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Report and recommendations of the Finance Committee

Agenda item 15 of the Council

Report of the Finance Committee

Report of the Finance Committee

I. Introduction

1. During the twenty-eighth session of the International Seabed Authority, the Finance Committee held six formal meetings from 5 to and 7 July 2023. The Committee also held informal virtual meetings on 18 April 2023 and 14 June 2023.

2. The following members of the Committee participated in the formal meetings of the Committee: Anastasia Francilia Akubor, Christopher Hilton, Didier Ortolland, Fujimoto Shoko, Jens Benninghofen, Kajal Bhat, Kenneth Wong, Md Khurshed Alam, Medard Ainomuhisha, Sergey Litvinov, Solomon Korbieh, Thiago Poggio Padua, and Viola Walton. It is noted that Kejun Fan resigned on 23 April 2023 and Chaohong Xing was nominated for the by-election by the Assembly in July 2023.

3. On 5 July 2023, the Committee adopted its agenda¹ and elected Md Khurshed Alam as Chair and Kenneth Wong as Vice-Chair of the Committee.

II. Implementation of the budget for the financial period 2021–2022

4. On 5 July, the Committee reviewed the implementation of the budget for the period 2021-2022 and noted that the total expenditure during this period amounted to \$19,261,222 against an approved budget provision of \$19,411,280, resulting in under expenditure of \$150,058 or 0.77 per cent over the financial period.

III. Status of the Working Capital Fund

5. On 5 July, the Committee noted that as of 30 June 2023, the balance of the Working Capital Fund was \$717,568, with an amount of \$32,432 to be collected in the financial periods from 2023 to 2024.

* ISBA/28/A/L.1.

¹ ISBA/28/FC/1.

6. The Committee also noted that the level of Working Capital Fund has not been reviewed since 2019. Currently, the fund only represents 3 percent of the budget, whereas it should be sufficient for 8 per cent (approximately one twelfth) of the budget. The Committee decided to place on its agenda for 2024 a review of the level of the Working Capital Fund, in the context of consideration of the Authority's budget for the financial period 2025-2026.

IV. Status of contributions and related matters

7. On 5 July, the Committee noted that, as at 30 June 2023, 89 per cent (\$7,493,831) of the contributions to the budget of the Authority for 2023 had been received, with 69 member States paying their contributions in full and 13 in part.² As of the same date, contributions outstanding from member States for prior periods (1998–2022) amounted to \$757,566. The Committee also noted with concern that nine member States have never paid their contributions since becoming party to the Convention.

8. The Committee appreciated the efforts by the Secretary-General in collecting the outstanding contributions, including sending out notices regularly, holding bilateral meetings with the relevant members, and circulating relevant information on various occasions. The Committee encourages the Secretary-General to continue his efforts, including further raising awareness of the work of the Authority among those member States who are in arrears, in particular those who have never paid their contributions to the budget of the Authority.

V. Audit report on the accounts of the International Seabed Authority for 2022

9. The Committee reviewed the audited financial statements prepared by Ernst and Young. The Committee noted that, in the opinion of the auditor, the financial statements gave a true and fair view of the financial position of the Authority as of 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS). No adverse observations had been made by the auditor.

10. On 5, 6 and 7 July, the Committee considered the appointment of an auditor for the financial period 2023-2024. The Committee noted that the Secretariat had invited five internationally recognized auditing firms in Kingston and two proposals were received from them.

11. The Committee acknowledged with appreciation that the Secretariat had contacted the UN Board of Auditors as requested by the Committee in 2022. It was noted that the rate provided by the UN Board of Auditors was \$38,820 per year (same rate for 2023 and 2024) with additional travel-related charges (round tickets and DSA for assigned auditors), which was substantially more than the currently budgeted costs and significantly higher than other bids received.

12. The Committee considered that the two proposals from Jamaica-based auditors were technically competent and satisfied the requirements of the Financial Regulations. Both companies had experience of auditing international organizations, and government agencies. After further verification of the services by the Secretariat with the referenced audited organization and agencies, the Committee decided to recommend the appointment of CalvertGordon Associates as auditor for 2023-2024, at a quoted cost of \$15,000 and \$15,750, respectively, noting that the same company

² At the same date in 2022, 87 per cent of the contributions had been received.

had also audited projects funded by the World Bank, Inter-American Development Bank, the European Union and the Embassy of Japan, amongst others.

