

43rd meeting of the Standing Committee

Report of the Subgroup on Finance

1. The Subgroup met on 31 October 2011, from 1000-1300, 1500-1730 h.
2. Subgroup members present were: Finland (Chair), China, Jamaica, Marshall Islands, Mexico, and USA. Apologies were received from Nigeria.
3. The Subgroup considered the following matters addressed in DOC. SC43-03:

a) **Financial challenges for 2011 and 2012 budget approval**

4. The Subgroup received a summary of the current financial challenges experienced globally and how these are affecting the Convention financially. Based in Switzerland with an extraordinarily strong Swiss Franc, the value of the US dollars receivable and Euros held has been volatile, and anxiety about the ability of parties to make contributions is high. 2010 was hard, 2011 has been a rollercoaster and hard, and 2012 is not expected to be a lot different. The Subgroup considered a 2011 forecast and a 2012 rebudget prepared by the Secretariat. It recalled COP10 Resolution x.2 relating to the process for budgetary reallocations but in the light of the severity of the current financial challenges, supported the proposed actions, notably in relation to payments to regional initiatives, and all the implications for the Convention's currently modest Reserve Fund.

It also noted that there will be a further 2012 rebudget in early 2012 which will be updated and recirculated with the final 2011 accounts to the Finance Subgroup in March 2012, thus giving the Subgroup an opportunity to consider any additional actions on a timely basis.

Recommendation: The Subgroup recommends that the Standing Committee ratifies the specific actions taken by the Secretary General to reduce 2011 expenditures. It commends the Secretariat for thoroughly rebudgeting for 2012 early enough to have options for 2012. It recognises the likely income deficit problem presented by the USA provision of a Core contribution deemed voluntary and in USD (and subject to variable exchange rates) and approves the actions proposed by the Secretariat for 2012, but would like the Secretariat to consider reinstating provision for some 2012 Regional Initiative allocations should the demand for payments exist (Feb 2012 process) and should the financial situation improve. It also noted that efforts to secure alternative sources of funding for Regional Initiatives should be stepped up.

b) **IUCN draft internal audit report**

5. The Subgroup noted that the Secretariat is in receipt of the draft IUCN internal audit report, with a focused mandate for IUCN purposes, and the Secretariat will be finalizing comments on the report, which has three main recommendations: a) for Secretariat and Parties to further consider how best to manage foreign currency, possibly using IUCN to help; b) to consider addressing currently inadequate reserve fund levels, and c) the basis and speed of preparation by IUCN of monthly management information to Ramsar, and that the finalized report will be circulated to

Tuesday, 01 November 2011

the Subgroup on Finance, noting that items a and b are consistent with the main issues discussed at this and our last meeting. Finalised Report can be sent to SubGroup in March.

c) The Reserve Fund (Decision SC42-12)

6. The Subgroup noted the forecast for 2011 and the rebudget for 2012, and a predicted Core reserve fund at the end of 2012 of CHF166,000. The Secretariat recommends that the Parties should not plan to continue to operate with reserve funds at this low level. The Subgroup expressed concern that the size of the Reserve Fund is currently inadequate to cover potentially continuing risks, and recognized the need to address this **before and during COP11**. The Subgroup noted that other MEAs have higher reserve levels (e.g. at minimum 15% of annual budget). Ramsar has been operating on a maximum reserve fund level, but no minimum level, and the current reserve fund is anticipated to be severely depleted by the end of 2012.

Recommendation: The Subgroup recommends that the Standing Committee note the guidelines suggested in DOC. SC43-03 paragraph 9 (which proposes that COP 11 increases the maximum reserve fund from 1/12th to 1/10th of the core budget of the current year) but proposes that the Parties introduce a minimum reserve fund level of 6% (currently approximately CHF300,000), a maximum of 30% and an ideal of 15% and amends paragraph 22 of COP11 DRxx on "Financial and Budgetary matters" accordingly. The SubGroup recommends that the Standing Committee starts the move to 15% in 2012.

