Future financing of the International Seabed Authority

Report of the Secretary-General

1. The International Seabed Authority is an organization in transition. As the Council works towards the adoption of regulations on exploitation of mineral resources in the Area, together with associated standards and guidelines, the Authority also needs to prepare to become an effective regulator of an industrial activity. This will require a significant increase in the current capacities of the organs and bodies of the Authority, including the secretariat. The Authority is also under increasing pressure to deliver on other important elements of its mandate, including the promotion and encouragement of marine scientific research in the Area, the effective protection of the marine environment from activities in the Area and the need to ensure the integrated participation of developing States in the work of the Authority and capacity development programmes, all of which have financial implications. It is important for States parties to consider, at an early stage, the financial implications of the transition that will be required in the work of the Authority and how to manage that process.

2. The present report outlines some of the considerations that will need to be addressed and the implications thereof for future budgets of the Authority. Indicative budget projections through to 2030 are presented on the basis of reasonably foreseeable scenarios. Suggestions are also made for further revisions to the budget format, to be implemented in the next regular budget cycle (2023–2024).

I. Current financing of the Authority

3. In accordance with article 160 (1) (e) of 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, the administrative expenses of the Authority are to be met by assessed contributions of its members until the Authority has sufficient funds from other sources to meet those expenses. The scale of assessments is based on the scale used for the regular budget of the United Nations, adjusted for differences in membership. This implies that the

* New dates of the in-person meetings originally scheduled for July 2020.
burden of financing the Authority will progressively be shifted from member States onto future revenue from activities in the Area.

4. Apart from the administrative fees paid by applicants for plans of work for exploration, assessed contributions were the only source of financing for the Authority until 2013, when the Council, on the recommendation of the Finance Committee, decided to require each contractor with the Authority to pay an annual fee to cover overhead costs for the administration of contracts for exploration. The fee was reviewed in 2017 and 2020. For the financial period 2021–2022, revenue from those fees represents approximately 20 per cent of the total revenue of the Authority.

5. The Authority also receives extrabudgetary funding for certain programmes and activities. During the period 2017–2020, extrabudgetary funding of $1,828,769 was mobilized (from a base of zero in 2016). In real terms and as a percentage of the total budget of the Authority (less than 5 per cent), this is rather low compared with other organizations, but a significant upwards trend has been observed since 2017.

6. In addition to the administrative budget, the secretariat also manages several voluntary trust funds and special funds. Of particular importance are the voluntary trust funds for the participation of members from developing countries in meetings of the Legal and Technical Commission and the Finance Committee, the voluntary trust fund for the participation of developing States in the Council and the voluntary trust fund for the Enterprise. These trust funds generally run in a state of deficit.

II. Evolution of the budget of the Authority

7. Pursuant to the 1994 Agreement, in order to minimize costs to States parties, all organs and subsidiary bodies to be established under the Convention and the Agreement shall be cost-effective. This principle shall also apply to the frequency, duration and scheduling of meetings. Furthermore, the setting up and functioning of the organs and subsidiary bodies shall be based on an evolutionary approach, taking into account two critical elements, namely, the governance architecture envisioned by the Convention and the 1994 Agreement, and the functional needs of the organs and bodies concerned in order that they may discharge their respective responsibilities at various stages of the development of activities in the Area.

8. The above provisions have been strictly observed in the context of the budget of the Authority, with the priority being to minimize the costs to States parties. For example, although article 161 (5) of the Convention provides that the Council shall meet not less than three times a year, in practice the Council met three times only once (in 1998). In 19 out of the 25 years since 1997, the Council met only once a year. Two meetings took place in 1997 and 2000, and the Council moved to a regular schedule of two meetings per year in 2018. Although neither the Economic Planning Commission nor the Enterprise have been established to date, the Legal and Technical Commission recommended, in 2020, that consideration be given to establishing both bodies. Those recommendations are still pending consideration in the light of the delays in the work of the Council during 2020. In the case of the secretariat, despite a significant increase in 

