



NOTE BY THE DIRECTOR-GENERAL

COMMENTS ON THE REPORT OF THE ADVISORY BODY ON ADMINISTRATIVE AND FINANCIAL MATTERS AT ITS FORTY-SEVENTH SESSION

1. At its Thirty-Fourth Session, the Executive Council (hereinafter “the Council”) requested that the Director-General, when submitting reports of the Advisory Body on Administrative and Financial Matters (ABAF) to the Council for its consideration, indicate what actions the Technical Secretariat (hereinafter “the Secretariat”) has taken in response to the recommendations of the ABAF, and what decisions are required by the Council on the report being submitted (paragraph 21.4 of EC-34/5, dated 26 September 2003).

2. The Director-General welcomes the continuing advice and support provided by the ABAF, as reflected in the conclusions it reached during its Forty-Seventh Session (ABAF-47/1, dated 2 August 2019), which was held from 30 July to 2 August 2019.

Cash position (paragraphs 4.2 to 4.5 of ABAF-47/1)

3. The Secretariat notes the ABAF’s concern with regard to the Organisation’s cash forecast to the end of the year and the potential use of the Working Capital Fund (WCF) before year end and also in early 2020 to maintain liquidity.

Status of assessed contributions and Article IV and V reimbursements (paragraphs 4.6 to 4.8 of ABAF-47/1)

4. The Secretariat notes the ABAF’s concern regarding the lag in receipt of assessed contributions for 2019, the fact that the collection rate is noticeably lower than the previous year, and the stress that this situation places on the Organisation’s operations. With regard to the cumulative outstanding balance for the reimbursement of inspections invoiced under Articles IV and V of the Chemical Weapons Convention, the Secretariat also notes the ABAF’s concern. The Secretariat will continue to remind States Parties of their outstanding balances through a number of means.

Recommendation for write-offs (paragraphs 4.9 to 4.10 of ABAF-47/1)

5. With regard to irrecoverable foreign value-added tax (VAT) amounts due, the Secretariat acknowledges the ABAF’s suggestion that the Secretariat explore whether national tax authorities could intervene on behalf of the Secretariat to recover the amounts due.



Status of the 2019 financial performance report (first half of 2019) (paragraphs 4.11 to 4.16 of ABAF-47/1)

6. The Secretariat will continue to closely monitor the Organisation's budget implementation and management of the contingency margin, noting especially the budgetary pressures being encountered within Chapter 1. As encouraged by the ABAF, the Secretariat will remain vigilant and take action when required to ensure budgetary margin is maintained through to the year end.
7. The Secretariat notes the ABAF's observation that the non-payment or delays in payment of assessed contributions and Article IV and V reimbursements is not sustainable for the Organisation and creates serious risks to programme implementation.

Draft Programme and Budget for 2020 (paragraphs 5.1 to 5.92 of ABAF-47/1)

8. The Secretariat welcomes the ABAF's consideration of the draft Programme and Budget for 2020 (EC-92/CRP.1, dated 5 July 2019).
9. The ABAF's comments regarding the need for a clear linkage in budget formulation between resource requirements and results to be achieved is noted by the Secretariat. On this matter, the Secretariat expects that the implementation of the new enterprise resource planning (ERP) system will help in this regard. The Secretariat notes that impact-based results measurement is a longer-term process and will take time to develop.
10. The ABAF's recommendation that the Secretariat show unfunded requirements is acknowledged by the Secretariat, and efforts in this regard will be considered for the September programme and budget consultation process, for incorporation into future programme and budget documents.
11. The Secretariat will further consider the ABAF's suggestion that the classification of temporary assistance (short-term appointments) be placed under the non-staff portion of the draft budget and that standard cost rates be developed specifically for temporary assistance.
12. On the issue of zero nominal growth in the regular budget, the Secretariat notes the concern raised by the ABAF that it may not represent sound budgetary practice. The Secretariat notes that the ABAF recommends that this issue be considered by States Parties in programme and budget deliberations.
13. With regard to assessed contributions for States Parties, the Secretariat acknowledges the ABAF's commendation of the preparation of a draft programme and budget for 2020 that maintains the same levels for States Parties' assessed contributions.
14. The Secretariat notes the ABAF's comment that there had been growth in the establishment and use of special funds as a means to address zero nominal growth pressures. Furthermore, on this issue the Secretariat notes the ABAF's suggestion that, in the longer term, many of the activities supported by these funds could be reflected in the core budget.

