

MODIFICATION OF THE 'CALL FOR FUNDS' PROCESS

PREPARED BY: IOTC SECRETARIAT, 06 APRIL 2013

BACKGROUND

1. For a number of years, the meetings of the Commission have been taking place three to five months into the financial year for which the budget applies. At the end of the meeting, the approved schedule of contributions is then communicated to FAO who issues call-for-funds letters on average, between one and two months after the Session of the Commission. In effect, this means that the first contributions from the Members will not start to be received until the end of July, at the earliest, almost seven months after the start of the financial year. For example, the Commission is currently seeking to approve its 2013 budget in May, 2013, more than four months after the start of the financial year (January 1st, 2013). The approved schedule of contributions will then be communicated to FAO in June 2013, and then to Members in July by FAO, via 'call-for-funds letters'.
2. This timeline means that for a period of at least six months, from 1 January until the end of June, or July as will be the case in 2013, accumulated funds from previous years need to be used to support the activities of the Commission and its Secretariat until contributions are received from Members.

DISCUSSION

3. Considering that the rate of expenditures by the Secretariat is relatively uniform throughout the financial year, if contributions from Members are not being received until the second half of the financial year, then this means that the Commission would need to retain accumulated funds close to half the annual budget (over US\$1,000,000), to avoid a cash flow problem before the contributions for the year begin to be submitted by Members.
4. In 2013 the situation will be worse than in 2012, as the 2013 financial year budget will be approved a month later than it was in 2012 and two months later than 2011. This further increases the severity of the cash flow problem and limits the ability of the Commission to commit accumulated funds to other tasks/projects, as it was done in the past for the Meeting Participation Fund or other activities.
5. A possible way to mitigate the problem is for Members to submit advanced contributions on the basis of the indicative budget approved in the previous year. For example, in 2013, an indicative budget for the year 2014 will be presented, modified and endorsed, although the final 2014 budget proposal will not be presented until 60 days prior to the 18th Session of the Commission in 2014.

Options for the Commission's consideration:

6. To resolve the cash flow problem that is becoming increasingly unworkable given the rapid depletion of the IOTC accumulated funds, the Commission may wish to consider modifying the call-for-funds process so that, on the basis of the indicative budget for 2014, preliminary invoices or call-for-funds letters could be issued before the end of 2013, for the total indicative contribution or a percentage of the indicative contribution for 2014. Once the final budget is approved in 2014, Members could either be invoiced for the difference between the indicative 2014 budget and the actual 2014 budget, or adjustments could be deferred and incorporated into the following year (2015) contributions. These adjustments are routinely applied currently, in those cases where the funds submitted do not coincide exactly due to, for example, small difference in currency exchange rates.
7. For example, if we had applied this procedure in 2013, a schedule of preliminary contributions could have been prepared in November 2012 and requests for contributions be submitted to Members before the end of 2012. The first contributions would have arrived by January/February 2013, thereby reducing the need to resort to accumulated funds to pay for the activities of the Commission for six months. Once the final budget is approved, if it were to differ from the indicative budget, Members could be invoiced for the difference, or adjustments could be deferred for the following call for contributions in November 2014.
8. Currently, the call-for-funds process is governed by Regulation V (Provision of Funds) of the IOTC Financial Regulations that state:
 1. The appropriations of the Administrative Budget shall be financed by contributions from Members of the Commission determined and payable in accordance with Article XIII paragraphs 1, 3 and 4 of the

Agreement. Pending receipt of annual contributions, the Commission is authorized to finance budgeted expenditure from the uncommitted balance of the Administrative Budget.

2. Before the beginning of each calendar year the Secretary shall inform the Commission's Members of their obligations in respect of annual contributions to the budget.
 3. Contributions shall be due and payable in full within 30 days of the receipt of the communication of the Secretary referred to in Regulation V.2 above, or as of the first days of the calendar year to which they relate, whichever is later. As of 1 January of the following calendar year, the unpaid balance of such contributions shall be considered to be one year in arrears.
 4. The annual contributions to the Administrative Budget shall be assessed in United States dollars and shall be calculated in accordance with the scheme annexed to these Regulations and forming an integral part thereof. The contributions shall be paid in US dollars unless otherwise determined by the Commission.
 5. Any new Member of the Commission shall pay a contribution to the budget in accordance with the provisions of Article XIII, paragraph 3 of the Agreement for the financial period in which the membership becomes effective, such contribution beginning with the quarter in which membership is acquired.
9. Although paragraph 1 of Regulation V, permit the use of uncommitted funds from the Administrative Budgets of previous years, paragraph 2 requests that the budget is presented prior to the calendar year in which the funds are due. Thus, the current Financial Regulations would permit the Commission to endorse one of the following two options:

Option 1

Following the Commission's adoption of the tentative 2014 budget at its meeting in 2013, preliminary invoices or call-for-funds letters should be issued before the end of 2013, for the total indicative contribution for 2014. Once the final budget for 2014 is approved at the Commission meeting in 2014, Members would be invoiced immediately following the Commission meeting for the difference between the indicative budget (Invoiced in late 2013) and the final 2014 budget (adopted in 2014);

Option 2

Following the Commission's adoption of the tentative 2014 budget at its meeting in 2013, preliminary invoices or call-for-funds letters should be issued before the end of 2013, for the total indicative contribution for 2014. Once the final budget for 2014 is approved at the Commission meeting in 2014, adjustments to the 2014 budget should be deferred and incorporated into the 2015 contributions from Members.

SUGGESTED ACTION BY THE STANDING COMMITTEE ON ADMINISTRATION AND FINANCE

10. That the SCAF:

- a) **NOTE** paper IOTC–2013–SCAF10–06, which outline the cash flow problems being encountered by the Secretariat as a result of the annual IOTC budget being approved within that financial year, as well as options for the SCAF to consider which would rectify the cash flow problems.
- b) **RECOMMEND** one of the two procedural options to be presented to the Commission, for adoption.