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1 For example, 95 per cent of the budget of the United Nations Environment Programme and 37 per cent of the budget of the secretariat of the Convention on Biological Diversity is funded in the form of extrabudgetary support.
3 Ibid., para. 3.
4 As an interim measure, the Secretary-General appointed a Special Representative for the Enterprise in 2019. However, the activities of the Special Representative are funded exclusively through a voluntary trust fund.
the complexity of its work and the range of responsibilities allocated to it by members, only 11 new staff posts have been created over the past 22 years. The number of approved posts in the secretariat increased from 36 in 1998 to 47 in 2021.\footnote{In the 1997 budget proposal, it was foreseen that the secretariat would require a total of 44 posts by 1999 (ISBA/4/A/10, para. 2). In fact, the secretariat did not reach the level of 44 posts until 2019 (see ISBA/24/A/5).}

9. The figure below shows that, over the period 1998–2022, the annual budget of the Authority increased from $4,703,900 to $10,022,025. This is an annualized rate of increase of $220,725 (less than 1 per cent).

\begin{center}
\textbf{Budgets of the Authority (1998–2022)}
\end{center}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{budget_graph}
\caption{Budgets of the Authority (1998–2022)}
\end{figure}

10. For the financial period 2017–2018, a separate programme budget was allocated for the first time. The amount of $1,390,500 was allocated to the programme budget, representing 8 per cent of the total approved budget. For the financial period 2019–2020, in the light of the priorities identified in the strategic plan and high-level action plan for the period 2019–2023, the financial provision was increased to $2,998,540, representing 16 per cent of the approved budget. For the financial period 2021–2022, the total programme budget remains at $3,085,370 (16 per cent of the total budget), with no increase over the previous period. It should be emphasized that the separation of the budget into administrative and programme budgets did not increase the overall size of the budget, but rather was implemented with a view to ensuring efficiency and transparency.

III. Cost recovery

11. An important element of cost recovery has been applied in relation to the work of the Authority since the adoption of the first set of regulations on prospecting and exploration for polymetallic nodules in the Area in 2000. Under the regulations, each applicant for a plan of work for exploration must pay an application fee of $500,000, which is intended to cover the administrative costs incurred in processing an application. Such fees are treated as miscellaneous income and used to offset the assessed contributions of member States. However, the secretariat is required to account precisely for the use of the application fee and refund any unused balance to the applicant. This approach is not only administratively burdensome, but it also creates few incentives for administrative efficiency and no additional benefits for member States.
12. The second element of cost recovery was introduced in 2013, after the Finance Committee decided to recommend that the Council require each contractor to pay an annual fee to cover overhead costs for the administration of contracts for exploration in the Area.

13. Despite broad agreement that contractors should bear some of the cost of the administration of contracts, it has proved to be consistently difficult to reach agreement on the level of annual overhead charges and on the methodology for applying cost recovery. In 2013, the secretariat used the methodology developed by the United Nations Development Programme of applying standard costs for contract administration and supervision to assess the overhead charge at $52,182. The Finance Committee recommended a compromise of $47,000 and requested the secretariat to reconsider the methodology. In 2017, the charge was increased to $60,000, against an estimate of $63,908, but the Committee again considered that the methodology did not reflect all the administrative costs incurred and requested the secretariat to develop a new methodology. The secretariat proposed a new methodology based on International Public Sector Accounting Standards (IPSAS) in 2020, and the Committee recommended that the charge be increased to $80,000 with effect from January 2021. The Council later decided to postpone this increase to 2022 and again requested the secretariat to provide more information on the methodology used to justify the charges.6

14. While the secretariat has no difficulty in providing more information on its accounting methodology, it seems obvious that the underlying issue is that no methodology will receive universal acceptance. The fact is that increasing the overhead charge provides a financial advantage to most members of the Authority (by decreasing assessed contributions relative to the total budget) but disadvantages others (primarily those sponsoring multiple State entity contractors). It will be important to find a long-term solution to this problem in order to avoid a disproportionate administrative burden on the secretariat. One solution, for example, may be to agree on a fixed percentage increase in overhead charges on a three-year basis, in line with the increase in the overall budget. This would ensure predictability both for the Authority and contractors and in the respective budgeting processes.