15. The Secretariat notes the ABAF's recommendation that in future programme and budget documents both the regular budget expenditure and extrabudgetary amounts be shown along with forecasted extrabudgetary requirements as a means to provide a comprehensive picture of overall cost of programme delivery. The Secretariat will examine this issue to determine the best way to reflect this recommendation in future programme and budget documents.
16. The Secretariat notes the ABAF's recommendation that the level of programme support costs be examined to ensure the level charged covers costs incurred.
17. On the issue of the laboratory rental cost, the Secretariat notes the ABAF's recommendation that this cost be placed in the Verification instead of the Administration Programme. The Secretariat will look into this matter in the context of programme and budget development going forward.
18. The Secretariat acknowledges the ABAF's encouragement to ensure that costs are being linked to planned results and the importance of this, and notes that the new ERP system and its new chart of accounts structure will better link expenditures to activities and objectives.
19. Based on the ABAF's recommendation, the Secretariat will look to provide in future programme and budgets both regular budget and extrabudgetary requirements for each programme.
20. With regard to future expected needs for maintenance and support costs, the Secretariat acknowledges the ABAF's suggestion to provide additional analysis and disclosure in this area in future financial statements and programme and budgets.
21. The Secretariat notes the ABAF's suggestion with regard to the key performance indicator (KPI) number 3.1 of the External Relations Division (3.1: Number of instances in which the States Parties or Secretariat staff demonstrate shortcomings in the delivery of protocol services). The Secretariat will look into this matter, noting that protocol activities are multifaceted, complex, and fluid. Whether a negative or positive index is used will have to be considered, also taking into account the level of detail and quantification that might be required with any change in measurement approach.
22. The Secretariat acknowledges the ABAF's encouragement with regard to a digital outreach strategy including the desired future state and the financial requirements to achieve that state.
23. With regard to the live streaming of meetings of the Council and the Conference of the States Parties (hereinafter "the Conference"), as well as recorded video interviews with Senior Management, the Secretariat notes that additional live streaming is technically possible. However, the matter is more one of policy and would require a decision by States Parties in this regard.
24. With regard to the training budget for the Office of Internal Oversight (OIO), the Secretariat notes the ABAF's encouragement to ensure that its level remains sufficient for OIO staff to stay current with developments, best practices, and modern approaches in audit and evaluation.

25. The Secretariat notes the ABAF's recommendation that KPI 1.3 (Rate of implementation of total recommendations of OIO issued in the past five years, which are due for implementation) may need to be refined and monitored closely.
26. With regard to the Office of the Legal Adviser, the Secretariat notes the ABAF's suggestion that the Secretariat consider an additional legal staff member instead of consultancy, if the need is constant from year to year.
27. On the issue of the Administration Programme's KPI 1.6 (Time to hire (in days)) which has a target of 60 days, the Secretariat notes the ABAF's recommendation that this metric be revisited to reflect the full lifecycle from vacancy to onboarding.
28. The Secretariat notes the ABAF's encouragement for the Secretariat to ensure that the knowledge management function across the Organisation is complementary and avoids undue overlap of functions.
29. The Secretariat notes the ABAF's observation that salary for Staff Council personnel was within the Administration Programme and its inquiry as to whether it could be better placed elsewhere. The Secretariat will examine this placement going forward, however noting that at this time it is unclear where else in the Organisation this cost could be more appropriately placed.
30. The Secretariat will consider and implement in future programmes and budgets, where possible, the ABAF's request to further develop results-based management and include within future programme and budgets.
31. On the issue of the proposed extraordinary provisions with the programme and budget and the use of the 2017 cash surplus, the Secretariat notes that the ABAF did not have any concerns from a technical perspective and supported the use of the cash surplus for the needs identified. The Secretariat notes the ABAF's encouragement to keep in context where its cost pressures are when utilising available resources.
32. The Secretariat notes the ABAF's emphasis that, in the absence of cash surpluses, States Parties will need to decide if extraordinary costs in the future are to be accommodated within the core programme and budget of the Organisation.
33. The Secretariat notes that the ABAF saw merits for the Organisation in the proposed major capital investment fund. Furthermore, the Secretariat notes the ABAF's comment that States Parties would have discretion as to how the fund would be maintained and topped up.
34. The Secretariat acknowledges the ABAF's comment that it should be made clear that the refinancing of the fund for ERP implementation is due to the delay in project implementation, which has caused additional costs. This will be brought forward during the September programme and budget consultations.
35. On the issue of the WCF, the Secretariat acknowledges the ABAF's recalling of Financial Regulation 6.4, which states that the WCF should not exceed two-twelfths of the budget provision for the financial period, and that at a level of approximately EUR 8 million for 2020, the WCF will be below this level, providing less than two months of cash expenditure coverage for the Organisation. This will be brought to the

attention of States Parties by the Secretariat during the September programme and budget consultations.

