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Report of the Finance and Administration Committee intersessional meeting held on 7 September 2023

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REPORT OF THE FINANCE AND ADMINISTRATION COMMITTEE
INTERSESSIONAL MEETING HELD ON 7 SEPTEMBER 2023

1. This report presents the discussions and recommendations of the 59th meeting of the Finance and Administration Committee (FAC), presided by the Chair, Ms Vera Espíndola Rafael of Mexico, and held on 7 September 2023.

Item 1: Adoption of the Agenda

2. The Agenda contained in document FA-354/23 Rev. 2 was adopted without amendments.

Item 2: Report of the intersessional meeting held on 16 June 2023

3. The report of the intersessional meeting held on 16 June 2023, contained in document FA-353/23, was adopted without amendments.

4. The Committee took note of the report.

Item 3: Financial situation

5. The Head of Finance and Administration presented an updated chart showing the actual cash balances at the end of the month, which were forecast to be about £2,022,000 at the end of July, and reflecting all budgeted expenditures for each month until December 2023. The balance of cash on hand will fall below £1,476,000, the total liquidation cost, after October this year if no more contributions are received.

6. The total expenditure for the 10 months ending 31 July 2023 presents a positive variance of about £148,000 against the year-to-date budget. The significant variance between the actual expenses and the budget to date as at 31 July 2023 are mainly due to two factors: personnel costs and language services costs.

7. There was a positive variance in personnel costs of about £20,000, after £20,000 was transferred to the travel cost budget, as approved at the 135th Session of the Council in March this year. The positive variance is because the four new posts were filled in between December 2022 and February 2023, rather than from the beginning of this coffee year.

8. The positive variance in language services cost was about £32,000. This was mainly due to cost savings from switching to a new contractor with computer-assisted translation tools, and a timing difference as more translation and interpretation services are expected for the upcoming meetings and the Council before the end of this coffee year.

9. 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

10. The Head of Finance and Administration presented the information contained in document FA-356/23. Table A showed the outstanding contributions for coffee year 2022/23. The total assessment has increased by £6,784 because Bolivia and Burundi had their voting rights and membership restored on paying the first instalment of their arrears in December last year (Bolivia) and on making payments of their arrears (Burundi). As a result, the pro-rata portion of their 2022/23 contributions became due.

11. As at 6 September 2023, £1,992,547 has been received for the 2022/23 contributions. This represents about 89% of the total contributions for the current year.

12. Table B showed outstanding contributions to the Administrative Budget from previous years, which amounted to £527,880.

13. 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.

14. Overall, the total outstanding contributions from previous years were £744,993. Finally, Table C showed the same data contained in Table B but broken down by coffee year.

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

16. This was reiterated by the Chair who emphasized the need to ensure the economic sustainability of the Organization. The Secretariat is making intensive efforts to reduce spending, but these will be insufficient if contributions are not received.

17. The Committee took note of the report made by the Head of Finance and Administration.

Item 4.2: Communication from Vietnam

18. The Head of Finance and Administration presented document FA-352/23 (Communication from Vietnam) which contained a letter from the Chairman of the Vietnam Coffee-Cocoa Association (VICOFA) dated May 2023, requesting a four-instalment payment plan for the country's 2022/23 contributions.

19. She continued to highlight that, following the Executive Director's bilateral communications with Vietnam, they made two £50,000 payments towards this year's contributions in June and August, respectively, resulting in an outstanding balance of £68,214 for the 2022/23 coffee year.

20. Vietnam then sent another letter on 7 September 2023, as shown in document FA-352/23 Rev. 1, requesting that the Council consider maintaining its voting rights and membership, given the country's intention to pay the outstanding amount by the end of December 2023.

21. One Member expressed that, while Vietnam's membership is very much valued, he was concerned about the recurring nature of the problem.

22. Another Member echoed this sentiment, stating that agreeing to the proposal would set a precedent and imply acceptance of the fact that Vietnam's payment would be permanently delayed, in spite of its obligation to settle its contributions on time.

23. One Member emphasized that Members with arrears of over six months do not have voting rights as per Article 21 of the International Coffee Agreement 2007, and that this should be respected without exception.

24. Several Members supported following the rule for fairness.

25. The Committee noted that this type of request was becoming a precedent, and thus instructed the Secretariat to contact Vietnam to obtain a long-term commitment.

Item 4.3: Communication from the Russian Federation

26. The Head of Finance and Administration presented document FA-359/23 and gave an update on Russia as regards their outstanding contributions of £174,272 since the last meeting in June 2023. Russia is subject to sanctions on the transfer of funds from Russian to UK banks. It 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. Following the submission by the Secretariat of a waiver application to legitimately receive funds through a licence from the UK Government's Office for Sanction Implementation (OFSI) last year, in late July 2023 OFSI issued a licence to the ICO. The Secretariat thus contacted Russia to inform them of the same. After multiple follow ups, the Secretariat received a response that the ICO's proposal had been presented to the Federal Treasury and Gazprombank, the supposed fund-sending entity in Russia. They also informed the Secretariat that they hoped to provide good news shortly. In early August 2023, the ICO requested an amendment of the licence to correct Russia's bank account number. No response has been received to date.

