October 2021 C 2023/5 A

**E**

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 Продовольственная и сельскохозяйственная организация Объединенных Наций Organización de las Naciones Unidas para la Alimentación y la Agricultura منظمة الأغذية والزراعة للأمم المتحدة

# CONFERENCE

| Forty-third Session |
|---|
| Rome, 1-7 July 2023 |
| Audited Accounts - FAO 2020 |

# FINANCIAL STATEMENTS for 2020

# of the

# Food and Agriculture Organization

# of the

# United Nations

# TABLE OF CONTENTS



**The Report of the External Auditor is available under Conference document reference number C 2023/5 B.**

# INDEPENDENT AUDITOR'S REPORT

**To the FAO Conference of Member Nations**

**Opinion**

We have audited the financial statements of the Food and Agriculture Organization of the United Nations (FAO), which comprise the statement of financial position as at 31 December 2020, and the statement of financial performance, statement of changes in net assets/equity, statement of cash flow, and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the FAO as at 31 December 2020, and its financial performance, changes in net assets/equity, cash flow, and comparison of budget and actual amounts for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the FAO in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the FAO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the FAO or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of FAO.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economics decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of FAO.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(d) Draw conclusion as to the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of FAO to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

(e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, the transactions of the Food and Agriculture Organization of the United Nations that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations of FAO.

In accordance with Article 12.9 of the Financial Regulations, we have also issued a long-form report on our audit of the Food and Agriculture Organization of the United Nations.

**Girish Chandra Murmu**
**Comptroller and Auditor General of India**

**8 October 2021**

# FINANCIAL STATEMENTS 2020

## CERTIFICATION OF FINANCIAL STATEMENTS

**The amounts shown in the statements properly reflect the recorded financial transactions for the period:**

Laurent Thomas

Deputy Director-General

**Approved:**

Director-General

*14 September 2021*

# DIRECTOR-GENERAL'S STATEMENT

Pursuant to Rule XXXVIII, paragraph 2 (h) of the General Rules of the Organization, and in accordance with Financial Regulation XI of the Food and Agriculture Organization of the United Nations (FAO), I have the honour to submit for adoption by the Conference, the Financial Statements for the year ended 31 December 2020 prepared in accordance with International Public Sector Accounting Standards (IPSAS) and FAO's Financial Rules and Regulations.

Particularly under Financial Regulation X.1, the Director-General is accountable to the Governing Bodies for the internal control of the Organization, in order to ensure effective financial administration and exercise of economy, and effective custody of the physical assets of the Organization.

Internal control and accountability processes are exercised continually at all levels within the Organization in line with the requirements established in FAO's Accountability Policy. The Accountability Policy lays out the elements of FAO's system of internal control.

A Statement on Internal Control (SIC) has been issued with the annual financial statements. The SIC has been prepared based on a thorough and Organization-wide review of internal controls by managers as well as on recommendations of FAO's internal and external oversight mechanisms.

The Organization continues to strengthen its commitment towards transparency and safeguarding of funds entrusted to the Organization through progressing on improvements to the process of safeguarding of assets, strengthening the Accountability Policy and diversified and prudent investment strategies.

As a result of the difficulties faced during 2020 caused by the COVID-19 pandemic, the Organization has become more agile, efficient and innovative, and has continued to focus on the effective implementation of its activities while accelerating the transition to a fully digital Organization.

# STATEMENT ON INTERNAL CONTROL

**Scope of Responsibility**

1. The Director-General of the Food and Agriculture Organization of the United Nations (FAO) is accountable for maintaining a sound system of internal control that supports the achievement of FAO's vision, goals and objectives, while safeguarding the funds and assets, in accordance with the responsibilities entrusted under FAO's Constitution, General Rules, Financial Regulations[1] and by the Governing Bodies.

**Purpose of the System of Internal Control**

2. The system of internal control is designed to reduce and manage, rather than eliminate, risks and to increase the likelihood that FAO's policies, aims and objectives will be achieved. It therefore provides a reasonable assurance and not absolute guarantee of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritize the risks to the achievement of the Organization's mandate and objectives, to evaluate the likelihood of those risks being realized and the impact should they be realized, and to manage them efficiently, effectively, and economically. The system of internal control has been in place at FAO for the year 1 January 2020 through 31 December 2020, and up to the date of the signature of this document.

3. The system of internal control covers all aspects of FAO's activities. Managers and their staff throughout FAO are required to use internal controls to develop, implement, monitor and adjust strategies, policies, processes and plans with a view to the following benefits:

a) Developing **controls that efficiently and effectively respond to the operational and other risks** faced in achieving FAO's objectives.

b) Maintaining and improving the **reliability, integrity and timeliness of financial and operational information.**

c) Improving the **observance of legal, statutory or regulatory obligations; FAO's ethical standards; and of its internal rules.**

d) **Reducing losses and waste of assets and resources**, whether through misdirected effort, avoidable **errors, mismanagement, abuse or fraud.**

e) Sustaining and increasing the confidence among Members and other stakeholders in the **effectiveness and efficiency of FAO's management systems**.

**Risk and Control Framework**

4. FAO operates its internal controls within a comprehensive policy framework in compliance with the COSO[2] framework's five components (control environment, risk assessment, control activities, information and communication and monitoring activities). The FAO framework covers all aspects of internal controls, including accountability, risk management, control activities, fraud prevention and detection and ethical behaviour. High-level oversight is provided by the Director-General and his senior management team in line with FAO's internal management governance policies. The Internal Controls Board (ICB), chaired at the level of Deputy Director-General, provides coordination and internal governance of control-related initiatives while the Office of Strategy, Planning and Resource Management manages FAO's policies on accountability, risk management and the Internal Control Framework as well as leads the internal control reporting process.

5. The design of procedures and tools for control-sensitive business processes is assigned to specific policy owners of business processes that are also responsible for facilitating operational monitoring and reporting.

[1] In particular Article VII of the Constitution; Rule XXXVII of the General Rules of the Organization; Financial Regulation X

[2] Committee of Sponsoring Organizations of the Treadway Commission

6. Compliance with the Internal Control Framework is the responsibility of the managers in headquarters and the Decentralized Offices. As a basic premise, however, all FAO staff, consultants, subscribers, contractors and partners are expected to bring control issues to the attention of the Organization, through their supervisors or other established channels, such as the Office of the Inspector General.

7. FAO is committed to managing risks efficiently and responsibly, ensuring that significant risks be identified, assessed, controlled/mitigated and reported in a way that enhances FAO's ability to meet its objectives and deliver the benefits and purpose expected by its stakeholders. Risk management must be embedded into existing practices and business processes so that it forms part of FAO's culture.

**Review of Effectiveness**

8. As Director-General, I review the effectiveness of the system of internal control. My review is informed by:

a) Letters of Representation from the Deputy Directors-General, Chiefs, Regional Representatives and Director of Cabinet, in which they provide assurance that FAO's management and control systems are being applied methodically and effectively across the Organizational units under their command. The Letters of Representation are informed by the analysis of the Internal Control Questionnaires completed by offices and divisions throughout FAO, and the resulting control improvement plans.

b) Conclusions and recommendations in the audit reports of the Office of the Inspector General and the Annual Reports of the Inspector General, the Oversight Advisory Committee and the Ethics Officer.

c) Observations, conclusions and recommendations made by the External Auditor in their long-form report, management letters and other reports.

d) Other matters that have come to my attention during the year, for example, data from corporate monitoring systems such as the Operational Monitoring Dashboard.

9. FAO further benefits from other relevant information stemming from the activities of its Inspector General, its Oversight Advisory Committee, its External Auditor, its Office of Evaluation, the UN Joint Inspection Unit as well as from the work of its Governing Bodies that exercise oversight and support the implementation of the Internal Control Framework.

10. FAO is committed to a process of continuous development and improvement in risk management and internal control and reports below on four key areas identified, where internal control improvements are required, together with related action taken and further improvements foreseen.

**Enterprise Risk Management and Fraud Risk Management**

11. FAO has a sound framework for risk management, with the corporate policy on risk management and risk considerations embedded into planning and business processes such as the extrabudgetary project cycle and country programming frameworks. In 2018, recognizing that further action was required to strengthen risk management practices throughout the Organization, a progressive approach to the introduction of a more formalized enterprise risk management (ERM) was launched, supported by capacity building actions in order to ensure sustainability of processes. In 2019, a process for preparation of risk logs for all FAO offices, including headquarters units and Decentralized Offices was rolled out. The process comprises risk identification, mitigation, monitoring and reporting and is supported by comprehensive guidance, support and a dedicated tool.

12. Fraud risk is an important component of FAO-wide risk management. FAO has a zero-tolerance policy framework in place, supported by the assessment of fraud risk vulnerability and guidance for fraud prevention and detection and the Fraud Prevention Plan preparation and completion for FAO offices worldwide, in a dedicated online tool.

Action taken in 2020

13. The work to strengthen risk management, including fraud risk, continues and in 2020 the following actions were undertaken:

a) Embedding of risk analysis in the strategic planning process and in the development of the Programme Priority Areas for the Medium Term Plan 2022-25, with integration of strategies to mitigate the effects of risks and uncertainties.

b) Preparation of a risk maturity assessment which was used as a basis for the preparation of a plan for next steps to improving the Organization's risk management capacity.

c) Continued awareness raising and capacity building on FAO risk management, risk log preparation and FAO's measures to prevent, detect and report fraud, through targeted briefings tailored to needs of Decentralized Offices and headquarters units, focusing on overall risk management concepts, fraud and ethics, including exchange of experience and lessons learned.

d) Building of specialized fraud risk management capacities of the organizational-wide network of focal points, by offering the Certified Fraud Examiners course to headquarters and Regional Offices' focal points, a number of whom already completed the course and possess a robust understanding of the components of the fraud risks management cycle.

e) Risk logs completed in a majority of FAO offices, worldwide.

Action planned in 2021

14. The strengthening of the Organization's ERM and fraud risk management is an ongoing process which will continue in the coming years. In 2021, plans include the following steps which also encompass certain actions originally planned for 2020 and postponed in order to allow FAO offices to focus on the management of COVID-19 related risks and adaptation:

a) Strengthened quality assurance and monitoring of risk management processes, supported by continued capacity building and support.

b) Better integration of risk assessment and management in key business processes and programmes, such as the FAO Strategy on Private Sector Engagement.

c) Completion of risk analysis and risk log preparation for FAO offices worldwide, including integration with existing work planning and reporting cycles.

d) Streamlining and consolidation of risk management, fraud prevention planning and internal controls reporting in order to achieve better coherence and ensure that the processes become useful management tools.

e) Establishment of regular management reporting on risks and risk management activities.

**Competencies and Capacity**

Action taken in 2020

15. The competency and capacity of personnel in core programmatic, operations and administrative functions at all locations is fundamental to the internal control system and efficient delivery of FAO's programme. During 2020, numerous initiatives were undertaken in this regard:

a) A mapping of training requirements for critical roles in key internal control areas and development of training compendiums with specific learning plans. This includes a mandatory training compendium on corporate policies that employees are required to complete within the first week of employment as well as functional/technical training, required to obtain or maintain access to specific functions in FAO's ERP[1] environment.

b) Specific actions initiated to strengthen the advisory and capacity building capacities of policy owners of business processes, such as adaptation of the organizational structures and responsibilities, new guidance materials and focused training and expansion of the capacities of existing monitoring tools to assess risks and identify support requirements.

c) Initiatives to improve technical support services to projects, such as strengthening the network of technical officers in Decentralized Offices to whom the authority for providing technical support and technical clearance for procurement can be delegated and development of specific guidance relating to exceptions and thresholds.

[1] Enterprise Resource Planning

d) Development of a Human Resources Strategic Action Plan, which defines a new HR vision and contains the corporate HR strategy and plan of action to support flexibility in response to changing office needs. The Plan aims at putting in place the HR building blocks that will allow for long-term reform and strengthen an enabling and respectful working environment in FAO.

Action planned in 2021

16. The strengthening of capacities, knowledge and skills across core operations, administrative and programmatic functions is a continuing effort, in line with the changing global context, FAO's reinvigorated and more agile business model and UN reform. Steps planned for 2021 include:

a) Strengthened workforce planning, allowing assessment of longer-term requirements in terms of staffing needs, succession planning and ensuring business continuity at times of turn over; this will entail particular attention to countries in crisis, starting in 2021 with senior staff positions and FAO Representatives through rotation and roster development.

b) Emphasis on tailored and off-the-shelf trainings for different functions performed, supported by up-to-date training compendiums with profile-specific learning plans, tools for monitoring compliance with requirements and periodic assessment of training effectiveness.

c) Strengthened support to Decentralized Offices with particular focus on improving programme and project development, management, delivery and monitoring including the operationalization of the Strategy on Private Sector Engagement and the use of new operational modalities. The support efforts may also involve revision of existing tools and provisions to increase efficiency and streamline processes.

**Systems, Policies, Procedures and Tools**

Action taken in 2020

17. Well-functioning systems and streamlined processes for the management of core activities play a fundamental role in upholding the internal controls and achieving the Organization's objectives. During 2020, the main initiatives taken in this area were:

a) Actions taken to streamline key business processes relating to: procurement, with increased Delegation of Authority to Decentralized Offices that have managed to upgrade capacities; Letters of Agreements; and recruitment, with particular focus on operational efficiencies as regards NSHR employment.

b) Simplifications of the project cycle, including the possibility to receive small trust fund contributions with a fast-track modality, accelerated processes for COVID-19 response projects and streamlining of terminal reports and project closure.

c) Introduction of additional capabilities and tools to address administrative and operational needs in all locations, including adoption, starting with headquarters, of a new procurement planning tool, development of a system to track Letter of Agreement submissions and clearance with a newly developed routing record system; development of support to aid contract management and operationalization of the resource mobilization dashboard, with simplified management of pipeline data and regular reporting.

d) Completion of the first phase of the PROMYS project.[1]

e) Finalization of the policy on Business Continuity and contribution to the development of the revised UN ORMS[2] policy, which was adopted in December 2020.

f) Development of new policies for Grants and Vouchers which are expected to be finalized in 2021, and the updating of the policy and guidance for operational partnership implementation modality, in line with audit recommendations.

Action planned in 2021

18. Further initiatives will be undertaken in 2021 to ensure that processes and supporting tools meet evolving business requirements:

[1] See Paragraph 18

[2] Organizational Resilience Management System

a) Adaptation and transformation in the evolving COVID-19 environment and projected 'new normal' to ensure business continuity, flexibility and compliance. Key areas for attention include adapting policies, procedures and guidance to the changing context, ensuring that FAO employees can efficiently and securely telework in a Digital Workplace environment, as well as finding innovative delivery options.

b) Continued improvement in administrative efficiency in servicing users across all locations and control areas, with focus on ensuring that key policies, procedures and processes are appropriate for the Decentralized Offices' environment, and address emerging risks and needs, including resource partner fiduciary standards.

c) Development of integrated corporate systems and tools in line with the ERP roadmap, promoting automatization and digitalization of critical administrative processes, ensuring required capabilities for monitoring compliance and improving planning, management and compliance monitoring tools.

d) Upgrade of the main ERP system, GRMS addressing known issues that currently require manual intervention and improving functionality and security

e) Completion of the remaining ORMS policy framework, in particular the policies on Crisis Management, Crisis Communication, Emergency Medical Support, ICT Resilience and Support to FAO Personnel and their family members.

f) Revision of the Project Cycle Guide and other manual sections with a view to simplifying the processes and innovating operational modalities to better support the work of the Organization, as required by changes in resource mobilization and the programme implementation context. This will include information systems developments to support projects monitoring, new operational modalities implementation and the Due Diligence function.

g) Launch of the next phase of the PROMYS project, which aims to create a contemporary project and portfolio information management solution, streamlining the project cycle process while improving monitoring and reporting capacity.

**Roles, Responsibilities and Accountability in Managerial Oversight**

Action taken in 2020

19. Clear roles for managers and other personnel in all processes and awareness of accountability for implementing sound internal controls is of great importance for a strong internal control environment. In 2020, the Organization has undertaken several related initiatives:

a) Initiation of specific actions to refocus the role of central administrative services to strengthen the advisory and consultative functions and expand monitoring functions. In the area of procurement, a process of decentralization and strengthening of the Decentralized Office network of International Procurement Officers has been undertaken, accompanied by increased Delegation of Authority and re-organization of the role and functions of the central unit. The support to fleet management has been reorganized, consolidating management and monitoring functions in a central fleet support service in the Shared Services Centre.

b) The creation of a dedicated Project Support Division, which manages development of policy, procedures, tools and new operational modalities as well as support and capacity building for Decentralized Offices and corporate compliance monitoring in the project cycle area.

c) The building of recent and forthcoming operational modality policies, such as those pertaining to cash transfers, grants and vouchers, around highly decentralized concepts, with central roles limited to policy, guidance, capacity development and compliance monitoring.

d) Strengthening of data protection and privacy through the development and adoption of the high-level set of Data Protection Policy principles.

e) The development of a proposed roadmap for the Records and Archives management function, focusing on the development of an Information Governance Framework, records management functionality, archival modernization and capacity building, adoption and outreach.

f) The updating of the FAO Action Plans on Prevention of Sexual Harassment and Protection from Sexual Exploitation and Abuse with endorsement by the Finance Committee and Council in November and December 2020.

Action planned in 2021

20. Many of the actions planned under the aforementioned sections will also significantly contribute to awareness raising and accountability enforcement throughout the Organization. Further to these, the following specific actions are foreseen:

a) Strengthening monitoring and oversight with particular attention on critical administrative, operational and programmatic functions, to ensure compliance with organizational policies and international standards including specific requirements applying in emergency and resilience programmes.

b) Improving compliance monitoring in all locations on key policies related to misconduct and wrongful behaviour including fraud and corruption, harassment and sexual exploitation and abuse. Related corporate action plans will be implemented and updated, as necessary, including related training and awareness raising initiatives.

c) Updating the internal Due Diligence and Risk Assessment Framework for engagement with the private sector, streamlining procedures and increasing capacities. This will be supported by the development of digitized tools to improve efficiency, oversight, monitoring and reporting.

d) Transforming the Decentralized Offices network, in line with the UN reform, with focus on the transformation of regional support structures as well as the Country Offices business model for improved flexibility, efficiencies and a strengthened control environment. This will be supported by the development of an integrated monitoring system for improved corporate coordination and oversight over the Decentralized Office network.

e) Strengthening of the Records and Archives management function, following the roadmap which will be implemented over four years.

**Conclusion**

21. Effective internal control, no matter how well designed, has inherent limitations. Furthermore, the effectiveness of internal control may vary over time. I am committed to addressing any weaknesses in internal controls noted during the year brought to my attention.

22. Based on the review of effectiveness of the system of internal control, described in paragraphs 8 and 9 above, I conclude that, to the best of my knowledge and information, there were no material weaknesses that compromised the overall effectiveness of the internal control system for the year ended 31 December 2020.

