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## IOTC CAPITAL RESERVE FUND

PREPARED BY: IOTC SECRETARIAT, 18 MARCH 2015

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### PURPOSE

To request the Standing Committee on Administration and Finance (SCAF) to consider the creation of a Capital Reserve Fund of US\$1,000,000, which will provide a degree of financial stability by reducing reliance on indebtedness due to non-paying Members.

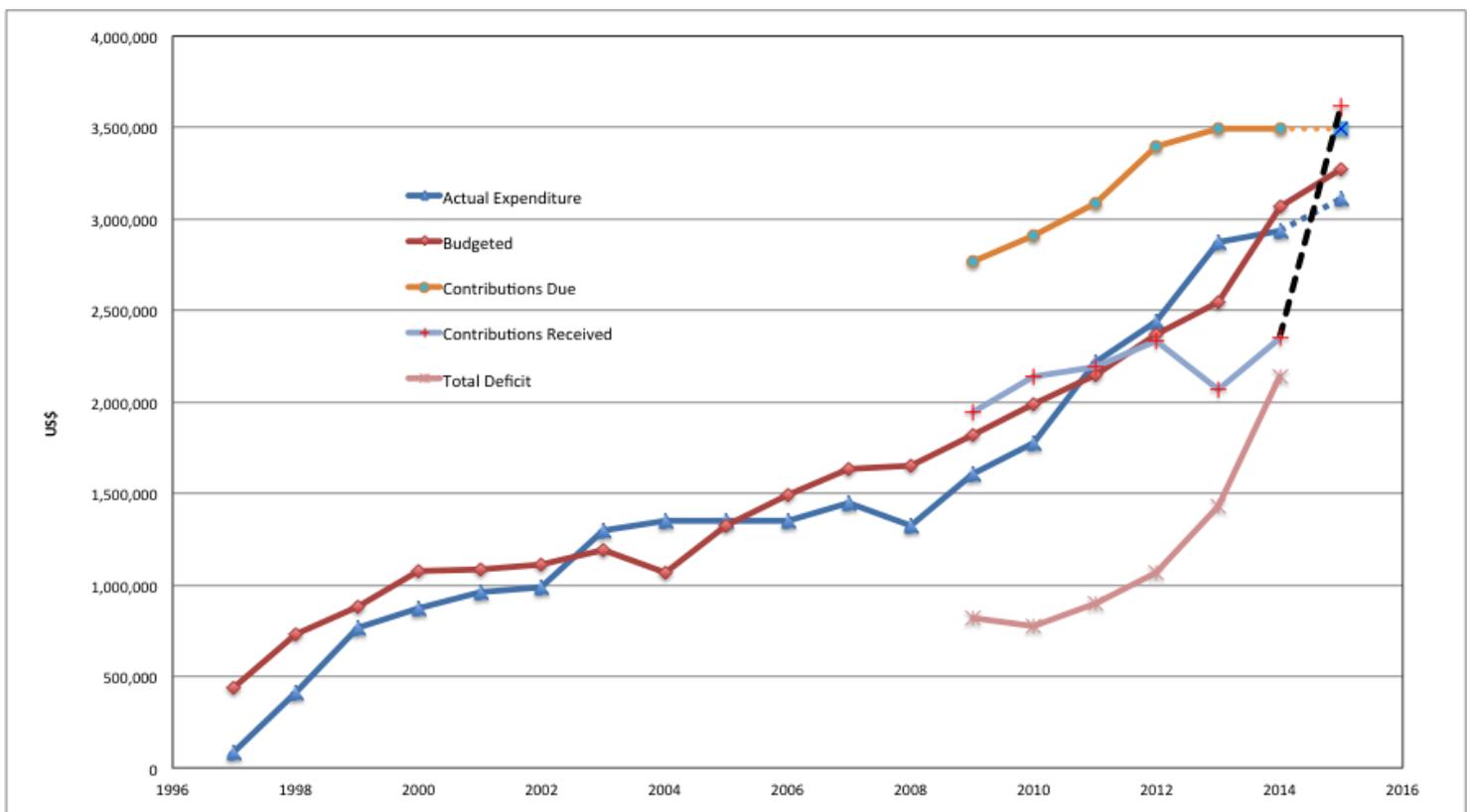
### BACKGROUND

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1. Saving for future activities and other allowable purposes is an important planning consideration for this Commission. Reserve funds provide a mechanism for saving money to finance other requirements of this Commission. Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness due to non-paying members. In uncertain economic times, reserve funds can also provide officials with a welcomed budgetary option that can help mitigate the need to cut services. This was the case when the Commission decided in 2010 to use US\$200,000 of the **accumulated savings** to pay for the Meeting Participation Fund. This Fund was replenished in 2011, 2012 and 2013, again at the expense of the accumulated funds, reducing the accumulated funds that were, in 2010, close to US\$1,000,000. The impact of the decision by the Members to use accumulated funds to pay for additional activities cannot be over-emphasized. This eroded the existing savings that were being used to mitigate the lack of payment by some members and the cash flow problem created by the late adoptions of budgets. In prosperous times, money not needed for current purposes can often be set-aside in reserves for future use. The proposal is a temporary solution until the Commission can sufficiently build a sufficient reserve.
2. In addition to reserve funds, maintaining a reasonable amount of undesignated funds balance within operating funds is another important financial consideration for the Commission. A reasonable level of unreserved, unappropriated balance of funds provides a cushion for unforeseen expenditures or revenue shortfalls and helps to ensure that adequate cash flow is available to meet the costs of operations. Today, this Commission does not have this reasonable coverage. Combining a reasonable level of undesignated balance of funds, with specific established reserve funds, provides resources for both unanticipated events and other identified or planned needs.
3. The convergence of the demand for more services by the Commission, with the potential for less revenue, only serves to confirm that building and maintaining an operating or capital reserve fund is of critical importance for this Commission. Having a reserve fund requires having some surplus cash. The IOTC is entitled to show an operating surplus as long as it is used to promote the Commission's designated mission.
4. The problem of lack of contributions was compounded by increases in the assessed contributions of non-paying countries. Countries like Eritrea and Sudan moved from low-income to middle-income countries and their share of the contributions became proportionally larger. Yemen became a member in 2013, at a middle-income level, and never paid. Iran and Pakistan stopped paying in 2006 and 2010. As a result, the unpaid contributions became a larger proportion of the budget ([Fig. 1](#)).