27. On 6 September 2023, the ICO received a letter from Russian Federation outlining: (i) a request that the Council approve its membership for 2023/24; and (ii) its willingness to work with the ICO to fulfil its financial obligations by looking for workable options, such as the licence from OFSI. However, the technical negotiations between all parties involved are still in progress and will take more time.

28. The delegate of Russia entered the meeting only for this item 4.3 and repeated the content of the letter.

29. The Executive Director clarified that there is just an administrative matter to be resolved with OFSI in order to proceed with the transfer of the funds from Russia using the licence.

30. One Member inquired as to whether any other UK-based international organizations had managed to receive funds from the Russian Federation using a licence from OFSI.

31. Some Members were hesitant to make a recommendation at the 59th Committee meeting, given that the Russian Federation's request would still need to be taken to their capitals (the letter was sent to the Secretariat only on 6 September).

32. The Committee decided to present this item to the Council at its 136th Session as it would give Members more time to consult with their capitals. The Committee also noted that the Secretariat would make further efforts to find a solution to receive funds from Russia.

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

33. The Head of Finance and Administration presented the revised Draft Administrative Budget and the Programme of Activities for coffee year 2023/24 (FA-342/23 Rev. 2), emphasizing that it had exactly the same total budget, £2,600,000 (£1,300 per vote), and Programme of Activities as the previous Revision 1, except for the following small changes, as also shown in the 'Introduction' on the 1st page of the document:

(a) Paragraph 15(c) – Communications Officer;
(b) Paragraph 20 – Liquidation Cost;
(c) Annex II – Travel completed by the Executive Director;
(d) Annex IIIa – Establishment table;
(e) Annex IV – Planned results II.A/B; and
(f) Annex V – Activity-based budget for coffee year 2023/24 (footnotes added).

34. 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 is still similar to coffee years 2018/19 and 2019/20, the last 'non-emergency' budgets of £2,608,000. In real terms, considering cumulative inflation-related increases of more than 15% since coffee year

2018/19, there is still a real-terms saving in the 2023/24 Draft Budget compared to the pre-pandemic years.

35. The Head of Finance and Administration continued to state that there were two major reasons behind the need to increase the personnel cost budget by £413,500 for the 2023/24 coffee year. Firstly, as stated in the revised Draft Budget, three posts have been added: the Senior Economist (P-3/P-4) will be replaced with the post of Public-Private Partnership Coordinator (P-3/P-4) and a Communication Officer (P-1/P-2) and Economist (P-1/P-2) will be reinstated.

36. She continued that this revised draft budget included a revised narrative on the Communications Officer post, as follows: "In recent years, this function has been carried out by a temporary part-time consultant. Because of cuts occurring since coffee year 2017/18, there was no budget for this post [...] However, as a part of the ICO's strategy to achieve a strong global presence and ensure the future growth of the Organization under the Programme of Activities, it is essential to re-establish this post in the upcoming 2023/24 coffee year. Furthermore, part-time resourcing is no longer sufficient for our current activity levels and recent demand, mainly concerning social media, which requires constant monitoring, reflection, and action. Thus, the ICO's communications strategy requires a full-time staff member to pursue the Organization's mandate."

37. 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 3%.

38. The revised 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.

39. One Member expressed their agreement on the Draft Budget for 2023/24 on the condition that the ICO ensure strict control of any increases in budget expenditure given concerns about the financial security and management of the ICO, the outlook for the recovery of the coffee industry and uncertainty regarding the international financial situation following the impact of the Covid-19 pandemic, among other things.

40. Said Member continued that the promotion of the coffee industry through increasing consumption would be an important endeavour for the ICO in order to strengthen its presence and promote further expansion of its membership and international cooperation through support for the Programme of Activities, and the operation and coordination of the Coffee Public-Private Task Force (CPPTF).

41. The Executive Director responded that the Secretariat would continue making every effort to save costs and monitor spending in line with the budget for 2023/24.

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

43. The Secretariat responded to a query about the decrease in the language services costs, stating that based on the savings being made in the current year after changing to a new contractor, the 2023/24 budget was decreased by £10,000.

44. The Committee recommended that the revised Draft Budget for 2023/24 be submitted to the Council in India for approval.

Item 6: Promotion Fund

45. The Head of Finance and Administration reported that the Secretariat had proposed that the remaining Promotion Fund balance of US$1,119 be utilized as part of the ICO's Programme of Activities.

46. She continued that the use of the fund had been discussed and recommended at the Promotion and Market Development Committee. However, the Committee could make a decision on whether to recommend transferring the balance to the Programme of Activities or to discuss it at a future meeting of the Promotion and Market Committee.

47. The Executive Director emphasized that the Promotion Fund account could be kept open after the fund has been utilized, but that the Committee needed to decide on whether to recommend leaving the use of this balance up to the Promotion and Market Committee.