The Director-General

Date: 14 September 2021

**STATEMENT I – STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2020**

| *(thousands of US dollars)* | Note | 31-Dec-20 | 31-Dec-19 (Re-stated) |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | 1 277 999 | 997 900 |
| Investments and derivative financial instruments | 5 | 589 333 | 593 765 |
| Receivables from non-exchange transactions | 6 | 254 649 | 230 266 |
| Receivables from exchange transactions | 7 | 5 362 | 5 303 |
| Prepayments and other current assets | 8 | 56 282 | 64 628 |
| Inventories | 9 | 15 370 | 14 452 |
| | | 2 198 995 | 1 906 314 |
| **Non-current assets** | | | |
| Investments | 5 | 631 398 | 552 042 |
| Receivables from non-exchange transactions | 6 | 453 | 1 720 |
| Prepayments and other non-current assets | 8 | 416 | 478 |
| Property, plant and equipment | 10 | 38 480 | 33 584 |
| Intangible assets | 11 | 6 973 | 7 030 |
| | | 677 720 | 594 854 |
| **Total assets** | | **2 876 715** | **2 501 168** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable | 12 | 34 723 | 34 473 |
| Accrued expenses | 12 | 209 788 | 180 256 |
| Payments received in advance | 13 | 328 658 | 333 133 |
| Employee benefit obligations | 14 | 72 296 | 61 596 |
| Provisions | 17 | 212 | 296 |
| Other current liabilities | 18 | 3 675 | 3 635 |
| | | 649 352 | 613 389 |
| **Non-current liabilities** | | | |
| Employee benefit obligations | 14 | 1 453 339 | 1 436 714 |
| Other non-current liabilities | 18 | 36 029 | 37 810 |
| | | 1 489 368 | 1 474 524 |
| **Total liabilities** | | **2 138 720** | **2 087 913** |
| **Net assets** | | **737 995** | **413 255** |
| **Equity** | | | |
| Accumulated surplus / (deficit) | | 602 081 | 367 957 |
| Reserves | 19 | 135 914 | 45 298 |
| **Total equity** | | **737 995** | **413 255** |

**STATEMENT II – STATEMENT OF FINANCIAL PERFORMANCE**
**FOR THE YEAR ENDED 31 DECEMBER 2020**

| *(thousands of US dollars)* | Note | 31-Dec-20 | 31-Dec-19 (Re-stated) |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from non-exchange transactions** | | | |
| Assessments of Member Nations under Regular Programme | 20 | 484 554 | 488 803 |
| Voluntary contributions | 20 | 1 227 653 | 1 094 453 |
| Other non-exchange revenue | 20 | 73 052 | 69 006 |
| | | 1 785 259 | 1 652 262 |
| **Revenue from exchange transactions** | | | |
| Exchange revenue | 20 | 6 210 | 8 641 |
| | | 6 210 | 8 641 |
| **Total revenue** | | **1 791 469** | **1 660 904** |
| **Expenses** | | | |
| Employee benefits and other personnel costs | 21 | 418 433 | 397 687 |
| Consultants | 21 | 302 119 | 272 628 |
| Travel costs | 21 | 37 753 | 115 800 |
| Depreciation, amortization and impairment of long-lived assets | 21 | 10 969 | 10 678 |
| Training expenses | 21 | 23 877 | 45 123 |
| Contractual services | 21 | 385 943 | 345 458 |
| Grants and other transfer payments | 21 | 112 563 | 51 496 |
| Supplies and consumables used | 21 | 236 253 | 222 940 |
| Other expenses | 21 | 35 788 | 36 342 |
| **Total expenses** | | **1 563 698** | **1 498 152** |
| **Non-operating income and expenses** | | | |
| Investment income | 22 | 29 497 | 25 510 |
| Foreign exchange gains / (losses) | 22 | 13 738 | (3 124) |
| Finance (expenses) / income | 22 | (37 454) | (59 252) |
| Other non-operating income / (expense) | 22 | 572 | (4 707) |
| **Total non-operating income and (expenses)** | | **6 353** | **(41 573)** |
| **Surplus** | | **234 124** | **121 179** |

**STATEMENT III – STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2020**

| *(thousands of US dollars)* | Note | Accumulated surplus / (deficit) | Special Reserve Account | Actuarial gains & (losses) reserve | Cumulative unrealized gains / (losses) on available-for-sale investments | Total equity / (deficit) |
|---|---|---|---|---|---|---|
| **Balance year ended 31 Dec 2019** | | **367 957** | **17 559** | **(33 199)** | **60 938** | **413 255** |
| Adjustment to Retained Earnings | 19 | - | - | - | - | - |
| Actuarial gains / (losses) | 19 | - | - | 21 776 | - | **21 776** |
| Unrealized holding gains / (losses) | 19 | - | - | - | 68 840 | **68 840** |
| **Net revenue recognized directly in equity** | | - | - | 21 776 | 68 840 | 90 616 |
| **Surplus for the period** | | **234 124** | - | - | - | **234 124** |
| **Balance year ended 31 Dec 2020** | | **602 081** | **17 559** | **(11 423)** | **129 778** | **737 995** |
| **Balance year ended 31 Dec 2018** | | 295 921 | 17 559 | 36 847 | (7 233) | 343 094 |
| Adjustment to Retained Earnings | 19 | (49 143) | - | - | - | (49 143) |
| Actuarial gains / (losses) | 19 | - | - | (70 046) | - | (70 046) |
| Unrealized holding gains / (losses) | 19 | - | - | - | 68 171 | 68 171 |
| **Net revenue recognized directly in equity** | | (49 143) | - | (70 046) | 68 171 | (51 018) |
| **Surplus for the period** | | **121 179** | - | - | - | **121 179** |
| **Balance year ended 31 Dec 2019** | | **367 957** | **17 559** | **(33 199)** | **60 938** | **413 255** |

| STATEMENT IV – CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020 | | | |
|---|---|---|---|
| *(thousands of US dollars)* | **Notes** | **31-Dec-20** | **31-Dec-19 (Re-stated) (a)** |
| **Cash flows from operating activities** | | | |
| Surplus / (deficit) for the period | | **234 124** | **121 179** |
| Adjustments required to reconcile surplus / (deficit) for the period to cash flows from operating activities: | | | |
| Trust Fund Contributions | | - | (4 859) |
| TF Prior Year Expenditure | | - | (46 945) |
| Supplies and Consumable Used | | - | 2 661 |
| Depreciation and amortization | 21 | 10 969 | 10 678 |
| Provision for doubtful accounts | 21 | 18 796 | 5 560 |
| Provision for contingent liabilities | 21 | (40) | 285 |
| Internal Project Support Costs | | 319 | (43) |
| (Gains) / losses on sale or disposal of fixed assets | | 3 667 | 288 |
| (Gains) / losses on trading and derivative investments | 22 | 657 | (3 017) |
| (Gains) / losses on Available-for-sale investments | 22 | (6 660) | 17 336 |
| Interest received | 22 | (14 756) | (19 953) |
| Dividends received | 22 | (5 745) | (6 761) |
| Changes in assets and liabilities: | | | |
| Receivables from non-exchange transactions | | (41 538) | (1 346) |
| Receivables from exchange transactions | | (644) | (1 929) |
| Inventories | | (919) | (1 746) |
| Other current and non-current assets | | 7 564 | (13 551) |
| Accounts payable and accrued expenses | | 29 782 | 43 939 |
| Staff related liabilities | | 49 100 | 45 350 |
| Advances | | (4 475) | 34 856 |
| Other current and non-current liabilities | | (1 739) | (687) |
| **Net cash flows from operating activities** | | **278 462** | **181 295** |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (18 511) | (10 570) |
| Proceeds from the sale of property, plant and equipment | | 288 | 860 |
| Purchases of intangible assets | | (1 172) | (2 506) |
| Net (purchases) / sales of trading and derivative investments | | 15 891 | (122 500) |
| Net (purchases) / sales of available-for-sale investments | | 5 141 | (10 618) |
| **Net cash flows from investing activities** | | **1 637** | **(145 334)** |
| **Net increase / (decrease) in cash and cash equivalents** | | **280 099** | **35 961** |
| **Cash and cash equivalents at beginning of period** | | **997 900** | **961 939** |
| **Cash and cash equivalents at end of period** | | **1 277 999** | **997 900** |

Please note that there were no cash flows from financing activities during the year.

**Notes to Statement IV: Cash Flow Statement for the year ended 31 December 2020**

(a) Cash flows presented for the year ended 31 December 2019 have been re-stated to reflect improvements to the presentation of operating cash flows pertaining to the Organization's investment portfolios, as well as corrections in relation to the impact of provisions for doubtful accounts within Accounts receivable categories. Cash flows from investing activities have been re-stated to reflect the strict value of trading, derivative, and available-for-sale investment / divestment, excluding realized market value changes.

**STATEMENT V – STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (a)**
**FOR THE YEAR ENDED 31 DECEMBER 2020**

*(thousands of US dollars)*

| | Chapter | Approved Budget (b) | Amounts brought forward (c) | Transfers (d) | Amounts carried forward (e) | Revised Budget | Actual Other Income (f) | Actual Expenditure (g) | Currency variance (h) | Budget rate net expenditure (i) | Budget vs. actual variance (j) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Contribute to the eradication of hunger, food insecurity and malnutrition | 42 898 | - | - | - | 42 898 | (9 703) | 46 294 | 893 | 37 484 | 5 414 |
| 2 | Make agriculture, forestry and fisheries more productive and sustainable | 101 203 | - | - | - | 101 203 | (20 829) | 104 415 | 2 196 | 85 782 | 15 421 |
| 3 | Reduce rural poverty | 33 465 | - | - | - | 33 465 | (4 894) | 33 718 | 672 | 29 496 | 3 970 |
| 4 | Enable more inclusive and efficient agricultural and food systems | 56 883 | - | - | - | 56 883 | (12 908) | 59 563 | 1 237 | 47 892 | 8 991 |
| 5 | Increase the resilience of livelihoods to threats and crises | 27 912 | - | - | - | 27 912 | (11 551) | 31 563 | 595 | 20 607 | 7 305 |
| 6 | Technical quality, statistics and cross cutting themes (climate change, gender, governance and nutrition) | 33 613 | - | - | - | 33 613 | (338) | 27 564 | 652 | 27 878 | 5 735 |
| 7 | Technical Cooperation Programme | 70 393 | 85 931 | - | (102 027) | 54 297 | (73) | 54 060 | 310 | 54 297 | - |
| 8 | Outreach | 36 439 | - | - | - | 36 439 | (3 795) | 38 544 | 982 | 35 731 | 708 |
| 9 | Information Technology | 18 189 | 171 | - | - | 18 360 | (12 928) | 21 782 | 365 | 9 219 | 9 141 |
| 10 | FAO Governance, oversight and direction | 29 418 | - | - | - | 29 418 | (14 194) | 40 446 | 941 | 27 193 | 2 226 |
| 11 | Efficient and effective administration | 32 449 | 68 | - | - | 32 517 | (23 826) | 50 848 | 1 215 | 28 237 | 4 280 |
| 12 | Contingencies | 300 | - | - | - | 300 | - | - | - | - | 300 |
| 13 | Capital Expenditure | 8 446 | - | - | (4 580) | 3 866 | - | 3 832 | 34 | 3 866 | - |
| 14 | Security Expenditure | 11 210 | 2 916 | - | - | 14 126 | (6 573) | 20 430 | 269 | 14 126 | - |
| | **Sub-total** | **502 818** | **89 086** | **-** | **(106 607)** | **485 297** | **(121 612)** | **533 059** | **10 361** | **421 808** | **63 489** |
| | Transfer to Tax Equalization Fund | 46 081 | - | (46 081) | - | - | - | - | - | - | - |
| | TCP deferred income (Chapter 15) | 85 931 | (85 931) | - | 102 027 | 102 027 | - | - | - | - | 102 027 |
| | SFDFA deferred income | 3 579 | (239) | - | - | 3 340 | - | - | - | - | 3 340 |
| | Capital expenditure account | 48 440 | - | - | 4 580 | 53 020 | - | - | - | - | 53 020 |
| | Security expenditure account | 24 915 | (2 916) | - | - | 21 999 | - | - | - | - | 21 999 |
| | **Total** | **711 764** | **-** | **(46 081)** | **-** | **665 683** | **(121 612)** | **533 059** | **10 361** | **421 808** | **243 877** |

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| **Actual expenses as per Statement V** | **533 059** | **626 688** |
| **Basis differences** | | |
| In-kind / in-service expenses | 48 979 | 45 997 |
| Accruals basis | 22 805 | (43 492) |
| PP&E, intangibles and inventory | (544) | 2 056 |
| Consolidation | (890) | (864) |
| **Total basis differences** | **70 350** | **3 697** |
| **Presentation differences** | | |
| Provision expenses | 18 756 | 5 560 |
| SCV and Pool distributions | (1 045) | (933) |
| Classification of income / expenditure items | 11 288 | 35 955 |
| **Total presentation differences** | **28 999** | **40 582** |
| **Entity differences** | | |
| Expenses under Other Fund, excluding TCP | (18 245) | (700) |
| Expenses under Trust Fund and UNDP | 943 182 | 869 457 |
| **Total entity differences** | **924 937** | **868 757** |
| **Expenses and non-operating income and expenses as per the Statement of Financial Performance** | **1 557 345** | **1 539 724** |
| **Of which: Total expenses** | 1 563 698 | 1 502 858 |
| **Non-operating income and expenses** | (6 353) | 36 866 |

Refer to Note 25 for further information on the Statement of Comparison of Budget and Actual Amounts.

## Notes to Statement V: Statement of Comparison of Budget and Actual Amounts

(b) The budget and accounting basis is different. This statement of Comparison of Budget and Actual Amounts is prepared on the budget basis. The budget is prepared on a modified cash basis.

(c) Annualized share (at 50 percent) of the Conference resolution 13/2019 net appropriation of USD 1 005.6 million with budget distribution by Chapter reflecting adjustments as approved by Council in Further Adjustments to the Programme of Work and Budget (PWB) 2020-21 (CL 164/3 and CL 164/REP Report of the 164th Council, paragraph 14 b)). As authorized by the Conference Resolution 13/2019, and based on a proposal submitted to and agreed by the Joint Meeting of the Programme and Finance Committees, and confirmed by the Council in July 2020, the unspent balance of the 2018-19 net appropriation of USD 3.6 million was allocated for one-time uses in 2020-21 and brought forward as deferred income (CL 164/REP, paragraph 17 a) and b), and C 2021/5A Statement VA).

(d) USD 85.9 million of TCP 2019 appropriation deferred until 2020. USD 0.2 million of the USD 3.6 million unspent balance of the 2018-19 appropriation carried forward as authorized by Conference Resolution 13/2019 and Council was applied towards one-time uses in 2020. None of the USD 48.5 million unspent balance from 2018-19 in the Capital Expenditure (Chapter 13) was made available for use in 2020, while USD 2.9 million of prior years' unspent balances on the Security Expenditure (Chapter 14) was made available for use.

(e) The Tax Equalization Fund was established as of 1 January 1972. In line with the practice followed since 1972-73, the 2020 budget is presented on a gross basis, by adding to the total effective working budget an appropriation for staff assessment. This has no effect on the contributions payable by Members not levying tax on FAO staff emoluments; their full share of the staff assessment appropriation is refunded by deduction from the contributions payable by them. Members which levy tax on FAO staff emoluments have their shares of the appropriation for staff assessment reduced by the amount estimated to be required to meet claims from the FAO staff concerned for tax reimbursement.

(f) USD 102.0 million of TCP 2020 appropriation deferred until 2021 (at budget rate of exchange). USD 4.6 million deferred until 2021 under Capital Expenditure Account, while there was no deferral made under the Security Expenditure Account (both at budget rate of exchange).

(g) Actual Other Income is comprised of the following items:

| ***(thousands of US dollars)*** | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| Voluntary contributions | 91 102 | 71 755 |
| Funds received under inter-organizational arrangements | 39 | 61 |
| Jointly financed activities | 19 522 | 18 706 |
| Other sundry income | 10 949 | 10 680 |
| **Total actual other income** | **121 612** | **101 202** |

(g) Represents amounts charged to the Regular Programme budget and the TCP prior biennium appropriation (USD 479.0 million and USD 54.1 million, respectively, for 2020). The Organization accounts for payments for health insurance premiums on behalf of retirees differently for financial reporting than for budgetary reporting. For 2020, USD 11.6 million (USD 10.2 million in 2019) of payments for health insurance premiums on behalf of retirees are recognized as expenditure but are recorded as reduction of ASMC liability for financial reporting purposes.

(h) Currency Variance represents adjustments to the actual expenditure to reflect the translation of Euro-denominated transactions at the Budget Rate of Exchange rather than the UN Operational Rate of exchange in effect at the date of the transactions.

(i) Budget rate net expenditure represents actual net expenditure adjusted by currency variance.

(j) Variance between adjusted net budget and budget rate net expenditure in 2020, with the balance of USD 63.5 million carried forward to the second year of the 2020-21 biennium.

**STATEMENT V – STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (a)**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

*(thousands of US dollars)*

| | Chapter | Approved Budget (b) | Amounts brought forward (c) | Transfers (d) | Amounts carried forward (e) | Revised Budget | Actual Other Income (f) | Actual Expenditure (g) | Currency variance (h) | Budget rate net expenditure (i) | Budget vs. actual variance (j) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Contribute to the eradication of hunger, food insecurity and malnutrition | 41 226 | - | 8 800 | - | 50 026 | (9 203) | 61 646 | 1 488 | 53 931 | (3 905) |
| 2 | Make agriculture, forestry and fisheries more productive and sustainable | 98 558 | - | 1 000 | - | 99 559 | (19 819) | 126 005 | 3 464 | 109 650 | (10 091) |
| 3 | Reduce rural poverty | 33 263 | - | 3 750 | - | 37 013 | (4 571) | 42 583 | 1 125 | 39 137 | (2 124) |
| 4 | Enable more inclusive and efficient agricultural and food systems | 52 939 | - | 4 450 | - | 57 389 | (12 326) | 72 924 | 2 026 | 62 624 | (5 235) |
| 5 | Increase the resilience of livelihoods to threats and crises | 27 175 | - | 2 450 | - | 29 625 | (10 493) | 43 032 | 1 119 | 33 658 | (4 033) |
| 6 | Technical quality, statistics and cross cutting themes (climate change, gender, governance and nutrition) | 34 326 | 2 789 | (9 000) | - | 28 115 | (797) | 33 032 | 1 119 | 33 354 | (5 239) |
| 7 | Technical Cooperation Programme | 70 394 | 86 033 | - | (85 931) | 70 496 | (6) | 69 646 | 856 | 70 496 | - |
| 8 | Outreach | 39 315 | - | (1 450) | - | 37 865 | (5 057) | 43 180 | 1 473 | 39 596 | (1 731) |
| 9 | Information Technology | 18 122 | - | (4 500) | - | 13 622 | (5 146) | 23 770 | 658 | 19 282 | (5 660) |
| 10 | FAO Governance, oversight and direction | 35 275 | - | (3 700) | - | 31 574 | (5 805) | 41 437 | 1 491 | 37 123 | (5 549) |
| 11 | Efficient and effective administration | 32 267 | - | (1 800) | - | 30 467 | (22 736) | 52 871 | 2 481 | 32 616 | (2 149) |
| 12 | Contingencies | 300 | - | - | - | 300 | - | - | - | - | 300 |
| 13 | Capital Expenditure | 8 446 | - | - | (4 459) | 3 987 | - | 3 935 | 52 | 3 987 | - |
| 14 | Security Expenditure | 11 210 | - | - | (3 477) | 7 734 | (5 243) | 12 627 | 350 | 7 734 | |
| | **Sub-total** | **502 818** | **88 822** | **-** | **(93 867)** | **497 772** | **(101 202)** | **626 688** | **17 702** | **543 188** | **(45 416)** |
| | Transfer to Tax Equalization Fund | 43 725 | - | (43 725) | - | - | - | - | - | - | - |
| | TCP deferred income (Chapter 15) | 86 033 | (86 033) | - | 85 931 | 85 931 | - | - | - | - | 85 931 |
| | SFDFA deferred income | 2 789 | (2 789) | - | - | - | - | - | - | - | - |
| | Capital expenditure account | 43 981 | - | - | 4 459 | 48 440 | - | - | - | - | 48 440 |
| | Security expenditure account | 21 438 | - | - | 3 477 | 24 915 | - | - | - | - | 24 915 |
| | **Total** | **700 783** | **-** | **(43 725)** | **-** | **657 058** | **(101 202)** | **626 688** | **17 702** | **543 188** | **113 870** |

## Note 1. *The Organization*

### *Objectives and activities*

1.1 The Food and Agriculture Organization of the United Nations (‘FAO’ or ‘the Organization’), was established pursuant to its Constitution originally adopted on 16 October 1945. The headquarters of the Organization is located in Rome, Italy. In addition, there are Representation Offices throughout the world, in charge of implementing the values, mission and vision of the Organization. The purpose of the Organization is to raise levels of nutrition and standards of living, secure improvements in the efficiency of the production and distribution of all food and agricultural products, better the condition of rural populations and thus contribute toward an expanding world economy and ensure humanity’s freedom from hunger.

### *Funding*

1.2 The Organization’s “Regular Programme” Programme of Work is approved by the Conference of Member Nations. The related budget appropriations voted are financed by annual contributions based on an assessment on Member Nations and Associate Members by the Conference. Unutilized appropriations at the close of the financial period are cancelled, except for the Technical Cooperation Programme (TCP) appropriation which remains available for obligations during the financial period following that for which the funds were voted and Capital Expenditure and Security Expenditure appropriations, which are transferred to the Capital Expenditure Account and the Security Expenditure Account, respectively, to be carried forward for use in subsequent financial periods.

1.3 Voluntary contributions for special purposes, which are consistent with the policies, aims and activities of the Organization, may be accepted by the Director-General and Trust and Special Funds established accordingly. In addition, the Organization receives funds under an inter-organizational arrangement with the United Nations Development Programme (UNDP) to participate as an executing agency for UNDP technical cooperation projects or act as implementing agency for UNDP funded projects executed by other executing agencies. Voluntary contributions and funds received include payment towards recovering certain costs relating to technical, managerial and administrative services (support costs) which are a necessary part of Extra-budgetary projects.

1.4 The statements on segment reporting by fund provide further detail on how these activities are managed and financed.

## Note 2. *Significant accounting policies*

### *Basis of preparation*

2.1 These are the sixth set of financial statements prepared on the accrual basis of accounting in accordance with the requirements of International Public Sector Accounting Standards (IPSAS) using the historic cost convention, other than certain investments and liabilities for employee benefits which are carried at fair value. The Cash Flow Statement has been prepared using the indirect method.

2.2 The accounting policies set out below are applied consistently in the preparation and presentation of these financial statements.

### *Use of estimates*

2.3 The financial statements include certain reasonable estimates based on nature and assumptions by management. Estimates include, but are not limited to: fair value of donated goods, other post-employment benefits obligations, amounts for litigations, financial risk on inventories and accounts receivables, accrued charges, contingent assets and liabilities, and degree of impairment of fixed assets. Changes in estimates are reflected in the period in which they become known.

### *Functional currency*

2.4 The financial statements are presented in United States Dollars, which is the functional currency of the Organization.

### *Presentation*

2.5 These financial statements present the results of FAO as a single entity consisting of: (a) General and Related Funds and (b) Trust and UNDP Funds.

### *Foreign currency transactions*

2.6 Foreign currency transactions are translated into United States Dollars using the United Nations Operational Rate of Exchange (UNORE), which approximates the exchange rates prevailing at the dates of the transactions. The UNORE are set once a month, and revised mid-month if there are significant exchange rate fluctuations relating to individual currencies.

2.7 Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars using the closing rate of the UNORE as at the end of the reporting period. Non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date when the item was recognized and non-monetary items held at fair value are translated using the exchange rate at the date of the re-valuation.

2.8 Realized and unrealized foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

### *Cash and cash equivalents*

2.9 Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.10 Bank overdrafts for which the right of offset does not exist are recorded within other current liabilities on the Statement of Financial Position.

