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RESOURCE MANAGEMENT

(f) Fund management and fund structure

Note by the Secretary-General

SUMMARY

Executive summary: This document provides an update on the work done by the Secretariat to review and revise its fund and account structures to improve efficiency and effectiveness

Strategic direction, if applicable: 7

Output: Not applicable

Action to be taken: Paragraph 17

Related document: C.ES/29/3/3

Introduction

1 The Council will recall that, in document C.ES/29/3/3, it was noted that there are currently 69 extrabudgetary funds and accounts of various sorts, which have been maintained and reported as part of the financial statements of the Organization. In order to ensure the relevance and necessity to keep such a number of funds open, the Secretary-General informed the Council that a review of the funds and accounts of the Organization is being carried out, noting that the findings of the review, together with proposed actions, would be reported to the Council at its 120th session.

2 This document provides the Council with the results of the "as is" analysis for donor and extrabudgetary funds. It also reviews the financial and funding framework for the Organization's core funds, and identifies areas where options for streamlining these funds and the flow of funds between each might be developed in the future. In particular this work seeks to achieve three objectives:

- .1 a more streamlined and efficient approach to fund management;
- .2 further developing the Organization's transparent approach to managing and reporting on financial resources; and
- .3 to enable clearer reporting to stakeholders on fund movements and balances.

Donor and extrabudgetary trust funds and accounts

Current situation

3 The Organization uses a variety of funding structures and/or contractual arrangements to receive funds from Member States and other interested parties in order to support the delivery of the Organization's mandate and the Strategic Plan. These modalities may be briefly summarized as:

- **"Pooled" funds** – multiple donors contribute to a single objective, whether to address an immediate and urgent priority or to provide funding for a longer-term strategic theme. Funding is typically provided by means of contributing to a Multi-donor Trust Fund (MDTF) with defined Terms of Reference specifying its purpose and means of operation. While donors are frequently consulted on the activities delivered from pooled funds, the individual donor contributions are not tracked separately and reporting is provided on the delivery from the Fund as a whole;
- **Bilateral donor agreements** – individual agreements between IMO and a donor, which may take the form of a long-term partnership under an overarching Memorandum of Understanding; a funding agreement for a specific activity or activities; or funding for a single multi-year project. The funds are tied to specific activities and unspent funds are typically applied at the discretion of the donor; and
- **Other funds** – while most donor partnerships fall into one of the two categories above, a small number of the funds referenced in document C.ES/29/3/3 are different in nature, examples being the fund used to administer the Organization's Junior Professional Officers and one for tracking the expenditure and revenue associated with certain assessments conducted by GESAMP. These funds exist primarily for administrative convenience and are therefore not a focus of this review.

4 The evolution of funds in IMO has become increasingly numerous and complex over time as new donors and new MDTFs have been added while the process of closing or clearing "dormant" or residual unspent funds has not kept pace. The situation as at the end of 2017 is summarized in table 1.

Table 1: Extrabudgetary funds and account status at 31 December 2017

Funding mechanism	Number of funds				Fund balance, \$'000			
	Active	Dormant from		Total	Active	Dormant from		Total
		2011 and prior	2012-2015			2011 and prior	2012-2015	
"Pooled" funding – MDTF	14	5	3	22	10,675	166	447	11,288
Bilateral funds	18	28	-	46	2,429	729	-	3,158
Other funds	1	-	-	1	272	-	-	272
Total	33	33	3	69	13,376	895	447	14,718

5 As noted in document C.ES/29/3/3, fund maintenance requires resources to administer, and the more efficiently it can be delivered, the higher the proportion of funds can be applied for their intended purpose. Of the dormant bilateral funds in particular, these average \$26,000 in value, and the high volume of relatively small amounts requires a disproportionate administrative effort.

6 "Pooled" or thematic funds provided towards a strategic objective, even with an informal understanding or "soft ring-fencing" on how they will be used, can be used more efficiently and effectively, with more value passed to the final recipient and less cost to IMO in administering the funds. Where the long-term strategic directions of IMO and the donor align, therefore, it is an advantage to IMO, in terms of long-term, sustainable and flexible funding, and to the donor, in terms of efficient use of their contributions, if a greater proportion of funding is made through a pooled funding mechanism, in particular the MDTF structure.