Combined Fourth Review Conference and Twenty-Third Conference of the States Parties meeting costing and efficiencies (paragraphs 6.1 to 6.2 of ABAF-47/1)

36. The Secretariat will propose to the Council at its Ninety-Second Session and to the Conference at its Twenty-Fourth Session the closure of the Special Fund for the Fourth Review Conference in 2018, as the purpose for which the fund was established is completed and the fund is fully utilised and liquidated with a zero balance.

Strategic financing and biennial budgeting financial regulations and rules (paragraphs 7.1 to 7.17 of ABAF-47/1)

37. The Secretariat acknowledges the ABAF's suggestion that, in the proposed revisions to the Financial Regulations and Rules to support biennial budgeting, "revised programme and budget" be used instead of "updated programme and budget" in the first year of the biennium to adjust the budget for the second year. The Secretariat notes the ABAF's comment that the presentation of the programme and budget document and also the Financial Statements will have to be looked at to determine where changes will be required. The Secretariat points out that the interim year of 2020 will be used to update internal structures, administrative directives, and presentation formats to support biennial budgeting, should it be approved by States Parties.
38. The Secretariat notes the ABAF's suggestion to ensure that there is a flow back from the Organisation's financial statements into programme planning, and that note disclosures in the financial statements should be examined to determine where they can provide additional information to inform planning requirements.
39. The Secretariat notes the ABAF's recommendation that the existing budget transfer rules in the Financial Regulations and Rules should not change with biennial budgeting, and that there will need to be sound monitoring to ensure programmatic KPIs are being met and budget implementation monitored.
40. The Secretariat notes the ABAF's request to revisit the draft changes to Financial Regulation 3.7 concerning the submission of the draft biennial programme and budget to the Council and to the Conference.
41. With regard to Financial Regulation 6.3 covering cash surplus/deficit, the Secretariat notes the ABAF's comment that, with the draft changes of the Financial Regulations and Rules to support biennial budgeting, Financial Regulation 6.3 might be revisited by interested States Parties.
42. The Secretariat acknowledges the ABAF's suggestion that with biennial budgeting the Secretariat would need to closely monitor the issue of carryover of unobligated balances from the first to the second year of the biennium.
43. The Secretariat notes the ABAF's support for putting forward to States Parties the concept of biennial budgeting and the draft changes to the Financial Regulations and Rules required to support biennial budgeting. The Secretariat points out that the

concept of biennial budgeting will be brought forward to States Parties during the September programme and budget consultations and to the Council and Conference for consideration this year. Should approval be given by the States Parties, the proposed changes to the Financial Regulations and Rules to support biennial budgeting will be brought forward to the States Parties for approval in 2020.

OPCW banking arrangements (paragraphs 8.1 to 8.11 of ABAF-47/1)

44. On the issue of negative interest rates, the Secretariat acknowledges the ABAF's suggestion that the Finance and Budget Network's Working Group on Common Treasury Services (WGCTS) should discuss the matter and collectively approach the banking industry and the European Central Bank on behalf of all European-based international organisations. The Secretariat will seek to approach the Finance and Budget Network on this issue.
45. The Secretariat notes the ABAF's suggestion to canvas other Hague-based international organisations on the issues of negative interest rates, investment options, and financial institutions being used, and to conduct a survey of the financial institutions across countries with which the Organisation has privileges and immunities agreements.
46. The Secretariat notes the ABAF's recommendation that the Secretariat explore with permanent missions how privileges and immunities agreements could be expanded to include those countries where good financial options exist, as a means to expand the financial institution options available to the Organisation.
47. The Secretariat will ensure that the ABAF at its next session (ABAF-48) is provided with an update on the negative interest issue, in accordance with its request.