### *Investments*

#### *Classification*

2.11 The Organization classifies its investments in the following two categories:

i) *Held-for-trading* investments are acquired principally for the purpose of selling in the short-term and classified as current assets; and
ii) *Available-for-sale* investments are not considered trading or the Organization does not have the ability or intent to hold until maturity. They are designated to fund the Organization's post-employment liabilities and classified as non-current assets.

#### *Accounting treatment of investments*

2.12 Purchases and sales of investments are recognized on the trade-date, which is the date on which the Organization enters into a legally binding agreement to purchase or sell the investment. Investments are initially recognized at fair value. The carrying value of Held-for-trading investments and Available-for-sale investments are subsequently adjusted to reflect the current fair market value on a periodic basis. Gains and losses arising from changes in the market value of Held-for-trading investments are recognized in the Statement of Financial Performance during the period in which they arise. Changes in the market value of Available-for-sale investments are recorded as unrealized gains and losses within reserves in the Statement of Financial Position with the exception of unrealized foreign exchange gains and losses on debt securities, which are recognized in the Statement of Financial Performance during the period in which they occur. When Available-for-sale investments are subsequently sold or impaired, any cumulative market value adjustments previously recognized in the unrealized gains and losses account within reserves are recognized in the Statement of Financial Performance.

2.13 Interest on Available-for-sale fixed income investments and dividends on Available-for-sale equity investments are recognized in the Statement of Financial Performance during the period earned and when the right to receive dividend payments is established, respectively.

2.14 The fair values of all investments are based on quoted prices in active financial markets.

***Derecognition***

2.15 The Organization derecognizes an investment when:

a) The rights to receive cash flows from the investment have expired or are waived; or

b) The Organization has transferred its rights to receive cash flows from the investment or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either: (a) the Organization has transferred substantially all the risks and rewards of the asset; or (b) the Organization has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

***Impairment of investments***

2.16 The Organization assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired, other than those classified as Held-for-trading investments. An investment or a group of investments is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the investment (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the investment or a group of investments that can be reliably estimated.

2.17 The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in surplus or deficit.

2.18 For Available-for-sale financial assets at each reporting date, the Organization assesses whether there is objective evidence that an investment or a group of investments is impaired. In the case of investments classified as Available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value was below its original cost. Where there is evidence of impairment, the cumulative loss that had been recognized directly in Net Assets / Equity – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that investment previously recognized in the surplus or deficit – is removed from the reserve in net assets and recognized in surplus or deficit.

***Derivative financial instruments***

2.19 Derivative financial instruments are financial instruments that contains all three of the following characteristics:

i) value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;

ii) requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

iii) settled at a future date.

2.20 Derivative financial instruments are recognized at fair value on their trade-date. The carrying value of derivative financial instruments is adjusted to reflect the current fair market value on a periodic basis. Gains and losses arising from changes in the market value of derivative financial instruments are recorded directly in the Statement of Financial Performance.

***Receivables***

2.21 The Organization classifies its receivables as 'loans and receivables'. Receivables are stated at nominal value unless the effect of discounting is material.

***Allowance for doubtful accounts***

2.22 The Organization records an allowance for doubtful accounts for voluntary contributions based on a review of receivables at the reporting date when there is objective evidence of its impairment. Assessed contributions are provided for after being outstanding for more than two years. Other allowances can be calculated individually or by application of a statistical method.

2.23 The Organization reports allowance for doubtful accounts in the Statement of Financial Position. The recognition of an allowance for doubtful accounts and the recognition of an expense associated with the write-off of a receivable are both reflected as expenses within the Statement of Financial Performance.

***Prepaid and other assets***

2.24 The Organization classifies its prepayments and other assets as 'loans and receivables'. These items are recognized in the Statement of Financial Position at their nominal value unless the effect of discounting is material. Agreements with Service Providers or beneficiaries that require the provision of service, will be recognized on a pro-rata temporis method straight-lined over the estimated period.

***Inventories***

2.25 Inventories are stated at the lower of cost, current replacement cost or net realizable value. Current replacement cost is utilized for inventories to be distributed to beneficiaries and is the cost the Organization would incur to acquire the asset on the reporting date. Net realizable value, which is utilized for inventories to be sold by the Organization, is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Estimated freight costs for inventories is added to the cost of project inputs when calculating the total value.

2.26 Inventories held for distribution for specific projects shall be measured utilizing the specific identification method. Inventories held for sale not identified for use by a specific project shall be measured utilizing the FIFO method. Publications are not valued as inventory to conform to UN System practices.

2.27 If recorded value of the inventories falls below the current replacement costs due to obsolescence, damage, price changes, etc. then impairment is recorded in the Statement of Financial Performance in the year in which the inventories are deemed to be impaired.

***Property, plant and equipment***

2.28 Property, plant and equipment (PP&E) have a capitalization threshold of USD 1 500 and are stated at historical cost less accumulated depreciation and any recognized impairment loss. For donated assets, fair value as of the date of acquisition is utilized as a proxy for historical cost. Heritage assets are not capitalized.

2.29 Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the Organization and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Statement of Financial Performance during the financial period in which they incur.

2.30 Depreciation is charged to write off the cost of assets over their estimated useful lives using the straight-line method. The useful lives of major classes of PP&E are:

| Class | Estimated useful lives |
|---|---|
| Office furniture and fixtures | 5 – 7 years |
| Machinery and equipment | 5 – 7 years |
| Computer and IT equipment | 3 years |
| Motor vehicles | 3 – 5 years |
| Buildings | 5 – 40 years |
| Leasehold improvements | Shorter of lease term or useful life |

2.31 The cost, accumulated depreciation and accumulated impairment losses of an item of PP&E shall continue to be reflected in the financial statements until the time the item meets the criteria for derecognition. An item of PP&E shall be derecognized from the financial statements on disposal or when no future economic benefit or service potential is expected from its use or disposal.

2.32 Project assets are derecognized upon final disposal or upon transfer to designated beneficiaries, by FAO. Vehicles (automobiles, station wagons or vans) in the field will only be derecognized when title and restrictions on use as documented in mutual agreements, have officially been transferred from FAO to a government, an Implementing Partner or a beneficiary. Gains or losses on the disposal or derecognition of items of PP&E shall be disclosed through surplus or deficit when the asset is derecognized.

***Intangible assets***

2.33 Individual purchased intangible assets with a total cost equal to or greater than USD 1 500 and individual internally developed intangible assets with a total cost equal to or greater than USD 100 000 are capitalized and carried at historical cost less accumulated amortization and any recognized impairment loss. For donated intangible assets, fair value as of the date of acquisition is utilized as a proxy for historical cost.

***Amortization***

2.34 Amortization is provided on a straight-line basis on all intangible assets of finite life, at rates that will write off the cost or value of the assets to their estimated residual values. Residual values in most cases are expected to be zero. The useful lives of major classes of intangible assets are:

| Class | Estimated useful life |
|---|---|
| Software acquired separately | Contractual obligation or up to 5 years |
| Software internally developed | Based on business case up to 5 years |
| Intangible assets under development | No amortization |
| Other intangible assets | Based on expected asset life |

***Software acquisition and development***

2.35 Acquired computer software licenses are capitalized based on costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of software for use by the Organization are capitalized as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

2.36 Gains or losses on the disposal or derecognition of items of intangible assets shall be disclosed through surplus or deficit when the asset is derecognized.

***Impairment***

2.37 Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

***Leases***

***Operating leases***

2.38 Leases where the lessor retains a significant portion of the risks and rewards inherent in ownership are classified as operating leases. Expenditures incurred under operating leases are charged to the Statement of Financial Performance as expense, on a straight-line basis, over the period of the lease.

***Borrowings***

2.39 Borrowings are accounted for on the amortized cost basis and borrowing costs are expensed as incurred. Where the Organization holds interest-free loans or does not pay interest on loans, the benefit to FAO of the arrangement is treated as an in-kind contribution.

***Provisions and contingencies***

2.40 Provisions are recognized for contingent liabilities when the Organization has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

2.41 The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the amount of the provision is the present value of the expected expenditures to settle the obligation.

2.42 Contingent liabilities for which the possible obligations are uncertain, or yet to be confirmed whether the Organization has a present obligation that could lead to an outflow of resources, are disclosed.

***Employee benefit obligations***

2.43 The organization recognizes expenses and liabilities in respect of the following employee benefits:

i) *Short-term employee benefits* comprise of wages, salaries, allowances, paid annual leave and paid sick leave. They are due to be settled within 12 months after the end of the period in which the employees render the related service and are measured at their value based on accrued entitlements at current rates of pay;

ii) *Post-employment benefits* are employee benefits that are payable after the completion of employment. They comprise of defined benefit plans, consisting of the Separation Payments Scheme (SPS), the Terminal Payments Fund (TPF) and the After Service Medical Coverage plan (ASMC). The post-employment benefit obligations are calculated annually by independent actuaries. All actuarial gains and losses are recognized immediately in reserves; and

iii) *Other non-current employee benefits* comprise of Compensation Plan which are due to staff members, consultants, and their dependents in case of death, injury or illness attributable to the performance of official duties and, in certain circumstances, to supplement the disability and survivors' pensions paid by the United Nations Joint Staff Pension Fund. The Compensation Plan benefit obligations are calculated annually by independent actuaries. All actuarial gains and losses are recognized immediately in the Statement of Financial Performance.

2.44 FAO recognizes the following categories of employee benefits:

- short-term employee benefits due to be settled within twelve months after the end of the accounting period in which employees render the related service;
- post-employment benefits;
- other long-term employee benefits; and
- termination benefits.

***United Nations Joint Staff Pension Fund***

2.45 FAO is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

2.46 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. FAO and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify FAO's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, FAO has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39, *Employee Benefits*. The FAO's contributions to the plan during the financial period are recognized as expenses in the Statement of Financial Performance.

***Revenue recognition***

***Non-exchange revenue***

2.47 Assessed contributions are assessed and approved for a two-year budget period. The amount of these contributions is then apportioned between the two years for invoicing and payment. Assessed contributions are recognized as revenue at the beginning of the apportioned year in the relevant two-year budget period.

2.48 Voluntary contributions and other transfers which are supported by enforceable agreements are recognized as revenue at the time the agreement becomes binding and when control over the underlying asset is obtained, unless the agreement establishes a condition on the transferred asset that requires recognition of a liability. In such cases, revenue is recognized as the conditional liability is discharged.

***Donated and in-kind contributions***

2.49 In-kind contributions of goods that directly support approved operations and activities and can be reliably measured, are recognized at fair value. These contributions include the use of premises, project inputs, utilities and interest on concessionary loans under the Working Capital Fund.

2.50 The Organization is provided the use of buildings and facilities for no or nominal charge from the government owning such facilities. The Organization recognizes this "right to use" of such buildings and facilities as a donated operating lease. As such, revenue and expense will be recorded equally based on rental market value. As each of the facilities and the related agreements to utilize such facilities, is unique, fair value of right to use agreements is generally determined based upon valuation techniques such as local market conditions and estimated cash flows, assuming an arms-length transaction.

2.51 Certain services are donated or provided in-kind to the Organization to assist the Organization in carrying out its mandate. These in-kind contributions of services are not recognized on the financial statements, due primarily to the practical challenges of estimating the fair value of such donations and related uncertainties associated with determining the Organization's control over them. These services primarily include:

- Administrative and security personnel provided by host governments, primarily in the Organization's Decentralized Offices;
- Technical staff provided by either Member Nations and educational institutions;
- Volunteer staff providing primarily administrative support;

- Services of volunteers;
- Maintenance and repair for the Organization's facilities.

***Exchange revenue***

2.52 Revenue from exchange transactions are measured at the fair value of the consideration received or receivable and are recognized as goods and services are delivered.

***Unearned revenue***

2.53 The Organization receives funds in the form of voluntary contributions, which are used to finance specific projects agreed between the Organization and the donor. Some agreements have conditions such that the Organization has a present obligation to return the funds or related assets to the donor to the extent that the conditions are not met. Consequently, where such conditions exist, a corresponding liability is recognized upon receipt of the funds. This liability is reduced as the conditions are satisfied.

***Expense recognition***

***Exchange expense***

2.54 The Organization recognizes exchange expense arising from the purchase of goods and services at the point the supplier performs its contractual obligations, which is when the goods and services are delivered and accepted. For some service contracts, this process may occur in stages.

***Non-exchange expense***

2.55 Transactions with service providers and beneficiaries requiring the provision of service will be recognized under the pro-rata temporis method and agreements with beneficiaries without the provision of service will be recognized upon payment. Project inventories are recognized upon delivery to beneficiaries.

***Impact of changes to IPSAS***

2.56 The Internal Public Sector Accounting Standards Board (IPSASB) has issued two new accounting standards, IPSAS 41, *Financial Instruments,* and IPSAS 42, *Social Benefits,* in August 2018 and January 2019, respectively. The IPSASB has published the final pronouncement, COVID-19: Deferral of Effective Dates, which delays the effective dates of both of these recently published Standards and Amendments to IPSAS by one year to 1 January 2023.

2.57 IPSAS 41 establishes new requirements for classifying, recognizing and measuring financial instruments to replace those in IPSAS 29, *Financial Instruments: Recognition and Measurement.* The Organization has conducted a review of IPSAS 41, and determines that there will not be any material impact on the presentation, recognition or measurement of its financial assets and liabilities.

2.58 IPSAS 42 defines social benefits, as cash transfers provided to specific individuals and/or households who meet eligibility criteria, to mitigate the effect of social risks and address the needs of society, such as State pensions, unemployment benefits, and income support. The standard determines when expenses and liabilities for social benefits are recognized and how they are measured. FAO does not consider IPSAS 42 as applicable to the operations of the Organization.

***Restatement of Financial Statements as a result of a Correction of an Error***

2.59 During the preparation of the 2020 Financial Statements the Organization reviewed the presentation of the Employee benefit obligations and concluded that it would be more appropriate to present the current portion of the post-employment benefits and of the Compensation Plan Fund within current liabilities. The effect of this reclassification from non-current liabilities to current liabilities was an increase in the amounts presented as falling due within 12 months of USD 44.9 million, and a corresponding decrease in the amounts presented as non-current liabilities.

2.60 The Organization also reviewed the presentation of transactions pertaining to conditional grants to beneficiaries, and consequently reclassified USD 0.7 million of expenses out of Contracted services and in to Grants and other transfer payments.

2.61 Finally, for an improved presentation of expenses relating to Actuarial Gains or Losses on the Compensation Plan Fund, and the Provision for Legal Obligations, the Organization reclassified the amount of USD 0.6 million net income out of Other expenses and in to Other non-operating income / (expense).

2.62 None of the above reclassifications impacted Total Equity as at 31 December 2019, or the Surplus for the year ended 31 December 2019. The table below shows the restatement of each line item affected.

**31 December 2019 Comparative year Financial Statement Line Item / Balance Affected**

| | | | Correction of Error / Adjustment | | | |
|---|---|---|---|---|---|---|
| *(thousands of US dollars)* | **Note** | **Reported 31-Dec-19** | **Reclassification of current portion of Employee Benefit Obligations** | **Reclassification of Conditional Grants** | **Reclassification of Other non-operating income / (expenses)** | **Restated 31-Dec-19** |
| **Statement of Financial Position (Extract)** | | | | | | |
| **Current liabilities** | | | | | | |
| Employee benefit obligations | 14 | 16 647 | 44 949 | - | - | 61 596 |
| **Current liabilities** | | **568 440** | **44 949** | | | **613 389** |
| **Non-current liabilities** | | | | | | |
| Employee benefit obligations | 14 | 1 481 663 | (44 949) | - | - | 1 436 714 |
| **Non-current liabilities** | | **1 519 473** | **(44 949)** | **-** | **-** | **1 474 524** |
| **Statement of Financial Performance (Extract)** | | | | | | |
| **Expenses** | | | | | | |
| Contractual services | 21 | 346 111 | - | (653) | - | 345 458 |
| Grants and other transfer payments | 21 | 50 843 | - | 653 | - | 51 496 |
| Other expenses | 21 | 41 049 | - | (4 707) | - | 36 342 |
| **Expenses** | | **1 502 859** | | **(4 707)** | | **1 498 152** |
| **Non-operating income / (expense)** | | | | | | |
| Other non-operating income / (expense) | 22 | - | | (4 707) | | (4 707) |
| **Non-operating income / (expense)** | | **(36 866)** | | **4 707** | | **(41 573)** |

**Note 3.** ***COVID-19 pandemic***

3.1 The outbreak of the COVID-19 pandemic in mid-March 2020 became a global challenge and impacted the global economy in an unprecedented manner. Throughout this period, FAO continued to focus on the effective implementation of its activities to prevent the health crisis becoming a food crisis. The Organization has adopted a comprehensive and holistic approach to proactively address the socio-economic impacts of the pandemic as well as responding to emergency and humanitarian needs, One Health approach and action to prevent zoonotic diseases. FAO adjusted to these unprecedented circumstances and there was a solid response from resource partners in adjusting to the needs and circumstances during or brought by the pandemic.

3.2 The COVID-19 pandemic manifested itself in a variety of ways in the activities of FAO during 2020. While the impact on the way the Organization conducted its business was profound, the direct, visible and measurable impact on the financial performance for 2020 and the financial position at the end of the year was limited. Furthermore, there can be no objective, exact or systematic determination of the impact of the COVID-19 pandemic on these financial statements as accounting and reporting systems are not intended or designed to report costs, revenues and balances based on a specific underlying cause, such as a pandemic. Despite these limitations, certain broad trends can be identified and are reflected in the financial statements where applicable.

3.3 There has been no impairment on voluntary contributions as a result of COVID-19. Trust Fund invoices are issued in accordance with funding agreements and project progress. FAO has not received any communication from resource partners that amounts previously agreed under those funding agreements will not be honoured.

3.4 There was no additional material impact that can be directly attributed to the pandemic, to the allowance for assessed contributions receivable. Overall, Members were pro-active in paying the outstanding contributions and ensured continuous cash liquidity.

3.5 Extra-budgetary revenue recorded from resource partners for COVID-19-related activities was USD 78.7 million, including, in certain cases, reprogramming of existing funds toward COVID-19 related activities. We cannot clearly determine at this time whether the pandemic reduced or increased overall contributions although funding was likely impacted by the pandemic. Going forward, the economic disruption resulting from the pandemic could adversely affect the level of future contributions, in particular as regards voluntary contributions.

3.6 Travel expenses decreased by 67 percent, from USD 115.8 million in 2019 to USD 37.8 million in 2020 primarily as a result of travel bans and restrictions, the cancellation or postponement of duty travel, as well as the impact of the pandemic on assignment and repatriation related travel patterns. There was also a notable reduction in overall training expenses, 47 percent less than in 2019, due to similar restrictions on travel and mobility. Refer to Note 21, Expenses.

3.7 Staff annual leave balances increased by USD 9.4 million, which is largely due to the impact of staff not taking their planned leave entitlements in 2020 as a result of the pandemic and travel limitations, as a means to help contain the pandemic, which led the Organization to relax the normal limitation on carrying-forward of annual leave balances at year end. Refer to Note 14, Employee benefit obligations, for the full liability.

3.8 The nature and range of goods and services procured, and the prices paid were impacted by the COVID-19 emergency as FAO competed to procure goods (including personal protective equipment, essential medical equipment and supplies) and services in the open market in a period of unprecedented demand for some products and at times limited supply or transport difficulties for some of these products. The exact financial consequences of these trends are, however, not distinguishable.

3.9 Projects that are under implementation were impacted both financially and in terms of the expected completion date by physical access restrictions, especially where the respective countries implemented a shutdown of all activities. The impact of the pandemic on these activities cannot be quantified in the scope of financial costs as these projects are generally multi-year and it is too early to assess the overall impact.

3.10 The limitations on physical movements applicable in many of the locations where FAO operates resulted in a majority of staff and personnel working remotely, particularly administrative staff whose tasks did not require them to have direct physical contact with beneficiaries, other colleagues or counterparts. This sudden change to remote working was facilitated by an accelerated changeover to increased use of mobile office tools, particularly laptops, which occurred in the first months of 2020.

3.11 Office space was utilized to a much lower extent in 2020 than in 2019, as such electricity and other location-specific cost levels were below those of the previous year in many cases. In cases of rental contracts for buildings, most were maintained as such despite buildings being only partially occupied, as there was ongoing uncertainty about local lockdown restrictions in the countries in which FAO operates. No decisions concerning the need for and use of office space in the post-pandemic period were made in 2020 and as such, no impairment events were identified that relate to potential changes in the nature of work in the post-pandemic period.

3.12 Staff members and retirees made fewer health care cost recovery claims in 2020 than was typical in recent prior years. As the calculation of after service health insurance liabilities is impacted by current health care costs, the impact of COVID-19 as a short-term factor was appropriately considered and the expert views of independent actuaries were also reflected in the assumptions applied and underpinning the 2020 liability calculations.

3.13 Physical access to certain locations to perform asset verification counts were limited in some locations by restrictions imposed by local authorities or for the safety of staff and other counterparts. In such cases, alternative verification methods were applied and the restrictions did not impact the numbers presented in the financial statements.

3.14 The long-term impact from the COVID-19 pandemic is still being evaluated and it is too early to fully draw from lessons learned and assess whether any possible future changes may have an impact on the carrying value of FAO assets, yet, at this stage, no COVID-19 related asset impairment events were recorded during the annual asset impairment review.