7 The purpose of extrabudgetary resource mobilization and management is to receive, administer, plan and deliver in such a way as the greatest proportion of the donor's contribution is transferred to the delivery of the activities themselves. The Secretariat will therefore seek to improve the efficiency of its donor resource management arrangements through two objectives:

- .1 increasing the proportion of resources contributed using a "pooled funds" modality; and
- .2 reducing the overall number of funds, accounts and agreements.

8 In order to do this, the Secretariat will:

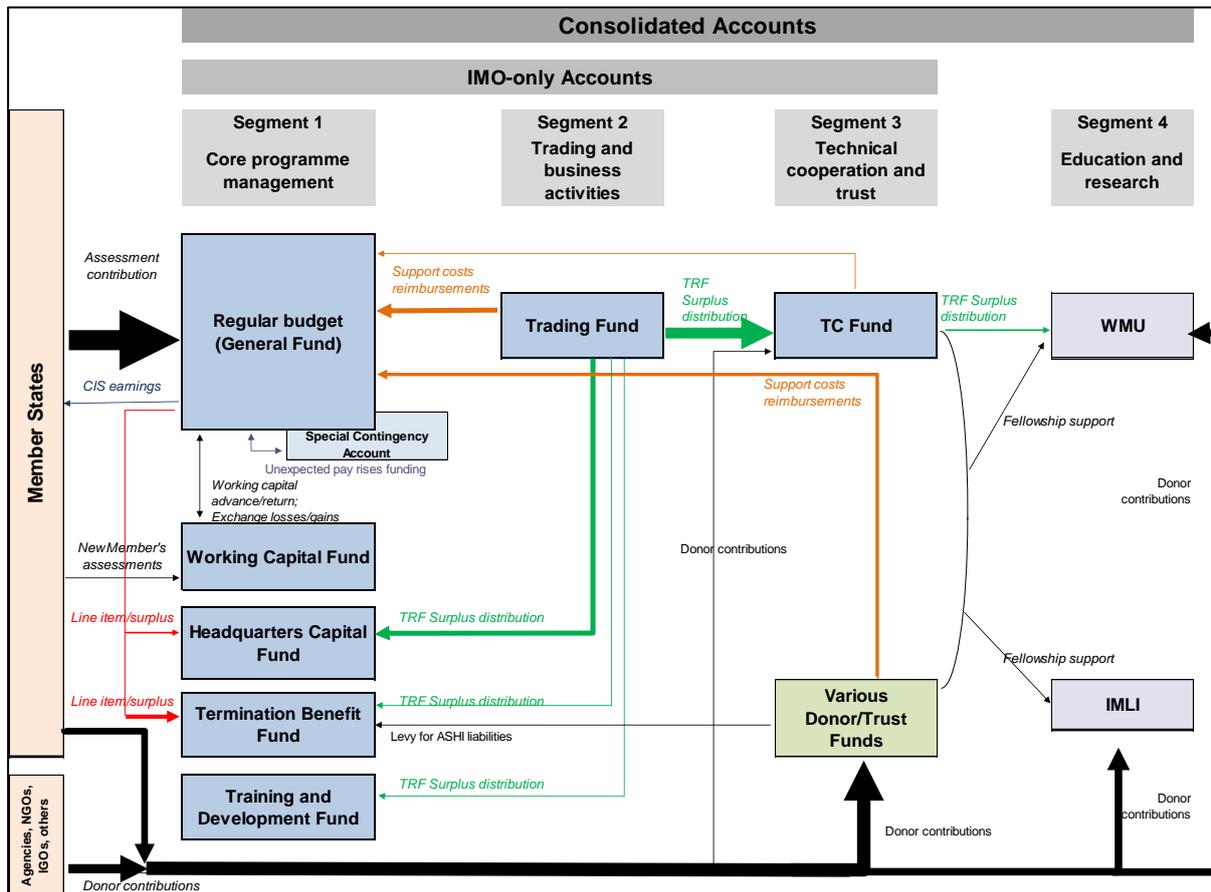
- .1 **encourage donation through a "pooled funding" modality where appropriate** – in discussions with new and potential donors, where appropriate the Secretariat will actively promote donation by means of a MDTF or other pooled funding structure. In doing so, the Secretariat will review the existing MDTF structure and determine how this can be streamlined in order to ensure that it is clear, consistent with the Organization's objectives, and is of appeal to potential donors;
- .2 **close down dormant funds in a systematic way** – develop and implement a plan to clear out any dormant funds, seeking through discussion with the original donor to reapply those funds to new activities; transfer residual balances to an appropriate account; or return balances to the donor; and
- .3 **refine project closure and fund governance procedures** – review the project closure procedures as a part of this year's review of the TC Manual, to ensure on a systematic basis that the application or return of any residual funds is addressed as a part of activity completion. At the same time, and in parallel with the Secretariat's efforts on the development of a resource mobilization strategy, the governance and management of donor funds will be reviewed to establish a central point responsible for managing donor and extrabudgetary resources from end to end, and ensuring that consistency is applied in donor agreements.