5. The current deficit stands at around 1.4 million US\$ and it is a recurring deficit which continues grow. The FAO has described the IOTC "Project" account as in "serious deficit". The FAO financial regulations (**202.6.7 Obligations against extra-budgetary funds**) indicates that *Budget Holders may incur commitments and obligations in accordance with the purposes, limitations and rules and resource partner agreements governing each Trust Fund or Special Fund and to the extent that funds have actually been received or are otherwise available. The Organization (i.e. FAO) makes no financial commitments and disburses no funds under a Trust Fund until funds have been received. Advance financing arrangements may be made in exceptional circumstances, as provided in Financial Rules 202.6.8 and Rule 202.6.13.*
6. As reported in the 2014 Contributions Outstanding paper (IOTC–2014–SCAF11–09), the non-payment of contributions to the Commission has an immediate negative impact on the IOTC. The trend of non-payment of contributions has increased in the last six (6) years and, should this trend continue, IOTC operations and

delivery on the Commission’s recommendations may have a debilitating affect. [Fig. 1](#) reflects the gap between contributions due and received within the last six years, the relationship between actual expenditure and budget, and the exponential growth in the deficit.

7. The gap between contributions due and received represents an average yearly increase of 23%. If you look at the average gap of contributions in the last three years, the average yearly increase is 35%. The total outstanding contributions in 2009 were approximately US\$822,000 and in 2014, it is approximately US\$2,000,000. This represents a 143% increase. If this trend were to continue, the projected unpaid contributions in 2018 would be approximately US\$3,000,000. This is detrimental in terms of deficits the Commission absorbs each year and is a direct reflection of the Commissions budgetary status. There is a need to find a lasting solution, as unpaid contribution is not something that will go away or can just be ignored.
8. In trying to address this deficit, the Commission needs to consider the following two questions:
  - a) How much is enough to guard against an unforeseen emergency?
  - b) What is the Commission’s plan of action in the event of a reduction in revenue?
9. If an additional US\$1,000,000 were to be applied as the Capital Reserve Fund ([Fig. 1](#)), with no commitments, it should strengthen and improve the financial stability of the Commission. The contributions received (dark dashed line) will exceed the contributions due. This coupled with a saving of 5% on the 2015 budget will allow the Commission to start to have savings that will ensure financial stability.



**Figure 1. Status of Member contributions from 1996–14 (in US\$) including**

10. The proposed scale of contributions for the US\$1,000,000 Capital Reserve Fund is detail in [Table 1](#). Payment into the Fund may occur between the 19<sup>th</sup> and 20<sup>th</sup> Sessions of the Commission, in order for Membership to budget appropriate funding.
11. The Members who have contributed into the US\$1,000,000 Capital Reserve Fund can, in the future, request reimbursement in lieu of their annual contributions, providing that the Member has no outstanding commitment to IOTC and financial stability has been achieved.