**Note 4. C*ash and cash equivalents***

4.1 Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

| ***(thousands of US dollars)*** | **31-Dec-20** | **31-Dec-19** |
|---|---:|---:|
| Cash at banks and money market funds | 202 755 | 136 926 |
| Short-term time deposits | 695 000 | 642 000 |
| Cash equivalents held with investment managers | 380 244 | 218 974 |
| **Total cash and cash equivalents** | **1 277 999** | **997 900** |

4.2 Due to the short-term, highly liquid nature of cash and cash equivalents, there is no significant interest rate or credit risk associated with these balances.

4.3 Of the total cash and cash equivalents, USD (0.4) million (USD (0.1) million in 2019) is held in currencies that are not readily convertible into other currencies. These balances are held in order to satisfy general business and project-related requirements in the various countries in which the Organization operates. There is no restricted cash at bank (none in 2019). Additional information on operational cash and cash equivalents restricted to be utilized for Trust Fund projects is presented in Note 24. Segment Reporting.

4.4 Cash equivalents held with investment managers includes USD 6.9 million (USD 1.8 million in 2019) of cash and cash equivalents pertaining to the Organization's available-for-sale invetsment portfolio. These amounts are earmarked towards funding the Organization's Staff Related Schemes.

## Note 5. *Investments and derivative financial instruments*

### Investments

5.1 The investments of the Organization are comprised of:

| ***(thousands of US dollars)*** | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| **Current** | | |
| **Held-for-trading investments** | | |
| Government bonds | 494 886 | 555 963 |
| Corporate bonds | 62 312 | 17 864 |
| Mortgage backed securities | 31 001 | 15 133 |
| Other | - | 5 499 |
| **Total held-for-trading investments** | **588 199** | **594 459** |
| **Derivative financial instruments** | **1 134** | **(694)** |
| **Total current** | **589 333** | **593 765** |
| **Non-current** | | |
| **Available-for-sale investments** | | |
| Government bonds | 244 966 | 215 686 |
| Corporate bonds | 57 331 | 47 717 |
| Equities | 329 101 | 288 639 |
| **Total available-for-sale investments** | **631 398** | **552 042** |
| **Total non-current** | **631 398** | **552 042** |

5.2 The held-for-trading investments are current investments at year-end due to the fact that these investments are managed on a short-term basis to ensure preservation of capital for Trust Fund donors while providing a return. Additionally, these investments are generally available and required for use in current operations and carried at fair value. The unrealized gains and losses on the trading portfolio are recognized in the Statement of Financial Performance as incurred.

5.3 Despite the recent financial performance of the markets due to COVID-19, the principal of the Organization's working capital portfolio remains safe, in line with its investment policy on working capital, as it holds high-quality assets aimed at preserving principal. There have been no impairments of investment assets held during this period in any of the resources invested. The USD investment portfolio exposure is to highly rated sovereigns, supranationals and banks in line with the principal investment objective of preservation of capital.

5.4 The Organization's available-for-sale investments are classified as non-current investments at year-end and carried at fair value. The unrealized gains and losses on the available-for-sale investments are recognized in the Statement of Financial Position. The available-for-sale investments are not for use in the Organization's current operations and have been designated for funding the Organization's post-employment benefits. The investments are not subject to separate legal restrictions and do not qualify as Plan Assets as defined in IPSAS 39, *Employee Benefits*.

5.5 There has been no impairment of available-for-sale investments as of 31 December 2020. Notwithstanding the volatile financial markets in 2020, particularly at the end of the first quarter, FAO's assets, both equity, and fixed income, grew in value over the year. The combined performance of the long-term portfolio at the end of the year was 15.69 percent. Principal movements in all investments during the year were:

| *(thousands of US dollars)* | Balance 31-Dec-19 | Net additions / (deductions) | Management fees | Interest received | Realized | Unrealized Gains / (Losses) change other | Unrealized Gains / (Losses) change FX | Balance 31-Dec-20 |
|---|---|---|---|---|---|---|---|---|
| **Held-for-trading investments** | | | | | | | | |
| Fixed income | 594 459 | (14 177) | (983) | 10 592 | 156 | (1 848) | - | 588 199 |
| **Available-for-sale investment** | | | | | | | | |
| Equities | 288 639 | (1 686) | (330) | 5 811 | (22 064) | 58 731 | - | 329 101 |
| Fixed income | 263 403 | (5 284) | (611) | 3 187 | 15 563 | 11 937 | 14 102 | 302 297 |
| **Total investments** | **1 146 501** | **(21 147)** | **(1 924)** | **19 590** | **(6 345)** | **68 820** | **14 102** | **1 219 597** |

5.6 The cost, unrealized gains or losses and fair value of the available-for-sale investments by investment type were:

| *(thousands of US dollars)* | 31-Dec-20 | | | 31-Dec-19 | | |
|---|---|---|---|---|---|---|
| | Cost | Unrealized gains / (losses) on available-for-sale investments | Fair value | Cost | Unrealized gains / (losses) on available-for-sale investments | Fair value |
| **Available-for-sale investments** | | | | | | |
| Government bonds | 216 526 | 28 440 | 244 966 | 207 474 | 8 211 | 215 686 |
| Corporate bonds and other | 52 065 | 5 266 | 57 331 | 46 428 | 1 290 | 47 717 |
| Equities | 223 165 | 105 936 | 329 101 | 241 422 | 47 217 | 288 639 |
| **Total available-for-sale investments** | **491 756** | **139 642** | **631 398** | **495 324** | **56 718** | **552 042** |

5.7 The unrealized gains of USD 139.6 million as at 31 December 2020 (USD 56.7 million losses in 2019) are the result of a combination of positive market performance affecting equities and fixed income, and the increase in the value of the Euro against the United States Dollar. Unrealized gains of USD 129.8 million are recorded within equity and the cumulative remainder USD 9.8 million of unrealized foreign exchange net losses generated on the debt portfolios are recorded directly in the Statement of Financial Performance during the period in which they occur.

### Derivative financial instruments

5.8 The Organization uses derivative financial instruments within its investment portfolio for the purpose of mitigating the foreign currency risk in the portfolio. The Organization utilizes forward contracts, options and swaps in order to mitigate this risk. There are no non-current derivatives in this category.

5.9 The face value represents the value of the contract. The face value and the fair value of the derivative financial instruments are as follows:

| (thousands of US dollars) | 31-Dec-20 | | 31-Dec-19 | |
|---|---|---|---|---|
| | Face value | Fair value | Face value | Fair value |
| **Assets** | | | | |
| Swaps | 252 821 | 1 134 | - | - |
| **Liabilities** | | | | |
| Swaps | - | - | (290 459) | (694) |
| **Total derivative financial liability instruments** | **252 821** | **1 134** | **(290 459)** | **(694)** |

**Note 6.** ***Receivables from non-exchange transactions***

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| **Current receivables** | | |
| **Assessed contributions receivable** | | |
| Assessments on Member Nations | 211 141 | 174 182 |
| Working Capital Fund | 27 | 34 |
| Special Reserve Account | 2 288 | 2 288 |
| Allowance for doubtful accounts | (42 616) | (24 237) |
| **Total assessed contributions receivable** | **170 840** | **152 267** |
| **Voluntary contributions receivable** | | |
| Voluntary contributions | 86 067 | 80 990 |
| Allowance for doubtful accounts | (3 527) | (3 527) |
| **Total voluntary contributions receivable** | **82 540** | **77 463** |
| **Other receivables** | | |
| Other receivables | 4 892 | 4 005 |
| Allowance for doubtful accounts | (3 623) | (3 469) |
| **Total other receivables** | **1 269** | **536** |
| **Total current receivables** | **254 649** | **230 266** |
| **Non-current assessed contributions receivable** | | |
| Assessment of Member Nations under Regular Programme | 453 | 1 720 |
| **Total non-current assessed contributions receivable** | **453** | **1 720** |
| **Total receivables from non-exchange transactions** | **255 102** | **231 986** |

6.1 Certain Member Nations have payment plans for their assessments which are due after more than one year from 31 December 2020. Amounts due subsequent to 31 December 2020 of USD 0.5 million, have been classified as non-current. The increase of USD 37.0 million in the value of outstanding assessments on Member Nations from 31 December 2020 is primarily due to the delayed payment of their current assessments by the Organization’s major donors.

6.2 The allowance for doubtful amounts is based on the estimate of amounts that are not probable of collection under the original terms of the receivables.

| *(thousands of US dollars)* | **Balance at 31-Dec-19** | **Increase** | **Amounts written off** | **Allowance reversed** | **Balance at 31-Dec-20** |
|---|---|---|---|---|---|
| **Assessed contributions receivable** | | | | | |
| Assessments on Member Nations | (21 915) | (18 385) | - | - | (40 300) |
| Working Capital Fund | (34) | - | - | 7 | (27) |
| Special Reserve Account | (2 288) | - | - | - | (2 288) |
| **Total assessed contributions receivable** | **(24 237)** | **(18 385)** | **-** | **7** | **(42 615)** |
| **Voluntary contributions receivable** | | | | | |
| Voluntary contributions | (3 527) | - | - | - | (3 527) |
| **Total voluntary contributions receivable** | **(3 527)** | **-** | **-** | **-** | **(3 527)** |
| **Other receivables** | | | | | |
| Other receivables | (3 469) | (154) | - | - | (3 623) |
| **Total other receivables** | **(3 469)** | **(154)** | **-** | **-** | **(3 623)** |
| **Total allowance for doubtful accounts** | **(31 233)** | **(18 539)** | **-** | **7** | **(49 765)** |

6.4 The aging of receivables is:

| *(thousands of US dollars)* | **Carrying amount** | **< 1 year** | **1 – 3 years** | **3 – 5 years** | **> 5 years** |
|---|---|---|---|---|---|
| **Current receivables** | | | | | |
| **Assessed contributions receivable** | | | | | |
| Assessments on Member Nations | 211 141 | 150 176 | 36 819 | 10 447 | 13 699 |
| Working Capital Fund | 27 | - | - | - | 27 |
| Special Reserve Account | 2 288 | - | - | - | 2 288 |
| Allowance for doubtful accounts | (42 616) | (3 878) | (12 277) | (10 447) | (16 014) |
| **Total assessed contributions receivable** | **170 840** | **146 298** | **24 542** | **-** | **-** |
| **Voluntary contributions receivable** | | | | | |
| Voluntary contributions | 86 067 | 42 881 | 28 923 | 5 259 | 9 004 |
| Allowance for doubtful accounts | (3 527) | | | | (3 527) |
| **Total voluntary contributions receivable** | **82 540** | **42 881** | **28 923** | **5 259** | **5 477** |
| **Other receivables** | | | | | |
| Other receivables | 4 892 | 774 | 495 | 446 | 3 177 |
| Other allowance for doubtful accounts | (3 623) | - | - | (446) | (3 177) |
| **Total other receivables** | **1 269** | **774** | **495** | **-** | **-** |
| **Total current receivables** | **254 649** | **189 951** | **53 960** | **5 259** | **5 477** |
| **Non-current assessed contributions receivable** | | | | | |
| Assessment of Member Nations under Regular Programme | 453 | 453 | - | - | - |
| **Total non-current assessed contributions receivable** | **453** | **453** | **-** | **-** | **-** |
| **Total receivables** | **255 102** | **190 406** | **53 960** | **5 259** | **5 477** |

6.5 Contributions in arrears related to seventeen countries facing voting rights issues amount to USD 27 million for assessed contributions FAO does not have collateral for any of the assessments, however, FAO rules and regulations require that Member Nations cannot be in arrears in payment of its financial contributions to the Organization in an amount equal to or exceeding the contributions due from it for the two preceding calendar years. Actions specified by the rules and procedures include a loss of voting rights, ineligibility for election to the Council and loss of seat in the Council.

6.6 The main types of other receivables are in relation to the Government Counterpart Cash Contribution (GCCC) and jointly financed projects with other international organizations, in which the Organization makes payments on behalf of such third parties.

**Note 7.** ***Receivables from exchange transactions***

| ***(thousands of US dollars)*** | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| Due from UN and other organizations | 7 578 | 7 012 |
| Allowance for doubtful accounts | (2 216) | (1 709) |
| **Total receivables from exchange transactions** | **5 362** | **5 303** |

7.1 Receivables from exchange transactions are in relation to recoveries due from the Rome based international organizations, e.g. IFAD, World Food Programme, and the FAO Credit Union for the administrative services which FAO provides; utility recharges to be recovered from businesses which have offices within the FAO headquarters e.g. the bookshop, the travel agent etc., and others.

**Allowance for doubtful accounts**

| ***(thousands of US dollars)*** | **Balance at 31-Dec-19** | **Expense** | **Amounts written off** | **Allowance reversed** | **Balance at 31-Dec-20** |
|---|---|---|---|---|---|
| Due from UN and other organizations | (1 709) | (944) | - | 437 | (2 216) |
| **Total allowance for receivables from exchange transactions** | **(1 709)** | **(944)** | **-** | **437** | **(2 216)** |

7.2 The aging of receivables is:

| ***(thousands of US dollars)*** | **Carrying amount** | **< 1 year** | **1 – 3 years** | **3 – 5 years** | **> 5 years** |
|---|---|---|---|---|---|
| Due from UN and other organizations | 7 578 | 5 362 | 1 304 | 211 | 701 |
| Allowance for doubtful accounts | (2 216) | - | (1 304) | (211) | (701) |
| **Total receivables from exchange transactions** | **5 362** | **5 362** | **-** | **-** | **-** |

**Note 8.** ***Prepayments and other assets***

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| Employee receivables | 15 533 | 21 663 |
| Prepayments | 30 856 | 31 867 |
| Other assets | 12 292 | 13 055 |
| Allowance for doubtful accounts | (1 983) | (1 479) |
| **Total prepayments and other assets** | **56 698** | **65 106** |
| Total current | 56 282 | 64 628 |
| Total non-current | 416 | 478 |
| **Total prepayments and other assets** | **56 698** | **65 106** |

8.1 The total prepayments and other assets as of 31 December 2020 consist of employee receivables, prepayments and other assets. The employee receivables represent advances given to employees such as salary advances, education grants, and travel advances, whereas prepayments are primarily comprised of advances to service providers under the approved Letters of Agreements.

8.2 Current commitments are expected to be utilized or collected within a year of the balance sheet date.

**Allowance for doubtful accounts**

| *(thousands of US dollars)* | Restated Balance at 31-Dec-19 | Reclassif ication | Expense | Amounts written off | Allowance reversed | Balance at 31-Dec-20 |
|---|---|---|---|---|---|---|
| Employee receivables | (1 359) | - | (125) | - | 13 | (1 471) |
| Other assets | (120) | (128) | (264) | - | - | (512) |
| **Total allowance for prepayments and other assets** | **(1 479)** | **(128)** | **(389)** | **-** | **13** | **(1 983)** |

8.3 The opening balance as at 31 December 2019 of USD 1.5 million, has been subject to a reclassification between the line items Employees receivables (from USD (880) thousands to USD (1359) thousands) and Other Assets (from USD (599) thousands to USD (120) thousands) following a detailed review of the underlying balances.

**Note 9.** ***Inventories***

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| Project inputs | 15 317 | 14 421 |
| Other | 53 | 31 |
| **Total inventories** | **15 370** | **14 452** |

9.1 For the year ended 31 December 2020, the Organization recognizes USD 198.8 million (USD 193.7 million in 2019) in expense associated with project inputs and USD 4.7 million (USD 5.2 million in 2019) associated with publications utilized during the period. As in 2019, the project inputs consumed in 2020 did not include donated inventories. Project inputs were reviewed for write-off during the year, which resulted in recognizing a loss of USD 0.06 million. For 2020, publications were not added to inventories, to conform to UN System practices who do not disclose them as part of their IPSAS year-end reporting.

**Note 10.** ***Property, plant and equipment***

| *(thousands of US dollars)* | **Balance at 31-Dec-19** | **Additions** | **Disposals / Transfers** | **Depreciation** | **Balance at 31-Dec-20** |
|---|---|---|---|---|---|
| **Cost of PP&E** | | | | | |
| Office furniture and fixtures | 2 225 | 96 | (30) | - | **2 291** |
| Machinery and equipment | 6 739 | 1 093 | (58) | - | **7 774** |
| Computer and IT equipment | 12 840 | 1 321 | (566) | - | **13 595** |
| Motor vehicles | 63 896 | 13 465 | (8 921) | - | **68 440** |
| Buildings | 4 102 | 55 | (41) | - | **4 116** |
| Leasehold improvements | 10 603 | 668 | (193) | - | **11 078** |
| Assets under construction | 3 467 | 2 770 | (569) | - | **5 668** |
| **Total cost of PP&E** | **103 872** | **19 468** | **(10 378)** | **-** | 112 962 |
| **Accumulated depreciation** | | | | | |
| Office furniture and fixtures | (1 705) | - | 30 | (178) | **(1 853)** |
| Machinery and equipment | (5 345) | (322) | 32 | (618) | **(6 253)** |
| Computer and IT equipment | (11 847) | - | 544 | (865) | **(12 168)** |
| Motor vehicles | (46 870) | - | 5 231 | (7 298) | **(48 937)** |
| Buildings | (1 087) | - | 2 | (154) | **(1 239)** |
| Leasehold improvements | (3 434) | - | 15 | (613) | **(4 032)** |
| **Total accumulated depreciation** | **(70 288)** | **(322)** | **5 854** | **(9 726)** | **(74 482)** |
| **Net PP&E** | **33 584** | **19 146** | **(4 524)** | **(9 726)** | **38 480** |

10.1 In 2020, construction in progress in the value of USD 0.6 million was completed and placed in service (USD 0.9 million in 2019).

10.2 Additions of USD 18.6 million were purchased in 2020 (USD 11.5 million in 2019). Disposals from PP&E in the amount of USD 4.0 million (USD 1.2 million in 2019) were realized in 2020, which were property transfers to beneficiaries (host governments, NGOs or other recipient organizations) involved in special projects. Fully depreciated assets with a cost of USD 56.7 million are in use at the end of 2020 (USD 60.0 million in 2019).

10.3 The Organization reviews PP&E for indicators of impairment. These reviews did not identify any impairment during the year.

10.4 Accrual for purchase commitments for PP&E at 31 December 2020 is USD 0.6 million (USD 0.8 million in 2019).

**Note 11.** ***Intangible Assets***

| *(thousands of US dollars)* | Balance at 31-Dec-19 | Additions | Disposals / Transfers | Amorti-zation | Balance at 31-Dec-20 |
|---|---|---|---|---|---|
| **Cost of intangible assets** | | | | | |
| Software acquired separately | 1 761 | 746 | (74) | - | **2 433** |
| Software internally developed | 8 467 | 31 | - | - | **8 498** |
| Intangible assets under development | 4 169 | 426 | - | - | **4 595** |
| **Total cost of intangible assets** | **14 397** | **1 203** | **(74)** | **-** | **15 526** |
| **Accumulated amortization** | | | | | |
| Software acquired separately | (957) | - | 57 | (319) | **(1 219)** |
| Software internally developed | (6 410) | - | - | (924) | **(7 334)** |
| **Total accumulated amortization** | **(7 367)** | **-** | **57** | **(1 243)** | **(8 553)** |
| **Net intangible assets** | **7 030** | **1 203** | **(17)** | **(1 243)** | **6 973** |

11.1 At 31 December 2020, the cost and related accumulated amortization of intangible assets purchased or developed by the Organization are USD 15.5 million (USD 14.4 million in 2019) and USD 8.6 million (USD 7.4 million in 2019) respectively. During 2020, no software development projects were completed and placed in service (USD 0.5 million in 2019).

11.2 FAO performs an impairment review when conditions arise indicating the need as such. These reviews did not identify any impairment during the year.

**Note 12.** ***Accounts payable and accrued expenses***

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| **Accounts payable** | | |
| Accounts Payable | 33 088 | 27 118 |
| Money Vendor | 1 635 | 2 741 |
| Pass through transactions | - | 4 614 |
| **Total accounts payable** | **34 723** | **34 473** |
| **Accrued expenses** | | |
| Purchase order accrued expenses | 171 500 | 137 851 |
| NSHR accrued expenses | 28 844 | 26 977 |
| Travel accrued expenses | 6 674 | 11 819 |
| Payroll accrued expenses | 154 | 135 |
| Other accruals | 2 616 | 3 474 |
| **Total accrued expenses** | **209 788** | **180 256** |
| **Total accounts payable and accrued expenses** | **244 511** | **214 729** |

12.1 Accounts payable constitute amounts due for goods and services for which invoices have been received. Money vendor payable constitute of invoices received from money vendors who execute payments to suppliers in the field where there are no banking facilities available. Pass through transactions is used to record transactions where FAO acts as a payment agent on behalf of other organizations. Accruals are liabilities for goods and services that have been received or provided to FAO during the period but not invoiced for payment. Other accruals are obligations incurred in the field and headquarters related to (a) locally recruited labour not in NSHR, (b) local travel not in GRMS Travel module, and (c) contracts not covered by GRMS PO.

**Note 13.** ***Payments received in advance***

| ***(thousands of US dollars)*** | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| Assessments on Member Nations received in advance | 27 519 | 28 473 |
| Voluntary contributions received in advance | 272 107 | 271 536 |
| SFERA contributions | 29 032 | 33 124 |
| **Total payments received in advance** | **328 658** | **333 133** |

13.1 Assessments on Member Nations received in advance are funds received from Member Nations against future year's assessment.

13.2 Voluntary contributions received in advance represent funds received from donors related to a contribution agreement. The amount of USD 272 million is net of cumulative refunds paid and payable to partners across all years which total USD 1 633.66 million at 31 December 2020 (USD 1 623.3 million at 31 December 2019).

13.3 Voluntary contributions received which are subject to conditions will be recognized as revenue, as and when the conditions are satisfied.

