountability, and enhance delivery capacity. These efforts are designed not only to achieve savings but also to

increase organizational resilience and ensure that every resource entrusted to FAO achieves maximum impact. Key initiatives in the area of project management include:

- Umbrella programme mechanism: bringing together related projects into coherent portfolios, improving planning, monitoring and risk management. By mid-2025, 32 umbrella programmes were operational, with new ones being introduced in Lebanon and in five countries aligned with Humanitarian Response Plans.
- Portfolio-level planning and accountability: introduction of the Project/Programme Manager role with clear accountability for results, supported by targeted training and oversight.
- Operational partner modalities: revision of Manual Section 701, which streamlines partnership approvals, decentralizes decision-making on partnerships where appropriate, and applies risk-based thresholds to ensure agility without compromising oversight.

24. Beyond procedural reforms, FAO has also initiated broader organizational reviews to capture lessons and adjust its business model. An internal Lessons Learned exercise following the termination of US-funded projects in early 2025 identified the need for, *inter alia*:

- more agile workforce planning tools to redeploy staff quickly in the face of funding shifts;
- improved internal systems to track human resources and finance actions;
- stronger early-warning systems and risk forecasting to anticipate donor decisions and diversify portfolios in advance; and
- clearer internal protocols for transitioning project assets, personnel, and activities when sudden closures occur.

25. These reforms and reviews are already producing results. The Programme Implementation Report 2022-23 documented improved cost recovery, greater transparency in project approval processes, and reduced administrative bottlenecks. Going forward, FAO is consolidating these gains by moving toward a more integrated delivery model, with stronger central coordination, reduced fragmentation and closer alignment of resources with organizational priorities.

26. Taken together, these measures demonstrate FAO's determination to adapt to financial constraints while safeguarding its core mandate. The Organization is reshaping its delivery model to ensure that Members' priorities are protected, resources are mobilized more strategically, and programmes are delivered with greater efficiency, accountability, and impact.

Conclusion

27. FAO faces one of the most complex funding environments in its history. Assessed contributions remain under long-term pressure, voluntary contributions are declining from record highs and humanitarian financing for agriculture is contracting even as global needs rise. The termination of major donor programmes in 2025 has highlighted the vulnerability of FAO's delivery model to sudden shifts, while also demonstrating the broader risks of a global aid system undergoing structural change.

28. Management has taken these scenarios seriously and is acting with determination to protect the Organization's core capacities and mandate. Through careful prioritization, FAO is safeguarding its priorities and the priorities of its Members such as the TCP, Codex, IPPC, data and statistics, oversight, and the country office network. Flagship initiatives at risk, notably in the areas of transboundary animal diseases and emergencies and resilience, are being addressed through new instruments and appeals. Options are under consideration to reinforce predictable financing – including pooled funds, trust funds and enhanced engagement with the private sector. At the same time, FAO is pressing forward with internal reforms: portfolio-level planning, umbrella programmes, streamlined partnership modalities, and lessons learned from recent project terminations are strengthening the Organization's resilience.

29. The coming biennium will require difficult trade-offs and close collaboration with Members. Yet FAO enters this period with a clear-eyed assessment of risks, a coherent management response, and a strong commitment to transparency and accountability. The Organization's adaptability, diversification and reform efforts provide a solid foundation to navigate financial uncertainty. Members can be assured that FAO is not only taking these challenges seriously but also taking decisive steps to protect essential capacities and deliver tangible results in support of global food security, agrifood systems transformation, and resilience in line with its Strategic Framework.