The Group had a very healthy discussion about the merits and demerits of a strict provisioning policy, recognising that high minimums provide security for seriously adverse times, but lock up funds that would be, and have for the last 15 years since the reserve was introduced (Res VI.17, 1996), been put to very effective use, allowing activities such as Regional initiatives to be financed.

Recommendation: The Subgroup also recommends that the Standing Committee make provision in the 2013-2015 budget proposals to reach this target by 2015 (see decision below). **[Secretariat Note: The SubGroup did not conclude how to fund the necessary to the reserve fund in 2012. The Secretariat had proposed that a top up of CHF150,000 should occur in 2012. The SC is invited to advise further in this matter.]**

In addition the Group agreed the following Reserve fund guidelines to address the request of decision SC42-12:

- i) Where the Reserve Fund is in excess of its maximum (as currently laid down in Resolution VI.17, 1996), the Standing Committee should, at its regular meetings, recommend how this surplus should be used. If at the end of the financial year following their recommendation the surplus still exists, their recommendations will be implemented; and
- ii) At each meeting of the Subgroup on Finance where financial statements are reviewed, the Subgroup should review how the Secretary General has used any of the Reserve Fund and report to the Standing Committee.

d) Update on contribution arrears (Decisions SC42-13 and SC42-14)

7. The Subgroup expressed concern that the significant sums owing by Parties in their assessed payments are contributing to the current and projected financial challenges for 2011 and 2012, noting that Decision SC42-13 has so far proved globally ineffective in addressing this matter (except for contributing to resolving a handful of specific arrears situations). In March 2011, the Convention had arrears of assessed contributions for 2010 and prior of almost CHF647,000. That balance has now reduced to CHF498,000, and a further CHF400,000 of 2011 contributions are still to be collected. The Convention does have a provision against some of 2010 and prior contributions.

The subgroup considered the various options for encouraging Parties to engage fully in the Convention processes via up-to-date payments, such as ineligibility for Standing Committee membership, restricting access to funds such as SGF, non-provision of delegate support for Convention meeting attendance, taking into account the current core budget and reserve fund situation, noting the examples and actions of other MEAs and Conventions.

Recommendation: The Subgroup notes that whilst there have been some recent developments on payments in arrears, Decision SC42-13 has so far proved ineffective in provoking action from Parties, and recommends that the Standing Committee yet again very strongly urges all Parties with assessed contributions in arrears for 2011, 2010 and prior to that to bring all such payments fully up to date as a matter of great urgency, particularly in relation to current core budget financial challenges for 2011 and 2012. The subgroup does not, however, recommend the proposal of any penalties for non-payment of dues, but requests the Standing Committee to further discuss this matter.

Recommendation: The subgroup recognises the plea from many Parties for strong SC decisions and other actions to support continued or enhanced political and financial commitment. However it does not recommend that Standing Committee decides that Parties more than two years in arrears should not be eligible for nomination for election to the Standing Committee, and that this should not be reflected in the terms of COP11 DRxx on "Adjustments to the roles and composition of the Standing Committee".

e) Regional Meeting and COP fundraising update (Decisions SC42-15 and SC42-16)

8. The Subgroup noted that voluntary funding for pre-COP meetings has been gratefully received from Australia, Canada, Czech Republic, Finland, Germany, Norway, Switzerland, USA, and thanks the host countries (Burkina Faso, Jamaica, Indonesia, Slovakia and Palau) of pre-COP regional meetings for their financial and other support, and those Parties who have volunteered to cover their own participation costs even though eligible for support; and notes that target for pre-COP meetings funding has been largely achieved, despite higher than predicted travel and accommodation costs, and thanks the Secretariat for its efforts to fully deliver the needs of these meetings.
9. Concerning raising voluntary contributions for COP11 delegate sponsoring, the target is CHF 900,000 so as to sponsor two delegates from each of the 117 eligible Parties. The Subgroup urges the Standing Committee to underline the crucial importance of funding for the COP.