13.4 The Trust Funds also include activities under the Special Fund for Emergency and Rehabilitation Activities (SFERA), which was established in May 2003 to support a rapid response to emergency and rehabilitation activities. The SFERA is funded by voluntary contributions.

**Note 14.** ***Employee benefit obligations***

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 (Re-stated) |
|---|---|---|
| **Current employee benefit obligations** | | |
| Annual leave | 19 535 | 10 110 |
| Home leave travel | 1 699 | 1 769 |
| Post-employment benefit obligations due within 12 months | | |
| After Service Medical Coverage | 28 675 | 31 039 |
| Termination Payment Fund | 9 180 | 7 785 |
| Separation Payment Scheme | 6 888 | 4 659 |
| Compensation Plan Fund due within 12 months | 1 365 | 1 466 |
| Other short-term employee benefits | 4 954 | 4 768 |
| **Total current employee benefit obligations** | **72 296** | **61 596** |
| **Non-current employee benefit obligations** | | |
| **Post-employment benefit obligations** | | |
| After Service Medical Coverage | 1 324 692 | 1 317 204 |
| Termination Payment Fund | 61 476 | 54 718 |
| Separation Payment Scheme | 45 538 | 43 521 |
| **Total post-employment benefit obligations** | **1 431 706** | **1 415 443** |
| **Other non-current employee benefit obligations** | | |
| Compensation Plan Fund | 21 633 | 21 272 |
| **Total non-current employee benefit obligations** | **1 453 339** | **1 436 715** |
| **Total employee benefit obligations** | **1 525 635** | **1 498 311** |

**Valuation of employee benefit obligations**

14.1 Employee benefit obligations for post-employment and other non-current employee benefit obligations are determined by independent professional actuaries. Current employee benefit obligations are calculated by FAO based on personnel data and past payment experience. As at 31 December 2020, total employee benefit obligations amounted to USD 1 525.6 million (USD 1 498.3 million in 2019), of which USD 1 499.5 million (1 481.7 million in 2019) were calculated by the actuaries and USD 26.2 million (16.7 million in 2019) were calculated by FAO. FAO reports the portion of the actuarially valued employee benefit obligations expected fall due within 12 months within current liabilities, and the remainder within non-current liabilities.

**Current employee benefit obligations**

14.2 Current employee benefit obligations relate to wages, salaries, allowances, paid annual leave and paid sick leave, in addition to the short term portion of the post-employment benefit obligations and of the Compensation Plan Fund. The increase in annual leave obligations have arisen as there were worldwide restrictions on travel in 2020 due to the COVID-19 pandemic.

**Post-employment benefit obligations**

**Separation Payments Scheme**

14.3 Separation Payments Scheme (SPS) are due to General Service category staff at headquarters who are entitled to receive a separation payment equivalent to 1/12th of the staff member's Final Net Annual Salary rate multiplied by years of service between 1 January 1975 and 31 December 1990, plus 1/13.5th of the staff member's Final Net Annual Salary rate multiplied by years of service after 1 January 1991. SPS are subject to actuarial review to ascertain the liabilities and recommend rates of contribution.

**Terminal Payments Fund**

14.4 Terminal Payments Fund (TPF) relate to payment of accrued annual leave, repatriation grant, cost of repatriation travel and the removal of household goods for all eligible staff, and death grant. TPF are subject to actuarial review to ascertain the related liabilities and recommend rates of contribution. Termination indemnity is not included in the valuation, in accordance with IPSAS.

**After Service Medical Coverage**

14.5 After Service Medical Coverage (ASMC) provides for worldwide coverage of necessary medical expenses of eligible former staff members and their eligible dependants. The ASMC liability represents the present value of the share of the Organization's medical insurance costs for retirees and active staff post-retirement benefits accrued to-date. ASMC is subject to actuarial review to ascertain the related liabilities and recommend rates of contribution.

**Other employee benefit obligations**

**Compensation Plan Fund**

14.6 Compensation Plan Fund (CPF) are due to staff members, consultants, and their dependants, in case of death, injury or illness attributable to the performance of official duties and, in certain circumstances, to supplement the disability and survivors' pensions paid by the United Nations Joint Staff Pension Fund. CPF are subject to actuarial review to ascertain the liabilities and recommend rates of contribution.

### Actuarial Assumptions and Methods

14.7 The following assumptions and methods have been used to determine the value of post-employment benefit obligations and the Compensation Plan Fund obligations:

| | Details | |
|---|---|---|
| **Actuarial Methods** | | |
| ASMC | Projected Unit Credit Cost with service prorate. | |
| SPS | Projected Unit Credit Cost method. | |
| TPF | Commutation of Accrued leave and Repatriation Travel and Removal use projected unit credit with an attribution period from the entry on duty date to separation; Repatriation Grant, Death Grant and Termination Indemnity payable before retirement eligibility use projected unit credit with an attribution based on the actual benefit formula; Termination Indemnity payable after retirement eligibility is excluded from the valuation and accounted for as it occurs. | |
| CPF | One Year Term Cost. | |

FAO used a yield curve approach based on Aon AA Above Median Curve outside of the Euro Zone and the Aon AA Yield Curve for the discount rate in the Euro Zone.

| **Discount rates** | **2020** | **2019** |
|---|---|---|
| SPS | 0.2% | 0.6% |
| TPF | 1.4% | 2.2% |
| ASMC | 1.8% | 2.0% |
| CPF | 2.7% | 3.4% |

| **General Inflation rate** | **2020** | **2019** |
|---|---|---|
| SPS | 1.1% | 1.8% |
| TPF | 1.7% | 2.1% |
| ASMC | 1.7% | 1.9% |
| CPF | 2.0% | 2.2% |

| | |
|---|---|
| **Medical cost inflation rate** | At 31 December 2020, the assumed increases in medical costs are 4.05% during 2021, decreasing 0.05% annually to 3.45% in 2033 and later years. |
| | At 31 December 2019, the assumed increases in medical costs are 4.10% during 2020, decreasing 0.05% annually to 3.70% in 2028 and later years. |
| **Annual salary scale** | At 31 December 2020, the salary inflation assumptions are harmonized with the general inflation assumptions for each plan, plus 0.5% for productivity increases, plus merit increases. |
| | At 31 December 2019, the salary inflation assumptions were 2.5% for long-term general inflation, plus 0.5% for productivity increases, plus merit increases |

| | Details |
|---|---|
| **Mortality rates** | At 31 December 2020, mortality rates are headcount-weighted.<br><br>At 31 December 2019, mortality rates were weighted by pension amount |
| **Disability rates** | Disability rates have been provided and approved by the UN Task Force as recommended assumptions for the United Nations' staff benefits valuations as of 31 December 2020. |
| **Withdrawal rates** | Based on a study of FAO's withdrawal experience for staff from 2014 to 2019. |
| **Turnover and Retirement rates** | Based on a study of FAO's experience for staff from 2014 to 2019. |
| **Coverage of Adult Dependents** | Based on a study of FAO's and WFP's aggregate experience from 2015 through 2018, 80% of male and 60% of female retirees who elect coverage at retirement are assumed to cover an adult dependent at that time. |
| **Age Variation in Claims Costs** | Based on recent experience of the Rome-based agencies. The COVID-19 pandemic is reflected via a temporary reduction to claims, assumed to phase out as lockdowns are lifted and economic conditions recover. |
| **Year-end spot rate €/USD** | 1.227 (1.1161 in 2019). |

14.8 The change to mortality assumptions at 31 December 2020 only impacted the plans that provide annuity benefits; the ASMC and the CPF. The financial impact of the change to mortality rates being headcount-weighted was a reduction in the value of the ASMC liability by USD 20.7 million, and a reduction of USD 0.2 million to the CPF.

### Reconciliation of defined benefit obligation

14.9 The following tables provide additional information and analysis in relation to employee benefit obligations, as calculated by the actuaries:

| ***(thousands of US dollars)*** | **ASMC** | **TPF** | **SPS** | **CPF** | **Total** |
|---|---|---|---|---|---|
| **Net defined benefit obligation at 31-Dec-19** | **1 348 242** | **62 503** | **48 180** | **22 738** | **1 481 663** |
| Service cost for year ended 31 Dec 2020 | 35 028 | 6 859 | 2 966 | 1 473 | 46 326 |
| Interest cost for year ended 31 Dec 2020 | 26 656 | 1 290 | 275 | 748 | 28 969 |
| Actual gross benefit payments for the year 31 Dec 2020 | (27 111) | (3 807) | (2 856) | (1 430) | (35 204) |
| Remeasurements (demographic) for the year ended 31 Dec 2020 | (42 969) | 3 372 | 190 | (2 249) | (41 656) |
| Remeasurements (financial) for the year ended 31 Dec 2020 | 13 521 | 439 | 3 671 | 1 718 | 19 349 |
| **Net defined benefit obligation at 31-Dec-20** | **1 353 367** | **70 656** | **52 426** | **22 998** | **1 499 447** |

14.10 Demographic remeasurements relate principally to updated assumptions for coverage at retirement, which have a favourable impact on the valuation. Financial remeasurements with a significant impact on the value of the employee benefit obligations for the year ending 31 December 2020 include a decrease in the discount rates, off-set by the fewer claims and administrative expenses than expected, and a decrease in the assumed growth rate of medical costs causing a net increase to the value of liabilities.

**Annual expense recognized**

14.11 The annual expense amounts recognized in the Statement of Financial Performance, within employee benefits and other personnel costs, and finance income / (expenses), and are as follows:

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| Service cost | 46 326 | 39 110 |
| Past Service (credit) / cost / Prior Service (credit) recognition | - | - |
| Remeasurements (demographic and financial) | (531) | 4 422 |
| Interest cost | 28 969 | 38 630 |
| **Total expense recognized** | **74 764** | **82 162** |

14.12 During 2020, the Organization recorded USD 0.5 million of plan remeasurements in the Statement of Financial Performance (USD 4.4 million in 2019) in relation to the Compensation Plan Fund, and a further USD 21.8 million of remeasurements on the post-employment benefits plans were recorded within equity (USD 70.1 million in 2019).

**ASMC plan – sensitivity analysis**

14.13 Following are the three principal assumptions in the valuation of the ASMC plan:

i) exchange rate between the Euro and the US Dollar;
ii) discount rate used to determine the present value of benefits that will be paid from the plan in the future; and
iii) medical inflation rate.

14.14 A 1 percent change in the discount and medical inflation rate would have the following effects on the defined benefit obligation:

| *(thousands of US dollars)* | | Ultimate medical inflation rate | |
|---|---|---|---|
| **Exchange rate** | **Discount rate** | **3.45% Per Year** | **4.45% Per Year** |
| 1.227 USD Per EUR | 1.8% | 1 353 368 | 1 654 150 |
| 1.327 USD Per EUR | 1.8% | 1 408 517 | 1 721 557 |
| 1.227 USD Per EUR | 0.8% | 1 673 652 | 2 045 617 |
| 1.327 USD Per EUR | 0.8% | 1 741 853 | 2 128 976 |

14.15 A 1 percent change in the discount and medical inflation rate would have the following effects on the current service cost:

| *(thousands of US dollars)* | | Ultimate medical inflation rate | |
|---|---|---|---|
| **Exchange rate** | **Discount rate** | **3.45% Per Year** | **4.45% Per Year** |
| 1.227 USD Per EUR | 1.8% | 35 464 | 49 528 |
| 1.327 USD Per EUR | 1.8% | 36 909 | 51 546 |
| 1.227 USD Per EUR | 0.8% | 49 794 | 69 541 |
| 1.327 USD Per EUR | 0.8% | 51 823 | 72 375 |

**TPF plan – sensitivity analysis**

14.16 The principal assumption in the valuation of the TPF plan is the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

14.17 A 1 percent reduction in the discount rate would have the following effect on the defined benefit obligation:

| ***(thousands of US dollars)*** **Discount rate** | **Defined Benefit Obligation** |
|---|---|
| 1.4% | 70 656 |
| 0.4% | 76 483 |

14.18 A 1 percent change in the discount and medical inflation rate would have the following effects on the current service cost:

| ***(thousands of US dollars)*** **Discount rate** | **Current service cost** |
|---|---|
| 1.4% | 6 784 |
| 0.4% | 7 375 |

**SPS plan – sensitivity analysis**

14.19 The principal assumption in the valuation of the SPS plan is the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

14.20 A 1 percent reduction in the discount rate would have the following effect on the defined benefit obligation:

| ***(thousands of US dollars)*** **Discount rate** | **Defined Benefit Obligation** |
|---|---|
| 0.2% | 52 426 |
| -0.8% | 56 332 |

14.21 A 1 percent change in the discount and medical inflation rate would have the following effects on the current service cost:

| ***(thousands of US dollars)*** **Discount rate** | **Current service cost** |
|---|---|
| 0.2% | 3 110 |
| -0.8% | 3 431 |

**CPF plan – sensitivity analysis**

14.22 The principal assumption in the valuation of the CPF plan is the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

14.23 A 1 percent reduction in the discount rate would have the following effect on the defined benefit obligation:

| *(thousands of US dollars)*<br>**Discount rate** | **Defined Benefit Obligation** |
|---|---|
| 2.7% | 22 998 |
| 1.7% | 26 686 |

14.24 A 1 percent change in the discount and medical inflation rate would have the following effects on the current service cost:

| *(thousands of US dollars)*<br>**Discount rate** | **Current service cost** |
|---|---|
| 2.7% | 1 409 |
| 1.7% | 1 721 |

**Future funding**

14.25 During 2020 no prior years' assessment was transferred to the investment portfolio (FC 185/3) (USD 2.5 million in 2019). Assessed funds are typically transferred into the investment portfolio based on the percentage of total Member contributions actually received (none in 2019). Long-term investments and any generated income are applied first to ensure the adequacy of funding of the SPS and CPRF. Any additional investments and related income then are earmarked for the ASMC and subsequently for the TPF. As of 31 December 2020, both the ASMC and TPF continue to be underfunded. The diversification of asset classes, currency composition and duration of FAO's long-term investments is determined in accordance with the parameters effecting the valuation of its liabilities.

14.26 The earmarking of the long-term investments and the SPS advances to the plans is shown in the below table:

| *(thousands of US dollars)* | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| **Fully funded by earmarked long-term investments** | | |
| CPF | 22 998 | 22 738 |
| SPS | 52 426 | 48 180 |
| **Total fully funded by earmarked long-term investments** | **75 424** | **70 918** |
| **Partially funded by earmarked long-term investments** | | |
| ASMC | 564 045 | 482 192 |
| **Total partially funded by earmarked long-term investments** | **564 045** | **482 192** |
| **Total funded liabilities** | **639 469** | **553 110** |
| **Unfunded by earmarked long-term investments** | | |
| ASMC | 789 322 | 866 050 |
| TPF | 70 656 | 62 503 |
| **Total unfunded by earmarked long-term investments** | **859 978** | **928 553** |

**Maturity profile**

14.27 The table below presents the maturity profile of the Organization's post-employment benefit obligations and the Compensation Plan Fund obligations as at 31 December 2020, expressed in nominal value:

| *(thousands of US dollars)* | ASMC | TPF | SPS | CPF | Total |
|---|---|---|---|---|---|
| **Years** | | | | | |
| Due in 0-5 Years | 170 166 | 32 470 | 26 482 | 6 443 | 235 561 |
| Due in 6-10 Years | 209 765 | 18 862 | 11 681 | 5 681 | 245 989 |
| Due in 11-15 Years | 234 191 | 13 199 | 8 094 | 4 848 | 260 332 |
| Due in 16-20 Years | 247 039 | 8 345 | 4 984 | 4 134 | 264 502 |
| Due in 21-25 Years | 247 539 | 4 197 | 1 468 | 3 528 | 256 732 |
| Due in 26-30 Years | 234 546 | 1 591 | 333 | 2 969 | 239 439 |
| Due in More than 30 Years | 670 247 | 401 | 124 | 8 358 | 679 130 |
| **Total** | **2 013 493** | **79 065** | **53 166** | **35 961** | **2 181 685** |

**Note 15.** ***United Nations Joint Staff Pension Fund***

15.1 FAO is a member organization participating in the United Nations Joint Staff Pension Fund (the "Fund"), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified in Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

15.2 The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the Fund. FAO and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify FAO's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the FAO has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39, *Employee Benefits*. FAO's contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

15.3 The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities.

15.4 The FAO's financial obligation to the Fund consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 percent for participants and 15.8 percent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

15.5 The latest actuarial valuation for the Fund was completed as of 31 December 2019, and a roll forward of the participation data as of 31 December 2019 to 31 December 2020 was used by the Fund for its 2020 financial statements.

15.6 The actuarial valuation as of 31 December 2019 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 144.2 percent (139.2 percent in the 2017 valuation). The funded ratio was 107.1 percent (102.7 percent in the 2017 valuation) when the current system of pension adjustments was taken into account.

15.7 After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2019, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

15.8 Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the Fund, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2017, 2018 and 2019) amounted to USD 7 546.92 million, of which 2.2 percent was contributed by FAO.

15.9 During 2020, contributions paid to the Fund by FAO amounted to USD 59.3 million (2019 USD 56.6 million). Expected contributions due in 2021 are approximately USD 61.4 million.

15.10 Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

15.11 The United Nations Board of Auditors carries out an annual audit of the Fund and reports to the Pension Board and to the United Nations General Assembly on the audit every year. The Fund publishes quarterly reports on its investments and these can be viewed by visiting the Fund at www.unjspf.org.

**Note 16. *Operating lease commitments***

16.1 For the year ended 31 December 2020, total rental expense under operating leases are USD 11.1 million (USD 9.3 million in 2019). At 31 December 2020, obligations for property leases to be paid in the subsequent years aggregated to USD 4.7 million (USD 7.9 million in 2019). The decrease from prior year is driven by a number of facility leases being one year closer to term, for which contract renewals will be processed at a future date. The commitments below do not include nominal lease transactions. The total aggregate lease payments for the periods are due to be paid as follows:

| ***(thousands of US dollars)*** | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| Within twelve months | 2 898 | 4 836 |
| More than one to five years | 1 803 | 3 034 |
| Beyond five years | - | - |
| **Total lease commitments** | **4 701** | **7 870** |

**Note 17. *Provisions and contingencies***

17.1 The provisions of the Organization are comprised of:

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| Labour-related and other claims | 202 | 296 |
| Pending negotiations and arbitrations | 10 | - |
| **Total provisions and contingencies** | **212** | **296** |

17.2 The movement in the provisions during 2020 were as follows:

| *(thousands of US dollars)* | Balance at 31-Dec-19 | Increases | Amounts charged | Amounts reversed | Balance at 31-Dec-20 |
|---|---|---|---|---|---|
| Labour-related and other claims | 296 | 186 | (44) | (236) | **202** |
| Pending negotiations and arbitrations | - | 10 | - | - | **10** |
| **Total provisions** | **296** | **196** | **(44)** | **(236)** | **212** |

### Labour-related and other claims

17.3 As part of its normal ongoing operations, FAO receives claims related to labor or contract disputes. The Organization intends to defend itself fully in all cases, however the possibility that it will incur liabilities related to these complaints is not remote. The total amount of possible losses is approximately USD 0.2 million (USD 0.4 million in 2019).

### Pending negotiations and arbitrations

17.4 As at 31 December 2020, the Organization has pending litigations with suppliers. The Organization intends to defend itself fully in all cases, however a provision has been included in the accounts for the value of probable losses (USD 10 thousand). The possibility of additional losses related these complaints is not remote, and amounts to approximately USD 0.4 million (none as at 31 December 2019).

### Note 18. *Other liabilities*

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| **Current** | | |
| Settlements with employees | 28 | 29 |
| Other accounts payables | 3 628 | 3 606 |
| **Total current** | **3 656** | **3 635** |
| **Non-current** | | |
| Staff fiduciary accounts | 10 284 | 12 065 |
| Working Capital Fund | 25 745 | 25 745 |
| **Total non-current** | **36 029** | **37 810** |
| **Total other liabilities** | **39 685** | **41 445** |

18.1 Settlements with employees represent Staff Credit Union recovery related transactions.

18.2 Other accounts payable represent deposits received from suppliers and insurance premiums payable on behalf of retired and active staff of IFAD, one of the Agencies participating in the Medical Insurance Plans.

18.3 Staff fiduciary accounts represent funds related to the operation of the contributory medical and insurance arrangements for staff.

18.4 The purposes of the Working Capital Fund are (i) to advance money on a reimbursable basis to the General Fund in order to finance budgetary expenditures pending receipt of contributions to the budget, (ii) finance emergency expenditures not provided for in the current budget, and (iii) make loans for such purposes as the Council may authorize in specific cases. The authorized level for the Fund was set by Conference resolution 15/91 at USD 25 million and is increased by the Working Capital Assessments on new Member Nations. The Fund is presented as a liability since it is refundable to Member Nations who withdraw from the Organization, after liquidation of any financial obligations such nation may have to the Organization.

**Working Capital Fund**

| ***(thousands of US dollars)*** | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| **Authorized level at beginning and end of period** | **25 793** | **25 793** |
| **Balance at beginning and end of period** | **25 745** | **25 745** |

18.5 During 2020 no new Member Nations joined the Organization and the Working Capital Fund was not utilized during the year. The authorized level is part of the assessments to Member Nations and the balance comprises the receipts of those assessments.

