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**Report of the Finance and Administration Committee intersessional meeting held on 16 March 2023**

# REPORT OF THE FINANCE AND ADMINISTRATION COMMITTEE
# INTERSESSIONAL MEETING HELD ON 16 MARCH 2023

1. This report presents the discussions and recommendations of the 57th meeting of the Finance and Administration Committee (FAC), presided by the Chair, Ms Vera Espíndola Rafael of Mexico, and held on 16 March 2023.

**Item 1: Adoption of the Agenda**

2. The Agenda contained in document FA-339/23 Rev. 1 was adopted without amendments.

**Item 2: Report of the intersessional meeting held on 3 October 2022**

3. The report of the intersessional meeting held on 3 October 2022, contained in document FA-338/23, was adopted without amendments.

4. The Committee took note of the report.

**Item 3: Financial situation**

5. The Head of Finance and Administration presented the information contained in document FA-340/23 'Financial Situation as at 31 January 2023'.

6. She presented an updated chart showing the actual cash balances at the end of the month, which were forecast to be about £1,860,000 at the end of February, and reflecting all budgeted expenditures for each month until September 2023. The balance of cash on hand will fall below £1,438,000, the total liquidation cost, after May this year if no more contributions are received.

7. As mentioned in the previous meeting, the Secretariat successfully saved some costs the previous coffee year by taking advantage of remote working and reducing costs related to translation, copying/printing, utilities, and office cleaning. However, these costs are gradually rising due to inflation. The Finance and Administration team has continuously monitored costs and made quick decisions to prevent any future unnecessary costs and seek possible savings. One of its most recent accomplishments was changing the Organization's translation model to one that utilizes computer-assisted translation tools whenever possible.

8. IT-related costs for next year's budget are also expected to reduce owing to the aforesaid improvements. The ICO seeks to utilize the contributions of Member countries in an efficient and effective manner.

9. The total expenditure for the four months ending 31 January 2023 presents a positive variance of £78,182 against the year-to-date budget. The significant variance between the actual expenses and the budget to date as at 31 January 2023 are mainly due to two factors: personnel costs and travel costs.

10. There was a positive variance in Personnel costs of about £49,000, due to the fact that the four new posts were filled in between December 2022 and February 2023, not from the beginning of this coffee year.

11. The Executive Director has been on several missions since she joined the ICO last year. Her presence has been requested by many Members who invited the Executive Director to visit them to explain the agenda and objectives for their coffee sector. Efforts are always made to maximize the ICO's presence and implement new activities. Thus far, expenses have largely been funded by the countries in question. However, drastic rises in airfare prices have led to an inevitable increase in travel expenses versus the last two years. Travel expenses show a negative variance of nearly £14,000. The actual expenses as at 31 January were above £22,000, reaching almost the total budgeted amount of £25,000.

12. This year's travel budget is only £25,000, compared to the pre-pandemic years of 2018/19 and 2019/20, which were £54,000 and £53,500, respectively. Given the unspent balance of £48,800 in the personnel cost budget as at 31 January 2023, the Secretariat requested the Committee to consider and recommend transferring the budget of £20,000 from the personnel cost budget to the travel cost budget for the rest of the current coffee year.

13. The Head of Finance and Administration continued that Members have been noting the importance of monitoring the cash balance situation since the previous meetings and thus presented the cash forecast. The cash balance at the end of February 2023 resulted in about £1,860,000, with all budgeted expenditures reflected for each month until September 2023.

14. The Executive Director emphasized that the cash balance would go below the amount needed for liquidation unless the ICO receives the contributions in arrears. This means that in case of emergency, the ICO would not be able to carry out a liquidation process, terminate the Organization's activities and comply with all its contractual commitments.

15. Several Members strongly encouraged Members in arrears to pay their contributions promptly.

16. One Member stressed the need to minimize expenditures and queried the reason for increasing the travel cost budget by £20,000 if it were to be transferred from the personnel cost budget for 2022/23.

17. Several Members agreed to the Committee's recommendation to transfer of £20,000 from the personnel costs to the travel cost budget for 2022/23.