VI. Status of the trust funds of the Authority and related matters

13. The Committee took note of information provided by the Secretariat on the status of the trust funds of the Authority, as contained in the table below:

Table: Status of Trust Funds (as at 30 June 2023)

Fund	Balance (US\$)
Partnership Fund	604,644
Voluntary Trust Fund for LTC/FC	34,986
Voluntary Trust Fund for the Council	548
Voluntary Trust Fund for the Special Representative for the Enterprise	3,528
Trust fund for Extrabudgetary support	477,580

14. The Committee was informed on the measures taken by the Secretariat to increase the yield on the investment of the funds of the Authority, noting that surplus funds are invested at 5 per cent in short-term repurchase contracts with Jamaica Money Market Brokers (JMMB). The Secretariat will continue to invest excess or surplus cash with JMMB and taking a cautious and security-minded approach will continue to closely monitor market rates, noting that interest income is treated as miscellaneous income for the purposes of the budget.

VII. Supplementary budget proposal for the financial period 2023-24

15. The Committee considered the supplementary budget proposal for the financial period 2023-2024 as contained in ISBA/28/A/3-ISBA/28/C/12 at the informal virtual meeting on 14 June 2023 and continued its consideration on 5 July. The Committee noted that the supplementary budget proposal made provision for one position of interim director general at P5 and one administrative assistant, with relevant non-post costs. The Committee took note of the classification of the position at the 94th percentile of the P5 level and reviewed further information provided by the Secretariat comparing the costs associated with positions at P-5 and D-1. Considering the evolutionary approach and the progressive nature of the functions of the interim director-general, including the current management requirement conscious of the financial implications of the decisions, the Committee agreed that the post be set at P-5 level at the initial stage, with the potential to be reclassified at D-1 in the future. After scrutinizing all other aspects of the proposed supplementary budget, the Committee requested the Secretary-General to provide it with a revised proposal. This is contained in ISBA/28/A/3/Add.1-ISBA/28/C/12 /Add.1 in the amount of \$456,940. The revised proposal covers the period from October 2023 to December 2024. It was noted that, if recruitment to the position cannot take place before the end of 2023, the assessed contributions from members of the Authority will be reduced accordingly.

16. The Committee took note of the information provided by the Secretary-General concerning the possibility of meeting the revised proposed supplementary budget from within existing resources, noting that there was no scope for any further cost-savings from the General Administrative Fund or the conference servicing budget.

With respect to the programme budget, the Committee noted that the budget was fully committed in support of programmes and activities approved by the Council and Assembly and that any transfer of funds from the programme budget would severely impact the ability of the Authority to carry out its work programme. The Committee was satisfied with the justification given by the Secretary-General that the projected expenses for the supplementary budget proposal could not be accommodated within the current budget of the Authority. It noted with appreciation the possibility for the Secretary-General to reallocate \$10,000 from one programme to partially compensate for the reduction made to the supplementary budget proposal.

17. The Committee decided to recommend to the Council and the Assembly to approve a supplementary budget for the financial period 2023–2024, as a separate part of the budget, in an amount not exceeding \$456,940, noting that, in accordance with the 1994 Agreement, the interim director general would be a member of the staff of the Authority and would perform the functions listed in the annex to the 1994 Agreement. The Committee discussed the need for the operations of the Enterprise, including its finances, to be kept entirely separate from the funds of the Authority and the need to avoid any perception of conflict of interest in its operations. It also noted the possibility, without taking a decision on the matter, that contributions to the Enterprise by States Parties could be considered advances to the Enterprise, to be recovered in due course.

VIII. Development of rules, regulations, and procedures on the equitable sharing of financial and other economic benefits derived from activities in the Area pursuant to section 9, paragraph 7 (f), of the annex to the 1994 Agreement

18. It is recalled that at the twenty-seventh session of the Authority, the Committee decided to include in its programme of work for 2023 the topic of equitable sharing of financial and other economic benefits derived from activities in the Area and requested the Secretariat to prepare a draft proposal for the establishment of a seabed sustainability fund.

19. It is also recalled that, in addition to a formula for equitable sharing of revenue derived from the seabed activities, a possible alternative to a simple financial distribution could involve a qualitative distribution of the net financial benefits from recovery of deep-sea minerals through establishing a global fund to invest in knowledge and competence related to the Area. This would also include basic and applied research, capacity-building, and fostering other public goods related to the deep sea. This fund is completely different from the environmental compensation fund being considered in the context of the Draft Exploitation Regulations, and its purpose is not to meet costs and liabilities that should be paid for by contractors.