**RECOMMENDATION/S**

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That the SCAF:

- a) **NOTE** the information presented in this paper proposes the creation of a Capital Reserve Fund of US\$1,000,000 Million US\$, which will provide a degree of financial stability by reducing reliance on indebtedness due to non-paying Members;
- b) **RECOMMEND** a course of action to the Commission to have an IOTC Capital Reserve Fund of US\$1,000,000 as per the IOTC scale of Contributions as required by the IOTC financial Regulations.



**Table 1: Membership Contribution to the Capital Reserve Fund**

Country	World Bank Classification in 2012	OECD Membership	Average catch for 2010- 2012 (in metric tons)	Base Contribution	Operations Contribution	GNP Contribution	Catch Contribution	Total Contribution (in USD)
Australia	High	Yes	4,985	\$3,226	\$4,167	\$37,209	\$4,375	\$48,976
Belize	Middle	No	298	\$3,226	\$0	\$9,302	\$55	\$12,583
China	Middle	No	67,548	\$3,226	\$4,167	\$9,302	\$11,445	\$28,140
Comoros	Low	No	5,091	\$3,226	\$4,167	\$0	\$875	\$8,267
Eritrea	Low	No	405	\$3,226	\$4,167	\$0	\$142	\$7,534
European Union	High	Yes	205,556	\$3,226	\$4,167	\$37,209	\$174,147	\$218,748
France (Terr.)	High	Yes	0	\$3,226	\$0	\$37,209	\$0	\$40,435
Guinea	Low	No	0	\$3,226	\$0	\$0	\$38	\$3,263
India	Middle	No	173,704	\$3,226	\$4,167	\$9,302	\$26,873	\$43,568
Indonesia	Middle	No	390,108	\$3,226	\$4,167	\$9,302	\$57,492	\$74,187
Iran, Islamic Republic of	Middle	No	200,228	\$3,226	\$4,167	\$9,302	\$31,326	\$48,021
Japan	High	Yes	16,112	\$3,226	\$4,167	\$37,209	\$13,961	\$58,563
Kenya	Low	No	563	\$3,226	\$4,167	\$0	\$111	\$7,504
Korea, Republic of	High	Yes	6,935	\$3,226	\$4,167	\$37,209	\$2,350	\$46,952
Madagascar	Low	No	8,672	\$3,226	\$4,167	\$0	\$1,476	\$8,869
Malaysia	Middle	No	27,181	\$3,226	\$4,167	\$9,302	\$4,776	\$21,471
Maldives	Middle	No	107,573	\$3,226	\$4,167	\$9,302	\$16,940	\$33,635
Mauritius	Middle	No	697	\$3,226	\$4,167	\$9,302	\$99	\$16,794
Mozambique	Low	No	2,348	\$3,226	\$4,167	\$0	\$623	\$8,016
Oman	High	No	30,125	\$3,226	\$4,167	\$37,209	\$4,014	\$48,616
Pakistan	Middle	No	58,291	\$3,226	\$4,167	\$9,302	\$9,416	\$26,111
Philippines	Middle	No	1,456	\$3,226	\$4,167	\$9,302	\$207	\$16,901
Seychelles	Middle	No	67,407	\$3,226	\$4,167	\$9,302	\$12,270	\$28,965
Sierra Leone	Low	No	0	\$3,226	\$0	\$0	\$0	\$3,226
Somalia	Low	No	0	\$3,226	\$0	\$0	\$0	\$3,226
Sri Lanka	Middle	No	100,825	\$3,226	\$4,167	\$9,302	\$17,069	\$33,764
Sudan	Middle	No	34	\$3,226	\$0	\$9,302	\$6	\$12,534
Tanzania	Low	No	7,119	\$3,226	\$4,167	\$0	\$1,090	\$8,482
Thailand	Middle	No	13,321	\$3,226	\$4,167	\$9,302	\$2,677	\$19,372
United Kingdom (Terr.)	High	Yes	10	\$3,226	\$0	\$37,209	\$10	\$40,445
Yemen	Middle	No	49,493	\$3,226	\$4,167	\$9,302	\$6,135	\$22,830
<b>Total</b>				<b>100,000</b>	<b>100,000</b>	<b>400,000</b>	<b>400,000</b>	<b>1,000,000</b>