**Note 19. *Reserves***

| ***(thousands of US dollars)*** | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| Special Reserve Account | 17 559 | 17 559 |
| Unrealized (losses) / gains on investments | 129 778 | 60 938 |
| Actuarial gains / (losses) reserve | (11 423) | (33 199) |
| **Total reserves** | **135 914** | **45 298** |

19.1 The purpose of the Special Reserve Account (SRA) is to protect the Organization's Programme of Work against the effects of unbudgeted extra costs arising from adverse currency fluctuations and unbudgeted inflationary effects. The authorized level of the SRA is set by Conference Resolution 13/81 at up to 5 percent of the effective working budget for the respective subsequent biennium, amounting to USD 50.3 million at 31 December 2020.

19.2 Unrealized gains on investments relate to the available-for-sale portfolios. USD 68.8 million unrealized gains on investments (USD 68.2 million losses in 2019) are recognized in equity during 2020. The cumulative foreign exchange rate portion of unrealized gains arising on debt portfolios amounted to USD 9.9 million (USD 4.2 million losses at 31 December 2019), and has been charged to the Statement of Financial Performance in line with accounting standards in the period in which it has arisen. The increase in the value of unrealized gains on investments is due to current market values.

19.3 Actuarial gains and losses reserve results from the increase or decrease in the present value of a defined benefit obligation. There were USD 21.8 million (USD 70.0 million losses in 2019) actuarial gains recognized in equity during the year ended 31 December 2020, and a further USD 0.5 million of gains (USD 4.4 million losses in 2019) was recognized in the Statement of Financial Performance in relation to the CPF.

**Note 20.** ***Revenue***

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| **Non-exchange revenue** | | |
| **Assessments on Member Nations** | **484 554** | **488 803** |
| **Voluntary contributions** | | |
| TF contributions | 1 220 691 | 1 093 943 |
| UNDP contributions | 6 962 | 510 |
| **Total voluntary contributions** | **1 227 653** | **1 094 453** |
| **Other non-exchange revenue** | | |
| Associate Member Assessments | 20 | 20 |
| Jointly Financed Activities | 16 981 | 19 037 |
| Government counterpart cash contributions | 3 624 | 1 330 |
| In-kind donations | 52 427 | 48 620 |
| **Total other non-exchange revenue** | **73 052** | **69 007** |
| **Total non-exchange revenue** | **1 785 259** | **1 652 263** |
| **Exchange revenue** | **6 210** | **8 641** |
| **Total revenue** | **1 791 469** | **1 660 904** |

20.1 Assessments from Member Nations Conference Resolution CR 13/2019 approved appropriations of USD 1 005.6 million to be used for the Programme of Work as proposed by the Director-General for 2020-21. Such appropriations, minus estimated Miscellaneous Income of USD 5.0 million, were budgeted to be financed by contributions from Member Nations of USD 1 000.6 million. The contributions are comprised of split assessments in US Dollars of USD 546.4 million and in Euros of EUR 376.4 million (equivalent to USD 459.2 million at the budget rate of exchange of USD 1.22 to Euros 1.00). The difference between actual Assessments on Member Nations of USD 484.6 million and amounts approved under the Conference Resolution, of USD 1 005.6 million, reflect the recognition of only one year of the biennial revenue and the difference between the average UNORE of USD 1.227 to Euros 1.00 at the time the Euros component of the contributions was assessed and the rate of exchange applied in the budget.

20.2 The split assessment arrangement was approved by Conference Resolution 11/03, in 2003 and this arrangement was first used for the assessments on Member Nations in 2004-05. Based on total assessments expressed in USD as reported in the Statement of Financial Performance, the actual split of assessments in USD and Euro for 2020 was approximately 54 percent and 46 percent, respectively (2019; 54 percent and 46 percent respectively).

20.3 Voluntary Contributions include revenue earmarked by donors for COVID-19 related activities in the amount of USD 78.7 million, including in certain cases reprogramming of existing funds toward COVID-19 activities.

20.4 Other Non-exchange revenue is driven by the recognition of income for in-kind donated facilities located in Rome of USD 32.8 million (USD 26.9 million in 2019) and USD 19.1 million (USD 21.2 million in 2019) for in-kind donated facilities world-wide; and Jointly Financed Activities, principally established with the World Bank, the African Development Bank and the Asian Development Bank. A counterpart expense of USD 51.9 million (USD 48.1 million in 2019) is recorded as in-kind donated facilities.

20.5 Of the remainder in-kind donated goods of USD 0.5 million (USD 0.6 million in 2019), USD 0.5 million (USD 0.5 million in 2019) relates to donated interest revenue on the Working Capital Fund concessionary loan of USD 25.7 million (USD 25.7 million in 2019) granted by Member Nations. A counterpart expense of USD 0.5 million (USD 0.5 million in 2019) is recorded in interest expense calculated at 1.8 percent (2.0 percent in 2019) using the ASMC discount rate. Other donated goods received represent USD 0.1 million in PP&E (USD 0.1 million in 2019).

20.6 Exchange revenue mainly represents payments to the Organization of expenditure incurred on behalf of third parties, including other international organizations to which services such as medical, social security, legal and administrative are provided.

### Note 21. *Expenses*

21.1 Employee benefits and other personnel costs include all compensation entitlements for Regular Programme and Project Professional and General Service category staff. The Organization's expense has been affected by the COVID-19 pandemic, particularly in relation to annual leave balances which have risen by USD 10.9 million as a result of travel restrictions throughout 2020.

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| **Employee benefits and other personnel costs** | | |
| Base salary | 193 994 | 188 626 |
| Post adjustment | 48 112 | 43 916 |
| Staff medical insurance | 39 752 | 33 595 |
| Pension plan | 59 199 | 56 725 |
| Staff Compensation Plan | 566 | 407 |
| Staff Termination Plan | 7 003 | 6 032 |
| Staff Separation Scheme | 2 936 | 2 855 |
| Education grant | 15 333 | 15 462 |
| Locally hired non-professional staff | 2 304 | 3 327 |
| Entitlement travel | 3 367 | 7 113 |
| Income Tax Reimbursement | 2 602 | 2 152 |
| Dependents Allowance | 12 608 | 12 512 |
| Installation, assignment and mobility allowance | 8 738 | 11 227 |
| Other employee benefits and staff costs | 21 919 | 13 738 |
| **Total employee benefits and other personnel costs** | **418 433** | **397 687** |

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| **Consultants** | | |
| Internationally recruited | 73 614 | 92 800 |
| Locally recruited | 130 893 | 89 720 |
| National projects personnel | 92 852 | 85 889 |
| Other consultants expenses | 4 760 | 4 219 |
| **Total consultants** | **302 119** | **272 628** |

21.2 During 2020 the Organization has incurred additional expenses for Consultants, with a notable increase in national consultants in order to support programme delivery in Decentralized Offices. At the same time there has been a decline in the percentage of international consultants during the COVID-19 pandemic.

| *(thousands of US dollars)* | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| **Travel costs** | | |
| Duty travel | 4 642 | 22 431 |
| Consultants | 19 152 | 46 557 |
| Governing body meetings | 11 302 | 41 397 |
| Other travel costs | 2 657 | 5 415 |
| **Total travel costs** | **37 753** | **115 800** |

21.3 Governing body meetings include travel-related costs associated with sessions of the Conference, the Council, the Council committees, Technical committees, and other statutory meetings. Travel costs have significantly reduced following COVID-19 pandemic travel restrictions in 2020.

| *(thousands of US dollars)* | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| **Depreciation, amortization and impairment of long-lived assets** | | |
| Depreciation of PP&E | 9 726 | 9 120 |
| Amortization of intangible assets | 1 243 | 1 558 |
| **Total depreciation, amortization and impairment of long-lived assets** | **10 969** | **10 678** |

| *(thousands of US dollars)* | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| **Training expenses** | | |
| In-service | 3 156 | 7 997 |
| Other training expenses | 20 721 | 37 126 |
| **Total training expenses** | **23 877** | **45 123** |

21.4 In-service training represents the cost of on-site training carried out at the local office in relation to projects in the field. Other training expenses include the costs of training materials and expenses incurred with participation in off-site training courses, including lodging and daily subsistence. The Organization has incurred considerably lower training expenses in 2020 as travel limitations have negatively affected the ability to attend training sessions.

| *(thousands of US dollars)* | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| **Contractual services** | | |
| Services | 91 040 | 75 484 |
| Construction contracts | 24 053 | 16 062 |
| Repairs and maintenance | 9 494 | 8 857 |
| Rental expense | 12 476 | 11 400 |
| In-kind donated facilities | 51 906 | 48 093 |
| Communications and IT | 15 199 | 13 293 |
| Letters of Agreement | 169 072 | 159 966 |
| Other contracted services | 12 703 | 12 302 |
| **Total contractual services** | **385 943** | **345 457** |

21.5 Services mainly represents contracts entered into by projects, and include amongst others statistical services, contracts for environmental protection and waste, agriculture, crop protection and irrigation services, and fisheries and aquaculture services. In prior years, data pertaining to construction contract expenses was reported within the line repairs and maintenance. In 2020 this has been presented separately to provide more meaningful information.

21.6 Letters of agreement mainly comprise of the following items; USD 53.7 million (USD 39.0 million in 2019) in relation to agreements for distribution of inputs and community micro infrastructure, USD 45.9 million (USD 52.3 million in 2019) for scientific research services and surveys, USD 28.4 million (USD 26.7 million in 2019) for training beneficiaries, and USD 21.7 million (USD 23.4 million in 2019) for capacity development of national public institutions.

21.7 2019 expenses for contractual services, reported within "*Services*", have been restated down by USD 0.7 million to reflect the reclassification of transactions pertaining to conditional grants to beneficiaries out of this category and in to Grants and other transfer payments. The 2019 balance of Grants and other transfer payments has been restated upwards by the same value in the table below.

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| **Grants and other transfer payments** | | |
| National execution with governments | 35 392 | 24 085 |
| Contributions to joint UN administrative activities | 8 229 | 17 477 |
| Cash transfers | 62 942 | 8 880 |
| Other grants and transfer payments | 6 000 | 1 054 |
| **Total grants and other transfer payments** | **112 563** | **51 496** |

21.8 National execution with governments relates to funds transferred in advance to operations partners for the implementation of parts of, or an entire, project entrusted to FAO. During 2020 FAO continued to enhance the use of Cash and Voucher Assistance in its emergency and resilience programme, with cash transfers amounting to USD 62.9 million. During 2019, the Organization established improved methods to differentiate transactions pertaining to grants and other transfer payments from other types of project expenditures. Consequently, the 2019 balance does not reflect the entirety of expenditures incurred using this operational modality, as the expenditures incurred in the first half of 2019 were reported under other expenditure categories. The effect of a retrospective restatement has been deemed impracticable to assess and therefore no prior period restatement has been presented, in line with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.*

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| **Supplies and consumables used** | | |
| Utilities | 2 720 | 3 562 |
| Vehicles maintenance and running costs | 4 334 | 4 134 |
| Inventories distributed | 203 578 | 198 901 |
| Inventories sold | 697 | 414 |
| Inventories write-down | 62 | 1 |
| Supplies and consumables | 24 862 | 15 928 |
| **Total supplies and consumables used** | **236 253** | **222 940** |

21.9 During the year ended 31 December 2020, FAO incurred USD 45.3 million of expenses for Plants and Seeds (USD 48.1 million in 2019), USD 12.8 million of expenses for expendable equipment (USD 16.1 million in 2019), USD 13.9 million of expenses for Fertilizers (USD 17.5 million in 2019), USD 15.5 million for Animal Feed (USD 21.9 million in 2019), USD 23.5 million for Medical and

Veterinary Supplies (USD 16.7 million in 2019), USD 8.1 million for Other Field Supplies and Equipment (USD 10.3 million for 2019), USD 19.5 million for Agricultural tools (USD 23.5 million in 2019), and USD 9.3 million for Livestock (USD 8.0 million in 2019). These costs have been included within the category "Inventories distributed".

| ***(thousands of US dollars)*** | **31-Dec-20** | **31-Dec-19 (Re-stated)** |
|---|---|---|
| **Other expenses** | | |
| Provisions for receivables | 18 796 | 5 560 |
| Insurance | 1 565 | 1 928 |
| Bank charges | 985 | 1 246 |
| Other operating expenses | 14 442 | 27 608 |
| **Total other expenses** | **35 788** | **36 342** |

21.10 Provisions for receivables has increased particularly in relation to Member Nation receivables, in line with the Organization's policy on recording an allowance for doubtful accounts. The decrease in other operating expenses was primarily due to the increase in closure of finalized Trust Fund projects, as accounting for projects that close with cash balances repayable to donors results in the recognition of an expense (USD 16.7 million in 2019) to off-set the associated revenue recognized in prior periods.

### Note 22. *Non-operating income and expenses*

### Investment income

22.1 The investment income recorded within other income and expenses represents the returns earned on the held-for-trading and the available-for-sale investment portfolios, inclusive of the cash and cash equivalent portion reallocated in the Statement of Financial Position to cash and cash equivalents, as well as the losses in fair value of derivative financial instruments.

22.2 Net returns generated on the held-for-trading and available-for-sale investment portfolios represent the investment income earned, in addition to gains and losses of market value realized in 2020.

| *(thousands of US dollars)* | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| **Return on investments, liquidity deposits and held-for-trading** | | |
| Interest income | 14 712 | 29 777 |
| Gains / (losses) on disposal | 490 | 3 506 |
| Fees and commissions charged | (983) | (820) |
| Unrealized gains | (1 992) | (585) |
| **Total return on investments, liquidity deposits and held-for-trading** | **12 227** | **31 878** |
| **Return on investments, available-for-sale** | | |
| Interest and dividend income | 8 783 | 10 052 |
| Unrealized foreign exchange gains/(losses) | 14 102 | (7 665) |
| Gains/(losses) on disposal | (6 501) | (8 532) |
| Fees and commissions charged | (942) | (1 140) |
| **Total return on investments, available-for-sale** | **15 442** | **(7 285)** |
| **Fair value loss on derivative financial instruments** | | |
| Fair value (losses) / gains on derivative financial instruments | 1 828 | 917 |
| **Total fair value (losses) / gains on derivative financial instruments** | **1 828** | **917** |
| **Total investment income** | **29 497** | **25 510** |

22.3 In 2020, given FAO’s prudent, low risk investment style and the interest environment in the US, the return on the held-for-trading investment portfolio was 0.87 percent (2.44 percent in 2019), exceeding the benchmark return by 0.42 percent.

22.4 The available-for-sale investment portfolio represents the accumulated assets set aside over a period of decades to fund the Organization’s share of staff-related liabilities. The current investment policy sets a strategic asset allocation for the long-term portfolio of 50 percent equities and 50 percent fixed income. The fixed income portion is in Euros, while the equities are in US Dollars. During 2020 the available-for-sale investment portfolio yielded an annual return of 15.69 percent, versus a benchmark return of 19.26 percent. This underperformance was driven by the market volatility as well as the underperformance of FAO’s equity portfolio.

### Foreign exchange gains and losses

22.5 USD 13.7 million (USD 3.1 million loss in 2019) net foreign exchange gains represents the net amount exchange differences incurred by the Organization during the year ended 31 December 2020. The majority of the exchange differences have been generated by the Euro portion of the Assessments on Member Nations and the revaluation of monetary assets and liabilities at the reporting date.

**Finance income and expenses**

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 |
|---|---|---|
| Interest expenses | (8 485) | (20 621) |
| Interest cost of staff related liabilities | (28 969) | (38 631) |
| **Total finance income / (expenses)** | **(37 454)** | **(59 252)** |

22.6 The finance expenses of the Organization are predominantly borne in relation to operating the staff related schemes. These costs represent the increase in the present value of the defined benefit obligation because the benefits are one period closer to settlement.

**Other non-operating income and expenses**

| *(thousands of US dollars)* | 31-Dec-20 | 31-Dec-19 (Re-stated) |
|---|---|---|
| Actuarial Gains or (Losses) | 532 | (4 422) |
| Provision for Legal Obligations | 40 | (285) |
| **Total Other non-operating income / (expenses)** | **572** | **(4 707)** |

22.7 The actuarial gains reported in 2020 were due to remeasurements from changes in financial and demographic assumptions relating to the Compensation Plan Fund.

**Note 23.** ***Financial instruments***

23.1 This note presents information about the Organization's exposure to various risks, policies and processes for measuring and managing the risks, and its management of capital. Further quantitative disclosures are included throughout these financial statements.

**Value of financial instruments**

| *(thousands of US dollars)* | 31-Dec-20 Fair value & Carrying amount | 31-Dec-19 Fair value & Carrying amount |
|---|---|---|
| **Financial assets** | | |
| Held-for-trading financial instruments | 588 199 | 594 459 |
| Available-for-sale financial instruments | 631 398 | 552 042 |
| Derivative financial instruments | 1 134 | - |
| Receivables from non-exchange transactions | 255 102 | 231 986 |
| Receivables from exchange transactions | 5 362 | 5 303 |
| Other assets | 10 680 | 13 111 |
| Cash and cash equivalents | 1 277 999 | 997 900 |
| **Total financial assets** | **2 769 874** | **2 394 801** |
| **Financial liabilities** | | |
| Derivative financial instruments | - | 694 |
| Accounts payable and accruals | 244 511 | 214 729 |
| Employee benefits obligations | 1 506 100 | 1 488 201 |
| Other liabilities | 39 685 | 41 444 |
| **Total financial liabilities** | **1 790 296** | **1 745 068** |

23.2 The fair value of the financial assets and liabilities are included at the amount at which the instrument can be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The fair value and carrying amounts of the investment portfolio are the same because they are marked to market. The item "Other liabilities" excludes non-cash items such as advances and accruals for annual leave that are not settled in the short term with cash payments.

23.3 The following methods and assumptions are used to estimate the fair values:

i) Cash and short-term deposits, trade receivables, trade payables and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
ii) Long-term fixed-rate and variable-rate receivables / borrowings are evaluated by the Organization based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics. Based on this evaluation, allowances are taken to account for the incurred losses of these receivables and market related interest rates. As at 31 December 2020, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values;
iii) Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities; and
iv) Fair value of financial assets is derived from quoted market prices in active markets.

**The fair value hierarchy**

23.4 The fair value hierarchy represents the categorization of market pricing to indicate the relative ease with which the value of investments held can be realized.

23.5 The Organization uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

i) Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
ii) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices); and
iii) Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

23.6 The majority of FAO's financial instruments have quoted prices in active markets and are classified as Level 1. Derivative instruments that are "over-the-counter" are classified as Level 2 because their fair value is observable either directly as a price, or indirectly after being derived from prices. The instruments shown under the Level 2 fair value measurement category consist of the forward contracts for foreign currency hedges and the derivative contracts in the externally managed portfolios.

**Financial instruments measured at fair value**

| *(thousands of US dollars)* | 31-Dec-20 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Current assets** | | | | |
| Financial assets at fair value through surplus or deficit | 588 199 | - | - | **588 199** |
| Financial assets at fair value through equity | 631 398 | - | - | **631 398** |
| Derivative financial instruments | - | 1 134 | - | **1 134** |
| **Current liabilities** | | | | |
| Derivative financial instruments | - | - | - | **-** |
| **Total financial instruments measured at fair value** | **1 219 597** | **1 134** | **-** | **1 220 731** |

| *(thousands of US dollars)* | 31-Dec-19 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Current assets** | | | | |
| Financial assets at fair value through surplus or deficit | 594 459 | - | - | **594 459** |
| Financial assets at fair value through equity | 552 042 | - | - | **552 042** |
| **Current liabilities** | | | | |
| Derivative financial instruments | - | (694) | - | **(694)** |
| **Total financial instruments measured at fair value** | **1 146 501** | **(694)** | **-** | **1 145 807** |

23.7 During the reporting period ending 31 December 2020, there were no transfers between level 1 and level 2 fair value measurements.

**Financial risks of the Organization**

23.8 FAO has developed risk management policies in accordance with its Financial Rules and Regulations. The Organization is exposed to a variety of financial risks, including market (foreign currency exchange and price), liquidity, interest rate and credit risks. The primary objective of the Investment Policy of FAO is to maximize the long-term return on the portfolio. The Organizaiton considers the maximization of risk-adjusted returns and the use of applicable benchmarks to evaluate investment manager performance.

**Financial risk management**

23.9 The Organization manages the financial risks linked to its investments by providing strict guidelines to its asset managers. These guidelines are set by the Investment Committee with the assistance of FAO's technical advisor, the World Bank. The treasury function ensures these guidelines are adhered to by actively monitoring the investment manager's compliance to them. The investment guidelines specify the managers' exposure to asset classes, interest rate risk, credit quality, credit concentration and possible deviations from benchmarks. Additionally, a detailed strategic asset allocation review for non-current investments is conducted by specialized firms within the context of an Asset and Liability study (ALM). Reviews are conducted approximately every five years and the last study was undertaken and finalized in 2018. The results were reviewed by the Investment Committee and lead to the definition of a new strategic asset allocation which was presented to the Director-General and subsequently endorsed in late 2020.

**Foreign currency exchange risk**

23.10 FAO's principal headquarters is located in the Euro zone and the Organization operates field offices on a global level, where it incurs expenses in local currency. Consequently, a significant amount of FAO's expenses are in other currencies (principally Euro), and the Organization is therefore exposed to foreign currency exchange risk arising from fluctuations in currency exchange rates. In 2003, in order to mitigate its foreign currency risk associated with Regular Programme Euro denominated expenses, the Organization began assessing a portion of Member Nation contributions in US Dollars and a portion in Euro. With the introduction of split assessments on Member Nations, the Organization has entered into US Dollar / Euro swaps with banks as counterparty, to fund delays of Euro receipts of these assessments. Given the world-wide geographical representation of the Organization, FAO maintains a minimum level of assets in local currencies, and holds accounts in US dollars, Euros and other currencies at headquarters.