20. On 6 July 2023, the Committee discussed the Report of the Secretary-General on the establishment of fund as an alternative or adjunct to direct distribution of monetary benefits (See ISBA/28/FC/4).

21. The Committee considered the guiding questions contained in paragraph 31 of the report and discussed whether the focus of the fund should be limited to ocean or if should also help addressing the challenges faced by other global commons. The Committee expressed the view that the focus of the fund should be the ocean.

22. In analysing the scope of the fund, the Committee considered that, in the light of the ecological unit of the ocean, it would be difficult to limit it to the sole Area and that the high seas should be included in the scope of the fund. The Committee also expressed the view that the fund should give initial priority to finance activities that build national capacity on ocean issues for Members of the Authority.

23. With respect to the activities to be financed under the fund, the Finance Committee recognised the need to restrict the range of proponents to prevent the Authority being requested to handle an excessive number of requests. A comment was made that proposals from third parties could be channelled through Member States. The Committee hence recommended that proposals could be made by Member States and competent international organisations or sponsored by at least one of them.

24. Discussing the question of what the key elements of an adequate definition of incremental costs for the fund that ensures the additionality of its investments and avoids a crowding-out effect of public investments could be, the Finance Committee agreed that the topic should be taken up at a later stage.

25. The Committee considered the evolutionary approach to be adopted initially utilizing established bodies such as the Finance Committee and the Secretariat to manage the fund. These existing bodies could function as the governing board, with the Finance Committee assuming the role of the effective governing board for the fund. Additionally, the Legal and Technical Commission could serve as a Scientific Advisory Board, while the Secretariat could undertake the executive office functions of the fund until a more comprehensive governance structure is required.

26. With a view to further discussing the topic, the Finance Committee also developed a tentative draft of the objectives of the fund, which it considered it should be referred to as the Common Heritage Fund (initially proposed as seabed sustainability fund). The document (see Annex) highlights that with the establishment of a Common Heritage Fund, the financial benefits from activities in the Area would be used to invest in people and in preserving and developing the Area sustainably. The rationale behind its establishment is to create and maintain inherent value for the generations to come. In this perspective, the objective of the Fund would be to invest in capacity development, knowledge and competence related to the ocean with a view to enhance the contributions of the Authority to the implementation of the 2030 Agenda for Sustainable Development and the achievement of the Sustainable Development Goals. The Committee emphasized that its report on this matter should be considered as preliminary and it will continue working on the subject of equitable distribution, with a view to providing a more comprehensive report to the Council and Assembly in due course.

IX. Distribution of payments or contributions made through the Authority pursuant to article 82, paragraph 4, of the United Nations Convention on the Law of the Sea.

27. On 6 July, the Committee discussed the matter of the distribution of payments or contributions made through the Authority pursuant to article 82, paragraph 4, of the Convention on the basis of a report of the Secretary-General (ISBA/28/FC/3).

28. The Committee agreed that the geometric mean distribution formula previously developed for the equitable sharing of benefits under article 140 provided a useful starting point for consideration. However, the Committee requested the Secretariat to provide an opportunity for the Committee to further discuss the formula and possible ways to improve it before its next meeting in 2024.

29. Different views were expressed regarding whether payments transmitted from coastal States should be immediately distributed once received or accumulated in an investment fund. In this respect, some members highlighted that article 82 does not provide for the creation of an investment fund or any fund as alternative to direct distribution. Others considered that a fund, providing targeted benefits in line with the provisions of article 82, was a more effective and efficient way to consider equitable distribution.

30. With respect to the management of payments made under Article 82(4), the Committee agreed that the actual and reasonable costs of managing the receipt and distribution of funds should be recovered by the Secretariat and should not be considered as part of the administrative budget of the Authority.

31. The Finance Committee also considered whether the Authority should recover additional costs incurred in cases where a coastal State opts to make contributions in kind. The Committee noted the practical difficulties involved in dealing with such contributions and agreed that the practice should be discouraged. It noted that any additional costs incurred by the Authority would have to be recovered from the received contribution, which would diminish the benefits available to be shared. The Committee agreed to keep the matter of Article 82(4) distributions on its agenda with a view to compiling a clear recommendation in due course.