18. The Committee took a note of the report and the need for Members to pay their contributions promptly.

**Item 4: Outstanding contributions**

**Item 4.1: Report on collection of contributions from Members in arrears**

19. The Head of Finance and Administration presented the information contained in document FA-341/23 'Report on contributions due to the Organization as at 14 March 2023'. Table A showed the outstanding contributions for coffee year 2022/23. Total assessments have increased by £4,178 because Bolivia paid the first instalment of their arrears in December last year and, therefore, the pro-rata portion of their 2022/23 contribution became due.

20. Table B showed outstanding contributions to the Administrative Budget from previous years, which amounted to £606,547.

21. The Head of Finance and Administration then presented the continuation of Table B, which showed outstanding contributions from countries that had not yet completed membership procedures. This amount was £217,113.

22. Overall, the total outstanding contributions from previous years were £823,660. Finally, Table C showed the same data contained in Table B, but broken down by coffee year.

23. The Secretariat made two updates on Russia and Bolivia as regards their outstanding contributions. Firstly, Russia is subject to sanctions on the transfer of funds from Russian to UK banks. Russia has been looking at possible means of paying its contributions by bank transfer; however, the banking sector is not accepting direct transfers from Russia through Russian banks in Europe. In November last year, the Secretariat submitted a waiver application to legitimately receive funds through a licence from the UK Government's Office for Sanction Implementation (OFSI). However, it appears that no UK-based international organizations have been issued licences so far and those who have applied, including the ICO, are still waiting for a response. OFSI have not responded or given feedback to any international organizations, nor have they declined the aforementioned applications. The Foreign, Commonwealth and Development Office (FCDO) are aware of the situation, but have not appeared to be able to influence OFSI.

24. Secondly, the Secretariat reported on a communication received from Indonesia in February 2023 as regards Bolivia's request to pay its arrears in instalments, as approved at the

134th International Coffee Council in Colombia last October. Bolivia submitted a letter committing to the instalment payments and paid the first instalment of £4,677 last December. Furthermore, the Secretariat has received a letter from Bolivia committing to pay the 2022/23 contribution.

25. The Chair emphasized the need for Members to pay their contributions promptly to ensure the economic sustainability of the Organization. The Secretariat was making intensive efforts to reduce spending, but these would be insufficient if contributions were not received.

26. The Committee took note of the report made by the Head of Finance and Administration, and the cases of Russia and Bolivia as regards their outstanding contributions.

**Item 5: Draft Administrative Budget for financial year 2023/24**

27. The Head of Operations presented the 2023/24 Programme of Activities.

28. The Head of Finance and Administration introduced the Draft Administrative Budget for coffee year 2023/24 (FA-342/23), presenting the reasons for the proposed increase in financial year 2023/24 compared to the previous year. The 2023/24 contributions have been adjusted to take into account the need to enhance ICO activities and to re-establish a critical mass to carry out the mandate of the Organization and return to a more sustainable level of staffing, as the Organization starts to resume normal activity levels. However, it was still similar to coffee years 2018/19 and 2019/20, the last 'non-emergency' budgets. In real terms, considering cumulative inflation-related increases of about 20% since coffee year 2018/19, there is still a real-terms saving in the 2023/24 Draft Budget compared to the pre-pandemic years.

29. Income from the external sources was £38,396, consisting of income from interest, accounting services, statistical data subscriptions and administrative fees from the Trust Fund project operations. The Secretariat is making efforts to change the billing method for the statistical database subscription as the ICO's important intangible asset to maximize income levels, as well as ensuring that the data only reaches designated subscribers.

30. She continued that there were two major reasons behind the need for a budget increase for the 2023/24 coffee year: personnel costs and travel costs. The Draft Budget proposes an increase in personnel costs of £407,500 in the financial year 2023/24 due to two factors:

(a) Firstly, the proposal that the Senior Economist (P-3/P-4) be replaced with the post of Public-Private Partnership Coordinator (P-3/P-4) and that the two posts of Communications Officer (P-1/P-2) and Economist (P-1/P-2) be reinstated in the 2023/24 budget. Currently, the function of the Communications Officer is being carried out by a temporary part-time consultant. However, the Organization's communications strategy requires full-time resourcing. Moreover, given that the Chief Economist is due to retire at the end of 2024, a provision has been made for the recruitment of an Economist during 2023/24 to ensure a smooth handover of his 30 years of institutional knowledge and experience, and an optimal performance of future ICO activities. These two posts are 'reinstated posts', having existed among the core ICO positions in previous years. The coordination of the Coffee Public-Private Task Force (CPPTF) has been carried out to date by the Coordinator of the CPPTF, a cost-free staff member, whose remuneration has been provided voluntarily by an ICO Member country. This situation expected to persist only until the end of financial year 2022/23.