9 These measures as a whole will allow for more effective and efficient management of extrabudgetary funds of all types, and will support the new resource mobilization strategy being developed by the Secretariat and reported to the Technical Cooperation Committee.

The Organization's financial framework and funding flows

Current situation

10 The Organization's current financial framework is summarized in chart 1 below, drawn from document C117/5(d). This shows the flow of resources between the Organization's funds¹ during a normal budgeting cycle.



11 This clear segregation of funds has advantages in terms of internal control within the Secretariat, as there are a number of clearly distinct funds, each with a defined purpose, to which funds are allocated each year. While the budget for each Fund is clearly shown and separately approved by the Assembly, because of the complexity of flows between funds and the separation of the budgets and funding sources it can be difficult to see the totality in a simple way. Further, it can be difficult to see this information in the context of each Fund's financial reserves as the focus is primarily on the current biennium.

Opportunities for change

12 The Secretary-General therefore proposes to review the Organization's financial framework with a view to determining whether:

- .1 the overall number of Funds can be reduced to provide for a more streamlined structure;

¹ The General Fund, the Working Capital Fund, the Trading Fund, the Termination Benefit Fund, the Headquarters Capital Fund, the Training & Development Fund and the TC Fund.

- .2 the terms of reference for each remaining Fund require updating to more clearly delineate the purpose and application of each Fund; and
- .3 the funds flow might be simplified in order to provide a more holistic view of the Organization's budgets and their funding sources.

13 With respect to the latter point, an overview presentation such as that shown below, for the 2018-2019 biennium, is one way in which the overall funding situation might be summarized:

<i>(Amounts in £'000)</i>	2018	2019	Reserve position at 31 December 2017
<i>Budget:</i>			
Regular budget	34,141	35,429	11,793
Trading Fund	6,576	6,729	9,285
Headquarters Capital Fund	1,144	1,167	3,015
Termination Benefit Fund	859	859	(34,599)
Training & Development Fund	115	115	250
Technical Cooperation Fund	5,150	4,850	8,809
<i>TOTAL BUDGETED EXPENDITURE</i>	<i>47,985</i>	<i>49,149</i>	
<i>Funded by:</i>			
Assessment on Member States	31,864	33,242	
Commercial revenue	12,074	12,048	
Support costs from donors	1,524	1,536	
Other miscellaneous income	159	156	
<i>TOTAL REVENUE</i>	<i>45,621</i>	<i>46,982</i>	
Balance funded from reserves	(2,364)	(2,167)	

14 As the existing fund structure is already clearly defined, has been stable for a number of years and is consistent with common practice in the UN system, there is unlikely to be radical reform, but any opportunities for streamlining and simplification will be considered.

Next steps

15 Paragraph 3 outlines three objectives for this initiative aimed at improving and streamlining the Organization's approach to funds management for the longer-term benefit of its stakeholders. Paragraph 7 further refines these objectives into two specific targets, with paragraph 8 setting out a way forward in achieving them. Looking ahead to immediate next steps, and in particular considering the actions to be taken in advance of the Council's next session, the Secretariat will:

- .1 develop and implement a plan to close down dormant funds, in consultation with the original donor where possible, transferring any residual balances in an appropriate manner, with a target completion date of 31 October 2019;

- .2 review the existing MDTF structure and propose a more streamlined approach allowing for pooled management of funds across the Organization's objectives. This will include a refined "to be" MDTF structure, with appropriate terms of reference for any new funds proposed, and a proposal to transfer balances from dormant MDTFs to the active fund structure;
- .3 develop refined fund management and governance procedures integrated with related initiatives such as the resource mobilization strategy and the revisions to the TC Manual, providing, inter alia, for a central control point responsible for a consistent and uniform end-to-end process for all extrabudgetary funds; and
- .4 review the financial framework for the Organization's funds, and propose any adjustments to be taken into account during the planning and budgeting cycle for the 2020-2021 biennium.

16 The Secretary-General will update the Council on this work at its 121st session.

Action requested of the Council

17 The Council is invited to take note of the information provided in this document and comment as appropriate.