X. Future financing of the International Seabed Authority

32. The Committee took note of the forecasted budgetary requirements for the period 2025-2030 as reflected in the report of the Secretary-General (ISBA/28/FC/2). The Committee took note of the future financial scenarios projected by the Secretariat, including incremental increases in administrative and programme budget expenditure, the increased financial implications of ongoing work on current and future regional environmental management plans, the need for additional meetings of the Legal and Technical Commission and the Council in the event of the need to consider any future applications for approval of plans of work for exploitation in the Area, the possible establishment of the Economic Planning Commission, the appointment of an interim director-general of the Enterprise, and the future establishment of an inspection mechanism. The Committee also took note of the implications for contributions by States Parties, noting the importance of the evolutionary approach as set out in the 1994 Agreement.

33. The Committee welcomed the report and requested the Secretary-General to present such information on future financing of the Authority every two years on non-budget years. Some members also highlighted that it is a valuable planning exercise, albeit subject to many external factors including subjects under discussion of the Council.

XI. Other matters

A. Report on the implementation of the Strategic Plan

34. On 6 July, the Committee considered a report on the implementation of strategic plan of the Authority for the period from 2019 to 2023. The Committee recalled that the Assembly, in its decision ISBA/25/A/15 relating to the implementation of the strategic plan for the Authority for the period 2019-2023, committed to the strengthening of existing working practices of the Authority and accordingly, invited members of the Authority and observers, as well as the organs of the Authority, to support the implementation of the strategic plan and the high-level action plan.

35. The Committee noted that for the reporting period 2021-2023, it has been assigned some responsibilities for ten (9) high-level actions and ten (10) associated outputs listed in annex II of decision ISBA/25/A/15. In one case, no specific output has been identified and therefore, the reporting specifically addresses the high-level action of interest (see high-level action 7.1.2). Accordingly, the total number of items identified for this reporting is nine (9).

36. The Committee is identified as “organ responsible” for one of these outputs, “associated organ” for nine other outputs and “coordinating organ” for one. In order

to reflect the different status of completion, particularly the fact that some outputs are recurring, two different sub-categories of progress status have been identified. One relates to the “ongoing” nature of some outputs, understood as requiring ongoing attention and adjustment. The other one relates to the fact that in some cases because the output is to be reported against a specific reporting period or action, the status of completion is “achieved”.

37. As of May 2023, 91% (10) of the assigned high-level actions and outputs have been completed when 9% (1) were still in progress. All outputs assigned for the reporting period under strategic directions 2 (“Strengthen the regulatory framework for activities in the Area”) and 8 (“Improve the organization performance of the Authority”) have been completed. Further information is provided in annex I of this report and details of the work undertaken against all outputs have been compiled by the secretariat and are available in annex II <https://www.isa.org.jm/wp-content/uploads/2023/06/FC-Status-implementation-HLAP.pdf>

B. Contribution of Rwanda (new member)

38. On 5 July, the Committee considered the information provided by the Secretary-General relating to assessed contribution of Rwanda, which became a member of the Authority on 18 May 2023. The Committee recommends that Rwanda pay the assessed contributions in the amount below to the general administrative budget of the Authority 2023 and 2024, as well as advances to the Working Capital Fund. Such contributions should be credited as miscellaneous income, in accordance with regulation 7.1 of the Financial Regulations of the Authority.

<i>New Member State</i>	<i>Date membership began</i>	<i>United Nations scale of assessment (percentage)</i>	<i>Adjusted International Seabed Authority scale (percentage)</i>	<i>Contributions to the general administrative budget (United States dollars)</i>	<i>Contributions to the general administrative budget (United States dollars)</i>	<i>Advances to the Working Capital Fund (United States dollars)</i>	<i>Advances to the Working Capital Fund (United States dollars)</i>
		2023	2023	2023	2024	2023	2024
Rwanda	18 May 2023	0.003	0.01	518	829	1.40	2.25
Total				518	829	1.40	2.25

C. Increased cost of translation of official documents

39. On 5 July, the Committee considered a report on increased cost of translation of official documents of the Authority. The Committee noted that with a view to reducing the high costs for the translation of official documents of the Authority, the secretariat had conducted bidding process for translation services and received proposals from 9 companies, with two of them having provided translation services for the intergovernmental organizations.

40. The Committee also noted that the high costs for translation, in particular for the recent years are related to the draft exploitation regulations and associated draft Standards and Guidelines. After the adoption of those regulatory documents, the translation costs will go down to a normal level.

41. In this connection, the Committee requested the Secretariat to make every effort to make official documents succinct, in line with current practice, and also to enter into negotiations with the relevant translation companies and make appropriate and

practical arrangements for the translation of official documents for the 29th session of the Authority, including the option to maintain the current practice of translation by the Department of General Assembly and Conference Management of the United Nations.