(b) Secondly, the calculation of the annual personnel cost, salary, post adjustment, dependency allowance, provident fund and national insurance were based on the UN Salary/Pension Scales released in January and February 2023 with an expected inflation rate of approximately 2%.

31. Translation costs for 2023/24 have been decreased by £10,000 based on the current year's savings from changing to a new contractor that uses computer-assisted translation tools whenever possible. Items such as Communications and Other Operations have been raised due to price increases by suppliers being expected given high inflation rates from 2022.

32. The increase in travel costs was mainly due to drastic rises in airfare prices versus the last two years. Many Members have invited the Executive Director to visit them, and efforts have been made to maximize the ICO's presence and implement new activities, with expenses having largely been funded by the countries in question. Importantly, however, the £45,000 set aside for 2023/24, is still a reduction from the £54,000 and £53,500 authorized for coffee years 2018/19 and 2019/20, prior to the pandemic.

33. The Draft Budget for 2023/24 would result in a zero deficit, maintaining the overall level of contributions and income from external resources at their current level.

34. A Member emphasized the need to control budget increases wherever possible and expressed concern about the increase related to the three job posts and the 2023/24 Programme of Activities. In particular, they mentioned: (i) Communication activities not being emphasized in the 2023/24 Programme of Activities; (ii) the reason for which the new post of Public-Private Partnerships Coordinator should be P3/P4 level; (iii) the consequences of transferring the post of Economist to the post of Assistant to Executive Director in the 2022/23 budget; (iv) travel costs should be limited only to affordable cases; and (v) the percentage increase on items 4 and 5 of the Activity Based Budget schedule.

35. Some Members agreed in principle to the budget increases to the personnel and travel costs for coffee year 2023/24, considering the ICO's need to return to a 'non-emergency' budget.

36. The Head of Operations reported the breakdown of the operational budget of the Programme of Activities, including voluntary contributions as well as the personnel costs, the ICO running costs as parts of the Activity Based Budgeting items I to III.

37. The Chair noted that the Draft Budget for 2023/24 would be discussed again at the next meeting. She also mentioned that the Secretariat would respond to the questions raised by several Members, including the terms of the three posts, at the next meeting.

**Item 6: Accounts for the financial year 2021/22**

**Item 6.1: Administrative Accounts of the Organization and Report of the Auditors**

38. The Head of Finance and Administration introduced document FA-343/23, the audited accounts of the Administrative Fund for financial year 2021/22 and the Report of the Auditors.

39. The Committee recommended them for approval by the Council.

**Item 6.2: Accounts of the Special Fund and Report of the Auditors**

40. The Head of Finance and Administration introduced document FA-344/23, the Accounts of the Special Fund for financial year 2021/22 and the Report of the Auditors.

41. She continued that two countries, the Philippines and Timor-Leste, had not claimed the funds allocated with reference to Resolution 459 on the use of the Special Fund, as approved by the ICC in September 2016. In this regard, the Secretariat proposed setting a deadline of mid-September.

42. Some countries agreed to set the deadline of mid-September.

43. The Committee recommended the Accounts of the Special Fund for approval by the Council, and indicated that the two countries, the Philippines and Timor-Leste, should submit project proposals by mid-September.

**Item 6.3: Accounts of the Trust Fund and Report of the Auditors**

44. The Committee recommended for approval by the Council the Accounts of the Coffee Sustainability Projects Trust Fund and the Report of the Auditors for financial year 2022, as contained in document FA-345/23,

**Item 6.4: Promotion Fund**

45. The Committee noted that the item contained in document FA-346/23 would be presented at its next meeting.

**Item 7: Salary scales and basis for contributions to the Provident Fund**

46. The Committee recommended for approval by the Council the salary scales and basis for contributions to the Provident Fund contained in document FA-347/23.

**Item 8: New Auditor**

47. The Committee noted this item would be presented at its next Finance and Administration meeting.

**Item 9: Other business**

48. There were no requests for inclusion of items under 'Other business'.

**Item 10: Date of next meeting**

49. The Committee will inform Members of the date of the next meeting.