48. The Committee recommended that the use of the remaining US$1,119 be discussed at the next meeting of the Promotion and Market Committee.

Item 7: New Auditor

49. The Head of Finance and Administration reported that the Secretariat had proposed changing auditor after three years at the last meeting of the FAC in June 2023 in line with best practices. However, some Members were concerned that three years was too soon and that the fees implied might be higher than the existing provider, which should be avoided.

50. She continued that a search for more evidence had revealed that in the UK the mandatory rotation is every 10 years, noting that changing the audit firm now might be a little early. Taking this into consideration, she stated that if the FAC decided to keep the current auditing firm, the Secretariat would have no objection.

51. One Member reported that private companies and government agencies retain the same auditors for at least five years, approximately, stating it would be too early to change as the current provider has only overseen the audit for three years. Moreover, the audit costs might increase with new auditors.

52. Another Member expressed concern regarding the increase in costs implied by changing auditor.

53. The Executive Director noted that she realized changing auditor after three years might be somewhat overwhelming, emphasizing that she had made the suggestion for best practice reasons.

54. She continued that the auditor’s only task was to verify the ICO’s financial records, ensuring that financial information was accurately represented. Analysis of Member countries’ outstanding contributions is not within their remit.

55. The Committee noted that this item was presented for consideration only and that there was no need to change auditors.

Item 8: Premises

56. The Executive Director reported that the ICO needs to plan to move out of its current premises over the next 18 months, regardless of whether the Organization remains in London or relocates elsewhere, as the current premises must be vacated in June 2025. She emphasized that the Secretariat was sensitive to cost reduction and acting in the best interest of the ICO and its Member countries. In this regard, the Secretariat intended to ask the Council for ‘a Mandate’ to conduct further research on premises.

57. The Executive Director continued that changing cities could be an option due to the fact that some Members had previously shared their concerns about the cost of the current premises and shown an interest in moving the ICO to another country or elsewhere in the UK, and also due to the lower post adjustment levels which affect ICO staff salaries and benefits. She also reported that no action had been taken as regards looking for options outside of the UK, because she understands that she needs guidance from Members.

58. She also reported that the ICO had had a meeting with the UK government recently and obtained feedback that, while they supported the ICO’s presence in the UK, they had no suitable premises to offer at the current time.

59. One Member stressed that the Committee should consider the matter carefully to avoid any inconvenience or problems with regard to: (a) the ICA 2022’s entry into force; and (b) maintaining the ICO’s operations in case multiple staff members decided not to relocate. Thus, she requested that the ICO provide the Committee with a schedule of the preparations for relocation, including the cost estimate.

60. Some Members showed interest in moving out of London considering its high living costs, suggesting that the ICO move to a place where the government provides incentives such as a free rent.

61. One Member stressed that the rent in London is extremely high, as proven by the post adjustment index released by the United Nations. In this regard, they advised the Secretariat to find out if the UK government had capacity to accommodate the ICO with subsidized rent; otherwise, the search should not be limited to the UK. There are

several factors to be considered when searching for new premises abroad: (a) location within one of the Member countries; (b) the possibility of 'free rent' not only in the UK; and (c) the presence of a decent number of diplomatic and industry representations.

62. Said Member continued that the Secretariat should consult Member countries to see if they would like to host the ICO headquarters in their country.

63. Another Member highlighted the example of the International Cocoa Organization, which relocated to Cote d'Ivoire in 2015. He stated that the Secretariat should first look for less costly premises in London and then, once all possibilities have been exhausted, other countries could be assessed, with the Council's approval. Then, following bids from Member countries, the Executive Director could visit the country(ies) to assess the requirements.

64. Some Members agreed on exploring the possibility of relocating within the UK first, rather than looking at options abroad using an expert consultant, especially when there are currently no offers from other Member countries, stating that the information should be provided with a cost estimate.

65. One Member expressed concern that a decision to move to a new premises in a new city and country would need to be approved at a Council session in coffee year 2023/24 in the interest of time, as there would only be three more Council sessions. The Spring Session in 2025 would be too late to make any decision on the premises.

66. The Executive Director confirmed that, as per Article 6 of the ICA 2007 and Article 7 of the ICA 2022, the seat of the Organization may be changed if the Council so decides, and that the cost for hiring an expert consultant could be borne from the Reserve Fund. She also reported that the Secretariat would seek for Member countries to make offers to host the ICO. The Secretariat would make further assessments in parallel and, at the Spring Session of the Council, bids for selecting cities could be made.

67. The Committee noted that the Secretariat would present this matter at the 136th Session of the Council for a decision based on discussions at this meeting.

Item 9: **Other business**

68. The Committee took note that the Chair, Ms Vera Espíndola Rafael, would not be attending the 136th Council in Bengaluru, India, and that, therefore, the Vice-Chair, Mr Zoltan Agai, would presenting the report of the 59th meeting at the Council in India.

Item 10: **Date of next meeting**

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