XII Recommendation of the Finance Committee

42. In view of the foregoing, the Committee recommends that the Council and the Assembly of the Authority:

(a) Approve a supplementary budget for the financial period 2023–2024 in an amount not exceeding \$456 940 as proposed by the Secretary-General in ISBA/28/A/3/Add.1-ISBA/28/C/12/Add.1.

(b) Authorize the Secretary-General, in line with the decision contained in document ISBA/27/A/10, to adjust the assessed contributions for 2024 accordingly.

(c) Appeal to the members of the Authority, including those members with contributions in arrears for the period 1998–2022, to pay outstanding contributions to the budget of the Authority as soon as possible, to enable the Authority to deliver effectively on its mandate, and request the Secretary-General to continue his efforts to recover those arrears, including bilateral efforts.

(d) Express its appreciation to the donors that have made contributions to the voluntary trust funds of the Authority, and encourage Members, observers, contractors, and other stakeholders to contribute financially to these trust funds.

(e) Decide that, in respect of Rwanda, which became a member of the Authority in 2023, the rate of assessment and the amounts of contribution to the General Administrative Fund and the Working Capital Fund shall be as recommended in paragraph 38 of the report of the Finance Committee

(f) Take note of the forecast budgetary requirements associated with the anticipated evolution of the work of the Authority over the period from 2025 to 2030, as indicated in the report of the Secretary-General and of the need to ensure adequate capacity and resources necessary to fulfil its obligations under the United Nations Convention on the Law of the Sea and the Agreement relating to the Implementation of Part XI of the United Nations Convention on the Law of the Sea of 10 December 1982;

(g) Appoint CalvertGordon Associates as the independent auditor for the Authority for the financial period 2023–2024.

Annex

Objectives of a Common Heritage Fund

1. The analysis of the possible establishment of a Common Heritage Fund as an alternative or adjunct to the direct distribution of monetary benefits derived from activities in the Area pursuant to article 140 UNCLOS has been taken up by the Finance Committee under recommendation of the Council and the Assembly. The fund is not intended to build wealth, like a sovereign wealth fund but rather be spent on worthwhile initiatives and projects.

2. Generally speaking, with the establishment of a Common Heritage Fund, the financial benefits from activities in the Area could be used to invest in people and in preserving and developing the Area sustainably. Ongoing consultations with priority beneficiaries such as LDCs, LLDCs and SIDS could also generate some helpful ideas. Overall, the rationale behind its establishment is to pay for or execute projects and initiatives that will create and maintain inherent value for the generations to come.

3. In this perspective, the objective of the Fund would be to invest in capacity development, knowledge and competence related to the ocean with a view to enhance the contributions of the Authority to the implementation of the 2030 Agenda for Sustainable Development and the achievement of the Sustainable Development Goals, in particular, SDG 14, the least funded of all of the goals.

4. As far as advancement of knowledge supporting SDG 14 is concerned, the Fund would be aimed at:

(a) funding research into the environmental value of the ocean, in particular research that includes a special focus on deep-sea benthic habitats and migratory species present in the Area, that would provide good quality information for the review of regional environmental management plans and for environmental impact assessments, which should be based on the best available knowledge;

(b) scaling up the network and capacity on ocean data and science, including in support to the creation of area-based management tools in areas beyond national jurisdiction and support for national and regional level investments in advancing scientific research and marine data;

(c) establishing and running of regional training centres as foreseen under UNCLOS in accordance with article 276 and in conformity with the priorities identified under article 140.

(d) funding research into best available techniques and best practices for protection of the marine environment;

(e) contributing to the implementation of the action plan of the Authority in support of the United Nations Decade of Ocean Science for Sustainable Development;

5. With respect to the development of competences, the objective of the Common Heritage Fund could also be to develop tools of inclusivity, to bring a high number of participants up to the highest level of knowledge and competence and to create the conditions for retaining and using these competences on a local basis. In particular, it would aim at:

(a) funding education and training programmes on the protection of the marine environment, with particular regard to vulnerable communities and relevant stakeholders;

(b) providing qualified scientists and technical personnel from developing States with opportunities to participate in international marine scientific research programmes, including through training, technical assistance and scientific cooperation programmes;

(c) contributing to the design, development and implementation of dedicated capacity development programmes and activities aligned with the priority needs identified by developing States members of the Authority;

(d) developing and strengthening the institutional capacity of developing countries including through assistance in development of national legislation, ocean literacy, technology hubs and generation and utilization of scientific information and data.