Tenure policy update (paragraphs 9.1 to 9.4 of ABAF-47/1)

48. On the issue of the tenure policy, the Secretariat notes the ABAF's suggestion that the financial impact of tenure policy options be further examined and conveyed to States Parties. The Secretariat also notes the ABAF's suggestion that the staff perspectives be considered in such proposals.
49. The Secretariat notes the ABAF's request to receive an update on the tenure policy at its Forty-Eighth Session.

ERP Project update (paragraphs 10.1 to 10.10 of ABAF-47/1)

50. On the topic of the ERP project, the Secretariat notes the ABAF's encouragement to make its best possible efforts to achieve a January 2020 go-live date and to ensure that the project delivers the intended benefits. The Secretariat notes that the ERP project continues as a standing agenda item for the ABAF. It will provide an update on the project to the ABAF at its Forty-Eighth Session.

OPCW ChemTech Centre Project (paragraphs 11.1 to 11.24 of ABAF-47/1)

51. With regard to the project to upgrade the OPCW Chemical Laboratory to a Centre for Chemistry and Technology (ChemTech Centre), the Secretariat notes the ABAF's

suggestion that the Secretariat benchmark against environmental tests for the site to ensure that they are comprehensive. The Secretariat points out that it has received a report on an environmental soil survey from the relevant municipality and no issues were identified for the site, including with regard to endangered species, and that this process will be ongoing and monitored for changes should they arise.

52. The Secretariat notes the ABAF's encouragement to keep States Parties informed of routine preparations for chemical waste management for the ChemTech Centre.
53. The Secretariat is examining whether the Information Services Branch should be represented directly on the technical requirements team of the ChemTech Centre Project Board.
54. On the issue of in-kind contributions to the ChemTech Centre Project, the Secretariat notes the ABAF's comment on this topic and will look into this in more detail as the project progresses.
55. The Secretariat acknowledges the suggestion of the ABAF, and that of the External Auditor, to ensure adequate disclosures in the financial statements for any future liabilities for decommissioning the current laboratory facility.
56. On the issue of taxes, the Secretariat notes the ABAF's suggestion to ensure that VAT, property taxes, etc. are dealt with early and with various levels of government. The Secretariat is engaged in such matters and will continue to be so.

Election of the Chairperson of the ABAF (paragraph 12 of ABAF-47/1)

57. The Secretariat notes that the ABAF re-elected, for a period of one year, Mr John Foggo as Chairperson with immediate effect following the close of its Forty-Seventh Session. The Secretariat reaffirms its full support to the Chairperson and Vice-Chairperson of the ABAF and its appreciation for the ABAF's contributions to the work of the OPCW.

Any other business (paragraphs 13.1 to 13.14 of ABAF-47/1)

58. The Secretariat notes the ABAF's agreement, given the anticipated ERP go-live at the end of 2019, to an exceptional request for extension of the deadline for submission of the 2019 Financial Statements to the External Auditor, to be submitted by the Secretariat to the Council at its Ninety-Fifth Session and to the Conference at its Twenty-Fifth Session for approval.
59. The Secretariat appreciates the ABAF's agreement to consider the 2019 OPCW Financial Statements and External Auditor's Report at its second, rather than first, session in 2020, should the preparation of the Financial Statements need to be delayed because of the planned ERP project go-live.
60. With regard to the OPCW budget transfers report and the OPCW programme performance report, the Secretariat notes the ABAF's suggestion that benchmarking against the programme performance reports of other organisations with similar financing models to the OPCW should be undertaken. Furthermore, the Secretariat acknowledges the ABAF's suggestion that additional consideration should be given as

to whether to combine the budget transfers report with the programme performance report, or if additional cross-cutting narrative information should be provided instead in each report. The Secretariat notes the ABAF's suggestion that changes to the programme performance report and the budget transfers report should be considered once a decision has been made by States Parties on the issue of biennial budgeting.

61. The Secretariat notes the ABAF's encouragement to further develop a narrative for the programme performance report. The introduction of the new ERP system and its new chart of accounts structure will help to facilitate meeting this objective.

Next session and agenda (paragraphs 14.1 to 14.2 of ABAF-47/1)

62. The Secretariat notes the dates agreed by the ABAF for its Forty-Eighth Session, which is to be held from 2 to 5 June 2020, and for its Forty-Ninth Session, which is to be held from 28 to 31 July 2020.
63. The agenda set by the ABAF for its Forty-Eighth Session is noted by the Secretariat.