f) Report on Small Grants Fund since Decision SC42-18

10. The Subgroup notes that Decision SC42-18 is being followed by the Secretariat, and urges the Standing Committee to reiterate the terms of that Decision, as follows:
- Requests the Secretariat to continue to seek alternative sources of financing for the Small Grants Fund;
 - Encourages parties and other potential donors to demonstrate their desire to keep SGF operational by making significant voluntary contributions to the Fund; and
 - Instructs the Secretariat not to solicit or assess any SGF proposals for the 2013 cycle and to continue to seek further funds for the 2010 and 2011 portfolio of projects

The Group also agreed to amend the COP11 Finance DR to better reflect our ongoing commitment to the SGF.

g) Simultaneous interpretation of Standing Committee Subgroups (Decision SC42-19)

10. The Subgroup noted that the cost-estimates provided to SC42 have been reviewed and confirmed (as approximately CHF 15,000 – depending on length of both the sub group and main SC meetings, which do vary), but as yet no low or no-cost options have been identified and given the current financial situation this item is not budgeted 2 of the 3 current budget proposals for COP11 consideration. It will be included in the next version of the COP11 budget scenarios as a voluntary funded item. The option exists for Parties to offer to provide such services or funding for them.
11. The Subgroup considered the following matters addressed in DOC. SC43-02:

h) Consideration of budget proposals for 2013-2015 (decision SC42-17)

12. The Subgroup thanked the Secretariat for preparing the three core budget proposals with presentation as core and non-core (unfunded) budget lines, in line with Decision SC42-17), noting that the scenarios have respectively a 0%, 2% and 4% impact on contributions payable by parties.
13. The Subgroup received a short verbal report from the Partnership Coordinator on her progress in seeking innovative funding opportunities for the Convention with foundations, hedge funds and other international private sector organizations, as well as further pursuing stronger partnerships with the Convention's more traditional partners.
14. The subgroup probed various elements of the proposed budgets including the assumptions made re STRP Chair's stipend, legal fees, travel costs, investment in web/document management platform, local wage inflation, employee benefits, cost of the RSIS arrangement with WI, assumptions re the costs of recruiting a new SG.

The Subgroup also considered the issue of the reserve fund levels in relation to the 2013-2015 budget proposals, and how to find the necessary funds to get to the desired 15% by the end of 2015. (see decision above). The SubGroup did understand that this can be done via increasing

Core income from Parties or by reducing expenditure or a combination of the two, but requested the Secretariat to rework the budget scenarios just by reducing. If the reserve fund top-up is done just in 2013-2015, the cost will be approximately CHF195,000 per year, if done over four years, CHF147,000 per year.

Recommendation: The Subgroup recommends that the three budget scenarios in their current format (core and non-core elements) should be transmitted to COP11 for consideration by all Parties, subject to expenditure adjustments in items such as STRP Chair's stipend, Core contribution to projects, CEPA/communications activities, travel and some of the budget for legal support in order to facilitate the achievement of a Core reserve fund at the end of 2015 equivalent to 15% of Core income. The Subgroup also recommends that each of the scenarios presented to COP include the projected contributions by Parties.

Recommendation: The Subgroup also recommends that the Standing Committee requests the Secretariat and Chair of the Subgroup on Finance prepare a COP11 Information Paper setting out the basis, rationale and implications for Convention implementation of each of the three scenarios.

i) Review of Finance COP 11 Draft Resolution

Written DR suggestions were offered to the Secretariat by the US and will be considered.

The SubGroup reviewed the following without significant comment:

- Combined budget – paragraph 11;
- Reserve Fund – proposed text, paragraph 22, to be amended to reflect decisions re the new Fund max, min and ideal, noted above.
- Continuation of the Partnership Coordinator – paragraph 21;
- African additional voluntary contribution – as COP10, paragraph 15;
- Voluntary contribution plea for all items in the non-Core budget, SGF, (COP12 sponsored delegates) and generally, and signature initiatives as a tool – paragraphs 18 and 19;
- Future of the Small Grants Fund –eliminate the Request to rereview SGF for the next triennium.
- Formal 13% cap on IUCN charges – paragraph 12. Conclusion to leave in.

The SubGroup did not discuss the financial implications of possible COP 11 conclusions relating to the future hosting of the Secretariat.

Annex 1 – Arrears summary (2010 and 2011)

Annex 2 – Forecast 2011 and rebudget 2012.