23.11 Additionally, the Organization receives voluntary contributions in both US Dollars and other currencies. The Organization generally converts these amounts to US Dollars immediately upon receipt of the funds. Expenditures under projects funded by voluntary contributions are made in both US Dollars and other currencies. The US Dollar funds held are converted to local currency when necessary, to satisfy the obligations of the organization. No derivative financial instruments are utilized to mitigate the risk associated.

23.12 The carrying amount of the Organization's foreign currency denominated financial assets and financial liabilities, translated to US Dollars at the year-end are set out below. Some of the financial assets are denominated in difficult to use currencies ('illiquid currencies') that cannot be readily converted to US dollars:

| ***(thousands of US dollars)*** | | | **31-Dec-20** | | |
|---|---|---|---|---|---|
| | **US Dollar** | **Euro** | **Others** | **Illiquid** | **Total** |
| Cash and cash equivalents | 1 161 743 | 80 872 | 35 752 | (368) | 1 277 999 |
| Held-for-trading investments | 588 199 | - | - | - | 588 199 |
| Available-for-sale investments | 352 248 | 136 564 | 142 586 | - | 631 398 |
| Derivative financial instruments | (111 971) | 191 630 | (78 525) | - | 1 134 |
| **Total financial assets** | **1 990 219** | **409 066** | **99 813** | **(368)** | **2 498 730** |

| ***(thousands of US dollars)*** | | | **31-Dec-19** | | |
|---|---|---|---|---|---|
| | **US Dollar** | **Euro** | **Others** | **Illiquid** | **Total** |
| Cash and cash equivalents | 987 653 | (3 246) | 13 437 | 56 | **997 900** |
| Held-for-trading investments | 594 459 | - | - | - | **594 459** |
| Available-for-sale investments | 267 590 | 123 184 | 161 268 | - | **552 042** |
| Derivative financial instruments | (97 676) | 168 510 | (71 528) | - | **(694)** |
| **Total financial assets** | **1 752 026** | **288 448** | **103 177** | **56** | **2 143 707** |

23.13 FAO enters into forward foreign exchange contracts and swap contracts to manage short-term cash flows of foreign currency balances to minimize the foreign currency transaction risk. At 31 December 2020 and 31 December 2019 there were no open derivative positions with the internally managed investment portfolios.

23.14 In accordance with the investment guidelines set up for each externally managed portfolio, the external investment managers use forward foreign exchange contracts to manage the currency risk of groups of securities within each portfolio. The net values of these instruments as at 31 December 2020 and 31 December 2019 that were in place to hedge foreign exchange risk in the available-for-sale investment portfolios have been reclassified to “derivative financial instruments” in the Statement of Financial Position and summarized below:

| ***(thousands of US dollars)*** | **31-Dec-20** | | | | | | |
|---|---|---|---|---|---|---|---|
| **Net purchased / sold amount** | **Currency forward bought (LCY)** | **Currency forward bought (USD)** | **Un-realized gains / (losses) (USD)** | **Currency forward sold (LCY)** | **Currency forward sold (USD)** | **Unrealized gains / (losses) (USD)** | **Total unrealized gains /(losses) (USD)** |
| Australian Dollar | 941 | 710 | 16 | (4 972) | (3 700) | (138) | (122) |
| Canadian Dollar | 1 337 | 1 041 | 8 | (8 962) | (6 911) | (124) | (116) |
| Danish Krone | - | - | - | (30 133) | (4 818) | (137) | (137) |
| British Pound sterling | 820 | 1 104 | 17 | (44 350) | (58 937) | (1 704) | (1 687) |
| Swiss Franc | 508 | 574 | 3 | (299) | (337) | (2) | 1 |
| Euro | 161 658 | 194 521 | 3 481 | (5 203) | (6 254) | (117) | 3 364 |
| Japanese Yen | 396 228 | 3 804 | 35 | (405 860) | (3 897) | (37) | (2) |
| Norwegian Krone | 10 241 | 1 169 | 27 | (7 918) | (907) | (18) | 9 |
| New Zealand Dollar | 2 446 | 1 730 | 32 | (5 088) | (3 582) | (82) | (50) |
| Swedish Krona | 3 880 | 460 | 13 | (32 113) | (3 773) | (139) | (126) |
| United States Dollar | 44 054 | 44 054 | - | (156 025) | (156 025) | - | - |
| Mexican Peso | 442 | 22 | - | (970) | (49) | - | - |
| **Total** | | **249 189** | **3 632** | | **(249 190)** | **(2 498)** | **1 134** |

| *(thousands of US dollars)* | | | 31-Dec-19 | | | | |
|---|---|---|---|---|---|---|---|
| **Net purchased / sold amount** | **Currency forward bought (LCY)** | **Currency forward bought (USD)** | **Un-realized gains / (losses) (USD)** | **Currency forward sold (LCY)** | **Currency forward sold (USD)** | **Unrealized gains / (losses) (USD)** | **Total unrealized gains /(losses) (USD)** |
| Australian Dollar | 4 213 | 2 963 | 92 | (8 289) | (5 831) | (201) | (109) |
| Canadian Dollar | 3 464 | 2 671 | 54 | (8 869) | (6 840) | (130) | (76) |
| Danish Krone | - | - | - | (21 250) | (3 202) | (38) | (38) |
| British Pound sterling | 9 423 | 12 490 | 343 | (50 678) | (67 197) | (3 099) | (2 756) |
| Swiss Franc | 1 596 | 1 650 | 31 | (1 749) | (1 808) | (28) | 3 |
| Euro | 168 379 | 189 363 | 2 604 | (18 553) | (20 853) | (216) | 2 388 |
| Japanese Yen | 422 877 | 3 895 | (30) | (703 910) | (6 484) | 60 | 30 |
| Norwegian Krone | 14 175 | 1 613 | 54 | (14 259) | (1 623) | (60) | (6) |
| New Zealand Dollar | 4 346 | 2 933 | 143 | (5 936) | (4 006) | (191) | (48) |
| Swedish Krona | 29 963 | 3 206 | 81 | (55 212) | (5 909) | (157) | (76) |
| United States Dollar | 67 686 | 67 686 | - | (165 361) | (165 361) | - | - |
| Mexican Peso | 24 508 | 1 294 | 36 | (26 846) | (1 417) | (42) | (6) |
| Hong Kong Dollar | 563 | 72 | - | - | - | - | - |
| **Total** | | **289 836** | **3 408** | | **(290 531)** | **(4 102)** | **(694)** |

23.15 Foreign exchange exposures on future payroll costs are hedged by the Organization through the utilization of the split assessment regime. Consequently, the Organization does not use financial instruments to mitigate the foreign currency exposure associated with payroll costs. The Organization does not use financial instruments to hedge the foreign exchange exposures on receivables and payables. Currency exchange risk also arises as a result of the differences in timing of recording the foreign currency receivables or payables and the cash receipt or payment in subsequent periods. Any receipts in currencies other than the United States Dollar are exchanged in the spot market.

### Equity price risk

23.16 Equity price risk is the risk of a decline in the value of a security or a portfolio, and is dependent on the volatility of the securities held within a portfolio. The Organization seeks to mitigate this risk by maintaining well-diversified equity investment portfolios. The table below shows the diversification of the Organization's equity portfolios as at the period end, as well as the asset allocation between other types of externally managed investments:

| *(thousands of US dollars)* | | | | 31-Dec-20 | | | |
|---|---|---|---|---|---|---|---|
| **Sector** | **Cost** | **Unrealized gains / (losses)** | **Market value** | **Accruals** | **Market including accruals** | **% of Equities** | **% of Total** |
| **Equities** | | | | | | | |
| Consumer discretionary | 18 137 | 13 262 | 31 399 | 7 | 31 406 | 9.5% | 2.0% |
| Consumer staples | 16 073 | 3 854 | 19 927 | 54 | 19 981 | 6.1% | 1.2% |
| Energy | 5 885 | 1 248 | 7 133 | 8 | 7 141 | 2.2% | 0.4% |
| Financials | 24 202 | 9 617 | 33 819 | 27 | 33 846 | 10.3% | 2.1% |
| Health care | 25 695 | 7 685 | 33 380 | 32 | 33 412 | 10.1% | 2.1% |
| Industrials | 18 239 | 9 041 | 27 280 | 12 | 27 292 | 8.3% | 1.7% |
| Information technology | 34 437 | 22 725 | 57 162 | 12 | 57 174 | 17.4% | 3.6% |
| Materials | 7 444 | 4 389 | 11 833 | 9 | 11 842 | 3.6% | 0.7% |
| Equities ETF | 45 489 | 23 576 | 69 065 | - | 69 065 | 21.0% | 4.3% |
| Telecommunication services | 15 260 | 7 923 | 23 183 | 13 | 23 196 | 7.0% | 1.4% |
| Utilities | 6 553 | 1 407 | 7 960 | 19 | 7 979 | 2.4% | 0.5% |
| Real Estate | 5 689 | 1 209 | 6 898 | 25 | 6 923 | 2.1% | 0.4% |
| Other | 70 | - | 70 | - | 70 | 0.0% | 0.0% |
| Fee accrual | (8) | - | (8) | - | (8) | 0.0% | 0.0% |
| **Total equities** | **223 165** | **105 936** | **329 101** | **218** | **329 319** | **100%** | **20.4%** |
| **Non-equities** | | | | | | | |
| Fixed income | 857 722 | 32 774 | 890 496 | 3 384 | 894 280 | | 55.8% |
| Cash and cash equivalents | 380 095 | 149 | 380 244 | 40 | 380 284 | | 23.7% |
| Derivative financial instruments | - | 1 134 | 1 134 | - | 1 134 | | 0.1% |
| **Total non-equities** | **1 237 817** | **34 057** | **1 271 874** | **3 424** | **1 275 699** | | **79.6%** |
| **Total assets in externally managed portfolios** | **1 460 982** | **139 993** | **1 600 975** | **3 642** | **1 605 018** | | **100%** |

| *(thousands of US dollars)* | | | | 31-Dec-19 | | | |
|---|---|---|---|---|---|---|---|
| **Sector** | **Cost** | **Unrealized gains / (losses)** | **Market value** | **Accruals** | **Market including accruals** | **% of Equities** | **% of Total** |
| **Equities** | | | | | | | |
| Consumer discretionary | 23 966 | 6 812 | 30 778 | 29 | 30 807 | 11% | 2% |
| Consumer staples | 22 010 | 1 281 | 23 291 | 24 | 23 315 | 8% | 2% |
| Energy | 13 298 | 48 | 13 346 | 13 | 13 359 | 5% | 1% |
| Financials | 33 147 | 5 029 | 38 176 | 52 | 38 228 | 13% | 3% |
| Health care | 29 420 | 4 767 | 34 187 | 23 | 34 210 | 12% | 2% |
| Industrials | 24 233 | 2 314 | 26 547 | 14 | 26 561 | 9% | 2% |
| Information technology | 28 708 | 18 306 | 47 014 | 9 | 47 023 | 16% | 3% |
| Materials | 14 327 | 1 720 | 16 047 | 26 | 16 073 | 6% | 1% |
| Equities ETF | 12 443 | 715 | 13 158 | 8 | 13 166 | 5% | 1% |
| Telecommunication services | 20 393 | 4 163 | 24 556 | 21 | 24 577 | 8% | 2% |
| Utilities | 13 307 | 1 354 | 14 661 | 59 | 14 720 | 5% | 1% |
| Real Estate | 6 278 | 671 | 6 949 | 25 | 6 974 | 2% | 1% |
| Taxes | - | - | - | 254 | 254 | 0% | 0% |
| Other | 32 | 37 | 69 | - | 69 | 0% | 0% |
| Fee accrual | (141) | - | (141) | - | (141) | 0% | 0% |
| **Total equities** | **241 421** | **47 217** | **288 638** | **557** | **289 195** | **100%** | **21%** |
| **Non-equities** | | | | | | | |
| Fixed income | 847 447 | 10 416 | 857 863 | 3 654 | 861 517 | | 63% |
| Cash and cash equivalents | 218 670 | 276 | 218 946 | 281 | 219 227 | | 16% |
| Derivative financial instruments | - | (694) | (694) | - | (694) | | 0% |
| **Total non-equities** | **1 066 117** | **9 998** | **1 076 115** | **3 935** | **1 080 050** | | **79%** |
| **Total assets in externally managed portfolios** | **1 307 538** | **57 215** | **1 364 753** | **4 492** | **1 369 245** | | **100%** |

23.17 As at 31 December 2020, and 31 December 2019, investments in the above-mentioned sectors is not concentrated in less than five stocks.

### Interest rate risk

23.18 Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization seeks to earn a competitive market rate of return on its investment portfolio, however, capital preservation and liquidity are emphasized over the rate of return.

23.19 The investing horizon is based upon the anticipated liquidity needs of the Organization, including the requirement that the principal objective of the Organization's non-current available-for-sale investment portfolio is to fund the Organization's share of staff-related liabilities. Within this context and following FAO's prudent, conservative, low risk investment style and the prevailing market conditions in 2020, the Organization earned a total return of 0.87 percent for the year (2.44 percent in 2019) on its trading portfolio versus 0.45 percent for the benchmark. Instead, the non-current portfolio designated as available-for-sale earned 15.69 percent, versus a benchmark of 19.26 percent, due to a combination of market volatility as well as the underperformance of FAO's equity portfolio. The Organization is exposed to changes in interest rates on floating rate financial and fixed income assets.

### Credit risk

23.20 Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to FAO, and it arises principally on the Organization's investments, loans, receivables, and cash and cash equivalents. The maximum exposure to credit risk at 31 December 2020 and 31 December 2019 is:

| *(thousands of US dollars)* | **31-Dec-20** | **31-Dec-19** |
|---|---|---|
| Investments | 890 496 | 857 863 |
| Cash and cash equivalents | 1 277 999 | 997 900 |
| Receivables from non-exchange transactions | 255 102 | 231 986 |
| Receivables from exchange transactions | 5 362 | 5 303 |
| Other assets | 10 680 | 13 111 |
| **Maximum exposure to credit risk** | **2 439 639** | **2 106 163** |

### Organizational policy on allowable financial instruments

23.21 To manage credit risk, the Organization assesses the credit quality of those parties with whom the Organization invests in based on the investment policy that restricts investments to particular types of financial instruments along with investment ceilings per issuer depending on the credit quality of the issuer.

23.22 Credit risk associated with cash and cash equivalents is managed through specific bank selection criteria designed to evaluate the bank security, reputation, adherence and compliance to local and international laws and regulations, and where applicable, ratings of recognized rating agencies. The table below shows the Organization's concentration of credit risk by credit rating:

| *(thousands of US dollars)* | | | **31-Dec-20** | | | | |
|---|---|---|---|---|---|---|---|
| **Instrument** | **Aaa** | **Aa** | **A** | **Baa** | **NR** | **Short Term Rating Moody's / S&P P-1/A-1** | **Total by Instrument** |
| Corporate Bonds | - | 42 141 | 35 511 | 34 473 | - | 7 574 | 119 699 |
| Government Agencies | 189 196 | 38 633 | - | - | 3 516 | - | 231 345 |
| Government Bonds | 222 769 | 7 454 | 5 574 | 3 200 | - | - | 238 997 |
| Government MBS | 13 402 | - | - | - | 11 127 | 2 800 | 27 329 |
| Government Commercial MBS | 268 | - | - | - | - | 3 417 | 3 685 |
| Index Linked Government Bonds | 106 815 | 78 201 | 2 961 | 15 862 | 156 | - | 203 995 |
| Municipal/Provincial Bonds | 18 980 | 42 142 | - | 477 | 2 355 | 1 893 | 65 847 |
| Fee accrual | - | - | - | - | - | (401) | (401) |
| **Total instruments** | **551 430** | **208 571** | **44 046** | **54 012** | **17 154** | **15 283** | **890 496** |

| *(thousands of US dollars)* | 31-Dec-19 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Instrument** | **Aaa** | **Aa** | **A** | **Baa** | **NR** | **Short Term Rating Moody's / S&P P-1/A-1** | **Total by Instrument** |
| Corporate bonds | 4 669 | 13 256 | 16 943 | 26 483 | - | 4 319 | 65 610 |
| Government agencies | 210 614 | 59 087 | - | - | - | 9 998 | 279 699 |
| Government bonds | 243 915 | 14 437 | 4 960 | 5 913 | - | - | 269 225 |
| Index linked government bonds | 97 739 | 64 961 | 2 821 | 13 797 | - | - | 179 318 |
| Government MBS | 3 636 | - | - | - | 7 871 | 3 632 | 15 139 |
| Municipal / provincial bonds | 2 795 | 39 036 | - | - | - | 1 862 | 43 693 |
| Other fixed income | - | - | - | - | - | 5 501 | 5 501 |
| Fee accrual | - | - | - | - | - | (322) | (322) |
| **Total instruments** | **563 308** | **190 777** | **24 724** | **46 193** | **7 871** | **24 990** | **857 863** |

### Liquidity risk

23.23 Liquidity risk is the risk that the Organization will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The liquidity risk of the Organization is primarily managed on an individual fund basis. For the Extra-budgetary Programme, commitment can generally only be made once funds are available and therefore liquidity risk is minimal. For the Regular Programme, the appropriation based budget for incurring expenditures ensures that expenses do not exceed revenue streams for any given year, and monthly cash flow forecasting ensures that the Organization has sufficient cash on demand to meet expected operating expenses as they arise. Furthermore, the Working Capital Fund and the Special Reserve Account can both advance monies to the General Fund on a reimbursement basis to finance expenditures pending receipt of assessed contributions and in the event of adverse currency fluctuations and unbudgeted inflationary trends. The combined balance on the Working Capital Fund and the Special Reserve Account provides a liquidity cushion to the Organization's Regular Programme of approximately one month. The contractual policy of both the Organization's receivables and payables is within 30 days of invoice. The table below presents a maturity profile of the Organization's financial liabilities presented in Note 23.1:

| *(thousands of US dollars)* | **Carrying amount** | **< 1 year** | **1 – 3 years** | **3 – 5 years** | **> 5 years** |
|---|---|---|---|---|---|
| Accounts payable and accruals | 244 511 | 244 511 | - | - | - |
| Other liabilities | 39 685 | 3 567 | 84 | 5 | 36 029 |
| Employee Benefit Obligations - other | 6 652 | 6 652 | - | - | - |
| | **290 848** | **254 730** | **84** | **5** | **36 029** |
| Employee Benefit Obligations – subject to actuarial valuation | 1 499 448 | 46 108 | *Refer to Note 14.27 for the maturity profile of the Organization's employment benefit obligations, expressed in nominal value* | | |
| **Total financial liabilities** | **1 790 296** | **300 838** | | | |

### Interest rate risk

23.24 If the weighted average interest rate had been 100 basis points higher or lower, the value of the investment portfolios would have been affected as follows in the sensitivity analysis:

| *(thousands of US dollars)* | 31-Dec-20 | |
|---|---|---|
| | **Increase / (decrease) in basis points** | **Effect on surplus / (deficit)** |
| Held-for-trading | 100 | (4 681) |
| Held-for-trading | (100) | 4 681 |
| Available-for-sale investments | 100 | (33 214) |
| Available-for-sale investments | (100) | 33 214 |

| *(thousands of US dollars)* | 31-Dec-19 | |
|---|---|---|
| | **Increase / (decrease) in basis points** | **Effect on surplus / (deficit)** |
| Held-for-trading | 100 | (3 699) |
| Held-for-trading | (100) | 3 699 |
| Available-for-sale investments | 100 | (28 980) |
| Available-for-sale investments | (100) | 28 980 |

**Foreign exchange rate risk**

23.25 All of the Organization's foreign currency investments in the fixed income available-for-sale investment portfolios that are non US Dollar denominated are hedged to the Euro. If the Euro / USD exchange rate at 31 December 2020 and 31 December 2019 had been 5 percent higher or lower the value of the Euro denominated investment portfolios would have been affected as follows:

| *(thousands of US dollars)* | 31-Dec-20 | |
|---|---|---|
| | **Increase / (decrease) in EUR/USD exchange rate** | **Effect on surplus / (deficit)** |
| Available-for-sale investments (fixed income only) | 5% | (15 415) |
| Available-for-sale investments (fixed income only) | (5%) | 15 415 |

| *(thousands of US dollars)* | 31-Dec-19 | |
|---|---|---|
| | **Increase / (decrease) in EUR/USD exchange rate** | **Effect on surplus / (deficit)** |
| Available-for-sale investments (fixed income only) | 5% | 13 206 |
| Available-for-sale investments (fixed income only) | (5%) | (13 206) |

**Equity price risk**

23.26 If the equity market risk at 31 December 2020 and 31 December 2019 had been 10 percent higher or lower, the value of the equity investment portfolios would have been affected as follows:

| *(thousands of US dollars)* | 31-Dec-20 | |
|---|---|---|
| | **Increase / (decrease) in Equity Market Risk** | **Effect on surplus / (deficit)** |
| Available-for-sale investments | 10% | 33 118 |
| Available-for-sale investments | (10%) | (33 118) |

| *(thousands of US dollars)* | 31-Dec-19 | |
|---|---|---|
| | **Increase / (decrease) in Equity Market Risk** | **Effect on surplus / (deficit)** |
| Available-for-sale investments | 10% | 28 322 |
| Available-for-sale investments | (10%) | (28 322) |

**Note 24.** ***Segment Reporting***

24.1 The Organization operates, and generally reports financial information to the Director-General and the Governing Bodies in two segments, the General and Related Fund and the Trust Funds and UNDP.

24.2 Amounts received by the Organization with respect to the General and Related Fund are utilized in the execution of the Organization's mandate based upon the Programme of Work supporting the appropriations approved by the Member Nations and funded through assessed contributions.

24.3 Amounts received by the Organization with respect to the Trust Funds and UNDP are utilized in the execution of the Organization's mandate based upon specific project activities in addition to the Programme of Work and are funded through voluntary contributions from countries, other organization and under an inter-organizational arrangement with the UNDP.

24.4 For the year ended 31 December 2020, the Organization acquired for the General Fund and the Trust Fund and UNDP, PP&E for internal use amounting to USD 7.9 million (USD 7.2 million in 2019) and USD 11.6 million (USD 4.2 million in 2019), respectively.

24.5 The accumulated deficit under the General and Related Fund mainly represents the unfunded liability associated with the After Service Medical Coverage Plan, offset in part by the unexpended portion of assessed contributions, including cash received and accounts receivable from Member Nations, to be utilized for future operational requirements.

24.6 The accumulated surplus under the Trust Funds and UNDP represented the unexpended portion of voluntary contributions to be utilized for future project related operational requirements.

24.7 The Statement of Financial Position at 31 December 2020 and 31 December 2019, on a segment basis, are as follows:

| *(thousands of US dollars)* | 31-Dec-20 | | |
|---|---|---|---|
| | **General and Related** | **Trust and UNDP** | **Total** |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 380 416 | 897 583 | 1 277 999 |
| Investments and derivative financial instruments | 1 134 | 588 199 | 589 333 |
| Receivables from non-exchange transactions | 171 833 | 82 816 | 254 649 |
| Receivables from exchange transactions | 5 359 | 3 | 5 362 |
| Prepayments and other current assets | 37 679 | 18 603 | 56 282 |
| Inventories | 409 | 14 961 | 15 370 |
| | 596 830 | 1 602 165 | 2 198 995 |
| **Non-current assets** | | | |
| Investments | 631 398 | - | 631 398 |
| Receivables from non-exchange transactions | 453 | - | 453 |
| Prepayments and other non-current assets | 416 | - | 416 |
| Property, plant and equipment | 26 837 | 11 643 | 38 480 |
| Intangible assets | 6 375 | 598 | 6 973 |
| | 665 479 | 12 241 | 677 720 |
| **Total assets** | **1 262 309** | **1 614 406** | **2 876 715** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable | 34 723 | - | 34 723 |
| Accrued expenses | 38 192 | 171 596 | 209 788 |
| Payment received in advance | 27 515 | 301 143 | 328 658 |
| Employee benefits obligations | 72 296 | - | 72 296 |
| Provisions | 212 | - | 212 |
| Other current liabilities | 3 675 | - | 3 676 |
| | 176 613 | 472 739 | 649 352 |
| **Non-current liabilities** | | | |
| Employee benefit obligations | 1 453 339 | - | 1 453 339 |
| Other non-current liabilities | 36 029 | - | 36 029 |
| | 1 489 368 | - | 1 489 368 |
| **Total liabilities** | **1 665 981** | **472 739** | **2 138 720** |
| **Net assets** | **(403 672)** | **1 141 667** | **737 995** |
| **Equity** | | | |
| Accumulated surplus / (deficit) | (539 586) | 1 141 667 | 602 081 |
| Reserves | 135 914 | - | 135 914 |
| **Total equity / (deficit)** | **(403 672)** | **1 141 667** | **737 995** |

| *(thousands of US dollars)* | 31-Dec-19 | | |
|---|---|---|---|
| | **General and Related** | **Trust and UNDP** | **Total** |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 328 550 | 669 350 | 997 900 |
| Investments and derivative financial instruments | (694) | 594 459 | 593 765 |
| Receivables from non-exchange transactions | 151 339 | 78 927 | 230 266 |
| Receivables from exchange transactions | 5 303 | - | 5 303 |
| Prepayments and other current assets | 46 284 | 18 344 | 64 628 |
| Inventories | 198 | 14 254 | 14 452 |
| | 530 980 | 1 375 334 | 1 906 314 |
| **Non-current assets** | | | |
| Investments | 552 042 | - | 552 042 |
| Receivables from non-exchange transactions | 1 720 | - | 1 720 |
| Prepayments and other non-current assets | 478 | - | 478 |
| Property, plant and equipment | 25 395 | 8 189 | 33 584 |
| Intangible assets | 6 664 | 366 | 7 030 |
| | 586 299 | 8 555 | 594 854 |
| **Total assets** | **1 117 279** | **1 383 889** | **2 501 168** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable | 29 378 | 5 095 | 34 473 |
| Accrued expenses | 40 715 | 139 541 | 180 256 |
| Payment received in advance | 52 698 | 280 435 | 333 133 |
| Employee benefits obligations | 61 596 | - | 61 596 |
| Provisions | 296 | - | 296 |
| Other current liabilities | 3 658 | (23) | 3 635 |
| | 188 341 | 425 048 | 613 389 |
| **Non-current liabilities** | | | |
| Employee benefit obligations | 1 436 714 | - | 1 436 714 |
| Other non-current liabilities | 37 810 | - | 37 810 |
| | 1 474 524 | - | 1 474 524 |
| **Total liabilities** | **1 662 865** | **425 048** | **2 087 913** |
| **Net assets** | **(545 586)** | **958 841** | **413 255** |
| **Equity** | | | |
| Accumulated surplus / (deficit) | (590 884) | 958 841 | 367 957 |
| Reserves | 45 298 | - | 45 298 |
| **Total equity / (deficit)** | **(545 586)** | **958 841** | **413 255** |

24.8 The Statement of Financial Performance for the year ended 31 December 2020 and 31 December 2019, on a segment basis, are as follows:

| *(thousands of US dollars)* | 31-Dec-20 | | |
|---|---|---|---|
| | **General and Related** | **Trust and UNDP** | **Total** |
| **Revenue** | | | |
| **Revenue from non-exchange transactions** | | | |
| Assessments of Member Nations under Regular Programme | 484 554 | - | 484 554 |
| Voluntary contributions | 105 301 | 1 122 352 | 1 227 653 |
| Other non-exchange revenue | 69 708 | 3 344 | 73 052 |
| | 659 563 | 1 125 696 | 1 785 259 |
| **Revenue from exchange transactions** | | | |
| Exchange revenue | 5 899 | 311 | 6 210 |
| | 5 899 | 311 | 6 210 |
| **Total revenue** | **665 462** | **1 126 007** | **1 791 469** |
| **Expenses** | | | |
| Staff related costs | 314 197 | 104 236 | 418 433 |
| Consultants | 98 924 | 203 195 | 302 119 |
| Travel costs | 8 218 | 29 535 | 37 753 |
| Depreciation, amortization and impairment of long-lived assets | 6 463 | 4 506 | 10 969 |
| Training expenses | 3 831 | 20 046 | 23 877 |
| Contracted services | 122 154 | 263 789 | 385 943 |
| Grants and other transfer payments | 8 123 | 104 440 | 112 563 |
| Supplies and consumables used | 35 601 | 200 652 | 236 253 |
| Other expenses | 20 666 | 15 122 | 35 788 |
| **Total expenses** | **618 177** | **945 521** | **1 563 698** |
| **Non-operating income and expenses** | | | |
| Investment income / (expenses) | 21 285 | 8 212 | 29 497 |
| Foreign exchange gains / (losses) | 11 398 | 2 340 | 13 738 |
| Finance income / (expenses) | (29 242) | (8 212) | (37 454) |
| Non-operating income / (expense) | 572 | - | 572 |
| **Total non-operating income and expenses** | **4 013** | **2 340** | **6 353** |
| **Surplus** | **51 298** | **182 826** | **234 124** |

| *(thousands of US dollars)* | 31-Dec-19 | | |
|---|---|---|---|
| | **General and Related** | **Trust and UNDP** | **Total** |
| **Revenue** | | | |
| **Revenue from non-exchange transactions** | | | |
| Assessments of Member Nations under Regular Programme | 488 803 | - | 488 803 |
| Voluntary contributions | 88 857 | 1 005 596 | 1 094 453 |
| Other non-exchange revenue | 67 032 | 1 974 | 69 006 |
| | 644 692 | 1 007 570 | 1 652 262 |
| **Revenue from exchange transactions** | | | |
| Exchange revenue | 8 361 | 280 | 8 641 |
| | 8 361 | 280 | 8 641 |
| **Total revenue** | **653 054** | **1 007 850** | **1 660 904** |
| **Expenses** | | | |
| Staff related costs | 306 599 | 91 088 | 397 687 |
| Consultants | 96 352 | 176 276 | 272 628 |
| Travel costs | 43 200 | 72 600 | 115 800 |
| Depreciation, amortization and impairment of long-lived assets | 6 822 | 3 856 | 10 678 |
| Training expenses | 12 664 | 32 459 | 45 123 |
| Contracted services | 111 434 | 234 024 | 345 458 |
| Grants and other transfer payments | 16 567 | 34 929 | 51 496 |
| Supplies and consumables used | 26 374 | 196 566 | 222 940 |
| Other expenses | 8 688 | 27 654 | 36 342 |
| **Total expenses** | **628 700** | **869 452** | **1 498 152** |
| **Non-operating income and expenses** | | | |
| Investment income / (expenses) | 4 951 | 20 559 | 25 510 |
| Foreign exchange gains / (losses) | (3 120) | (4) | (3 124) |
| Finance income / (expenses) | (38 693) | (20 559) | (59 252) |
| Non-operating income / (expense) | (4 707) | - | (4 707) |
| **Total non-operating income and expenses** | **(41 569)** | **(4)** | **(41 573)** |
| **Surplus** | **(17 215)** | **138 394** | **121 179** |

**Note 25. Statement of Comparison of Budget and Actual Amounts (Statement V)**

25.1 The budget is prepared and approved on a modified cash basis. Under the modified cash basis of accounting, income and expenditures are recognized when a commitment to purchase the goods or services has been raised. The expenditures are classified by chapter as designated and approved in the Programme of Work. The budget level was approved in Conference Resolution 13/2019 and the budget distribution by chapter was approved by Council in Adjustments to PWB 2020-21 in December 2019. The approved budget represents the "net appropriation" for the fiscal biennial period from 1 January 2020 to 31 December 2021 and provides funding for the Regular Programme activities of the Organization. The expenditures recorded on the Trust Fund and UNDP accounts are included in Statement II of this document. As the approved budget covers a fiscal biennial period, the budgets presented in Statement V are based upon "calendarized" budget at 50 percent of the biennial budget. The actual expenditures, prepared on the same basis as the budget, represent actual expenditures for the year ended 31 December 2020 on the modified cash basis of accounting.

**Reconciliation between the actual amounts on a comparable basis and the cash flow statement**

25.2 The financial statements have been presented on an accrual basis. Under the accrual basis of accounting, income and expenses are recognized when the underlying transactions occur. Additionally, the financial statements are classified based upon the nature of the transactions. As a result, the budget and the accounting bases differ. For the year ended 31 December 2020 and 31 December 2019, the actual amounts prepared on the same basis as the revised budget have been reconciled to the actual amounts presented in the Cash Flow Statement. The reconciliations are presented here:

| *(thousands of US dollars)* | 31-Dec-20 | | | |
|---|---|---|---|---|
| | **Operating** | **Investing** | **Financing** | **Total** |
| Actual amount on comparable basis | 533 059 | - | - | **533 059** |
| Basis differences | 70 350 | - | - | **70 350** |
| Presentation differences | (1 249 883) | 1 637 | - | **(1 248 246)** |
| Entity differences | 924 936 | - | - | **924 936** |
| **Actual amount on the Cash Flow Statement** | **278 462** | **1 637** | **-** | **280 099** |

| *(thousands of US dollars)* | 31-Dec-19 Re-stated | | | |
|---|---|---|---|---|
| | **Operating** | **Investing** | **Financing** | **Total** |
| Actual amount on comparable basis | 626 688 | - | - | **626 688** |
| Basis differences | 3 697 | - | - | **3 697** |
| Presentation differences | (1 317 847) | (145 335) | - | **(1 463 182)** |
| Entity differences | 868 757 | - | - | **868 757** |
| **Actual amount on the Cash Flow Statement** | **181 295** | **(145 335)** | **-** | **35 960** |

25.3 Basis differences occurred due to differences between the modified cash basis supporting the actual amounts on a comparable basis to the budget and the accrual basis supporting the financial statements.

25.4 Timing differences have arisen as the current year cash flows include expenditures budgeted for in the prior period.

25.5 Presentation differences occurred due to differences in the format and classification methods adopted for presentation of the Cash Flow Statement and the Statement of Comparison of Budget and Actual Amounts, including the use of the budget rate of exchange in the Statement of Comparison of Budget and Actual Amounts. Presentation differences also include those resulting for classes of transactions not included within the budget. The most significant component of presentation differences arises from the fact that revenues are not included in the budget. Additionally, few investing activities and no financing activities are budgeted for by the Organization.

25.6 The entity differences arise due to the fact that all funds are required to be reported for financial reporting purposes, but are not included in the approved final budget. For example, the Trust Funds and UNDP are not included in the approved final budget, however they are presented in these financial statements.

**Budget to actuals variance analysis**

25.7 Material differences between the approved budget and the revised budget represent the amounts brought forward from the previous biennium and the amounts carried forward to 2021, as there are no annual chapter transfers effected in 2020. Budget utilization levels in 2020 were driven by a combination of the following factors: (a) approved budget levels; and (b) implementation of the FAO Programme of Work and Budget 2020-21 (FC 185/8 and FC 185/9).

25.8 In 2020 expenditure was USD 63.5 million lower than the revised "calendarized" budget, which implies an overall expenditure of 86.9 percent. Spending in the first year of the biennium is habitually lower than in the second year. This is partly due to the management of budget on biennial basis on account of actions such as carry-over of divisional under-spending, through the allotments, into the second year of the biennium.

25.9 The COVID-19 pandemic has also affected implementation of certain planned activities in 2020. This is mainly due to lockdown measures and mobility restrictions leading to reductions in travel and other costs. Through adaptation and implementation of flexible procedures and working methods, FAO units and Decentralized Offices adjusted part of their 2020-21 work plans, in some cases by postponing the execution of activities to the second year of the biennium.

25.10 The spending by budgetary chapter in 2020 follows the biennial forecasted trends reported to the Finance Committee in March 2021 (FC 185/9).

Accordingly, the budget utilization level in 2020 for all chapters is the difference between the revised budget and budget rate net expenditure, as follows:

i) Chapter 1 "Contribute to the eradication of hunger, food insecurity and malnutrition" budget rate net expenditure amounted to USD 37.5 million, representing 87.4 percent of the revised budget of USD 42.9 million. The planned activities of Chapter 1 are progressing satisfactorily to achieve the biennial targets and expenditure rates are expected to increase in 2021;

ii) Chapter 2 "Make agriculture, forestry and fisheries more productive and sustainable" budget rate net expenditure amounted to USD 85.8 million, representing 84.8 percent of the revised budget of USD 101.2 million. Work under Chapter 2 was impacted by the COVID-19 pandemic, which necessitated the postponement of major global events. Delivery is expected to accelerate in 2021 for full expenditure of the biennial budget;

iii) Chapter 3 "Reduce rural poverty" budget rate net expenditure amounted to USD 29.5 million, representing 88.1 percent of the revised budget of USD 33.5 million. Despite the difficult year, FAO's work to reduce rural poverty in 2020 progressed as planned toward reaching the biennial targets with delivery expected to accelerate in the second year of the biennium;

iv) Chapter 4 "Enable more inclusive and efficient agricultural and food systems" budget rate net expenditure amounted to USD 47.9 million, representing 84.2 percent of the revised budget of USD 56.9 million. The COVID-19 emergency and subsequent restriction measures have caused a number of delays in the activities including the need to postpone activities to the second year of the biennium. As the global situation evolves, and the capacities and infrastructure to deliver distance-support improve, full delivery in the second year is expected;

v) Chapter 5 "Increase the resilience of livelihoods to threats and crises" budget rate net expenditure amounted to USD 20.6 million, representing 73.8 percent of the revised budget of USD 27.9 million. During 2020 FAO's resilience work was significantly realigned to the priorities emerging from two concurrent crises: the COVID-19 pandemic and the locust crisis. Expenditure patterns are expected to increase in 2021 as work accelerates in these and other areas;

vi) Chapter 6 "Technical quality, statistics and cross-cutting themes (climate change, gender, governance, nutrition)" budget rate net expenditure amounted to USD 27.9 million, representing 82.9 percent of the revised budget of USD 33.6 million. The expenditure pattern is as expected due to the Multidisciplinary Fund of USD 8.5 million being budgeted in Chapter 6 and allocated to the Strategic Objectives;

vii) Chapter 8 "Outreach" budget rate net expenditure amounted to USD 35.7 million, representing 98.1 percent of the revised budget of USD 36.4 million. Performance against budget is as expected;

viii) Chapter 9 "Information Technology" budget rate net expenditure amounted to USD 9.2 million, representing 50.2 percent of the revised budget of USD 18.4 million. The onset of COVID-19 during 2020 had an effect on planned work with precedence assigned to support FAO's continuity of work globally under new ways of working. Expenditure in Chapter 9 is also affected by changes in distribution of recoveries from projects following the progressive implementation of the new cost recovery model;

ix) Chapter 10 "FAO governance, oversight and direction" budget rate net expenditure amounted to USD 27.2 million, representing 92.4 percent of the revised budget of USD 29.4 million. Spending is forecasted to accelerate in 2021 due to a number of high-priority corporate initiatives including streamlining management information systems for regional, subregional and national teams, and improving multilingualism and document production; and

x) Chapter 11 "Efficient and effective administration" budget rate net expenditure amounted to USD 28.2 million, representing 86.8 percent of the revised budget of USD 32.5 million. Expenditure in Chapter 11 is mainly affected by changes in distribution of recoveries from projects following the progressive implementation of the new cost recovery model.

25.11 The unspent balances on Chapter 7 Technical Cooperation Programme, Chapter 13 Capital Expenditure, and Chapter 14 Security Expenditure are fully carried forward for use in the subsequent financial period in line with the Financial Regulations, and therefore do not result in a variance against budget.

**Note 26. *Related parties***

26.1 Total compensation and remuneration to key management personnel and other senior management for the year ended 31 December 2020 and 31 December 2019 were as follows:

| ***(thousands of US dollars)*** **Employee Group** | **Number of Individuals** | **Number of Positions** | **Compensation** | **Entitlements** | **Pension and Health Plans** | **Total Compensation** | **Outstanding Loans** |
|---|---|---|---|---|---|---|---|
| 2020 | 5 | 5 | 1 047 | 345 | 215 | 1 607 | 82 |
| 2019 | 5 | 4 | 1 043 | 465 | 214 | 1 722 | - |

26.2 Key management personnel include the Director-General and the Deputy Director-Generals, as they have the authority and responsibility for planning, directing and controlling the activities of the Organization. The Conference consists of 194 Member Nations without personal appointment.

26.3 Compensation includes net salaries and post adjustment. Entitlements include allowances such as assignment and other grants, rental subsidies, education grants and personal effect shipment costs. Pension and health plans include the Organization's contribution with respect to the pension plan and health plan.

26.4 Each of the key management personnel, their close family members and other senior management are also qualified for other post-employment benefits at the same level as other employees. These personnel are also ordinary members of the UNJSPF. As these benefits cannot be reliably quantified on an individual or sub-group level, they have not been included in the above disclosure.

26.5 Advances are those made against entitlements, such as education grants, in accordance with staff rules and regulations and none have been made to the key management personnel. Such advances are widely available to the Organization's staff.

## Note 27. *Interests in other entities*

### Joint FAO / IAEA Division

27.1 The Joint Division of Nuclear Techniques in Food and Agriculture was established to operate in areas of common interest between the Organization and the International Atomic Energy Agency (IAEA), to avoid duplication of activities and promote synergy. As such, the Joint Division implements a Programme drawn up biennially in consultation between the two organizations. The operations and governance of the Joint Division are established by the Revised Arrangements between the Directors General of FAO and IAEA for the Joint FAO/IAEA Division of Nuclear Techniques in Food and Agriculture (the Arrangements). The Arrangements establish a binding arrangement whereby the two organizations are committed to undertake an activity that is subject to joint control. The Joint Division is not considered to be structured as a separate vehicle for the purposes of IPSAS 37, *Joint Arrangements*, and is consequently accounted for as a Joint Operation.

### Codex Alimentarius Commission

27.2 The Codex Alimentarius, or "Food Code" is a collection of standards, guidelines and codes of practice adopted by the Codex Alimentarius Commission. The Commission, also known as CAC, is the central part of the Joint FAO/WHO Food Standards Programme and was established by FAO and the World Health Organization (WHO) to protect consumer health and promote fair practices in food trade. Membership of the Commission is open to all Member Nations and Associate Members of FAO and WHO which are interested in international food standards. The Commission is a binding arrangement whereby the two organizations are committed to undertake an activity that is subject to joint control. The Commission is not considered to be structured as a separate vehicle for the purposes of IPSAS 37 and is consequently accounted for as a Joint Operation.

http://www.fao.org/fao-who-codexalimentarius/en/

## Note 28. *Events after the reporting date*

28.1 The Organization's reporting date is 31 December for the 2020 IPSAS Financial Statements. The financial statements were authorized for issue on 31 March 2021, the date at which they were submitted to the External Auditor by the Director-General. On the date of approval and signing of these accounts, there have been no material events, favorable or unfavorable, incurred between the reporting date and the date when the financial statements were authorized for issuance that would have impacted these statements.