15. With a total of 31 contractors, it is estimated that overhead charges will produce $4.3 million in revenue to the Authority in the financial period 2021–2022, which represents approximately 20 per cent of the approved budget.7 This has a significant impact on the assessed contributions to be paid by member States and is also fully consistent with the overriding principle that the activities of the Authority will eventually be funded from revenue derived from activities in the Area.

IV. Format of the budget

16. The format of the budget remained unchanged from 1998 until 2016. In 2015, the Finance Committee recommended a new format to include a programme section covering six priority programme areas identified by the Committee. The Committee noted that the advantages of the new format were that it would enhance accountability, transparency and strategic decision-making and enable detailed reporting on the results achieved in each programme area. It also noted that the new format would be kept under review and would be expected to evolve over time.8 As a result, for the financial period 2021–2022, certain existing programmes were consolidated and two

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6 See ISBA/26/C/28.
7 This estimate is based on a fee of $60,000 per contractor in 2021 and $80,000 per contractor in 2022.
8 ISBA/21/A/6-ISBA/21/C/15, para. 28.
new programme activities were added, focused on capacity development and technical cooperation, and on marine minerals and mining technology.

17. At the same time, the Secretary-General and the Finance Committee have continued to explore all possible options to reduce unnecessary expenditure in the general administrative budget and to make more accurate estimates of future expenditure. The greatest area of uncertainty continues to be the costs of conference services. While savings have been implemented, for example, by using remote interpretation services, the total costs will remain dependent on the number of meetings to be held and the number of documents to be produced. Nevertheless, the Secretary-General considers section 1 of the approved budget for 2022 to be an appropriate baseline for future budgeting, subject to decisions concerning the frequency and duration of meetings, as well as the establishment of the remaining bodies provided for in the Convention, namely, the Enterprise and the Economic Planning Commission.

V. Planning for future scenarios

18. It can be expected that, over the next five years, the Authority will face significant financial challenges. Ultimately, the budget of the Authority will be supported in full by revenue derived from deep sea mining. By any analysis, this revenue will far outweigh the administrative costs, leaving the majority available for allocation to the economic assistance fund to be established pursuant to article 151 (10) of the Convention and for distribution on the basis of equitable sharing criteria, as required by the Convention. This will not happen immediately, however, and interim measures must therefore be put in place. There is likely to be a period of several years during which member States will need to support the Authority’s transition to a fit-for-purpose regulator. Once the first plan of work for exploitation is approved and commercial production begins, the financial burden will begin to shift from member States to contractors. It is not currently known how long the transition will take.

19. In projecting future financial scenarios, the following developments can be envisaged, each of which can be considered in terms of the additional financial burden that would be imposed above the level of the budget for the financial period 2021–2022 ($19.5 million):

(a) Incremental increases in the administrative and programme budgets. Even under a zero real growth scenario, incremental increases can be expected in the general administrative budget and the programme budget, relating to increases in fixed costs, such as salaries and allowances, that are beyond the control of the Authority. These incremental increases are estimated at approximately 4.5 per cent over each financial period;

(b) The establishment of the Enterprise and the Economic Planning Commission. Under this scenario, it is assumed that the Council will act on the recommendations of the Legal and Technical Commission regarding the establishment of the Enterprise, with provision for an interim Director-General and minimal staff from 2023, and that the Economic Planning Commission will be established, also from 2023. The initial cost of the Enterprise is estimated at $300,000 per annum;

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9 Section 1 of the budget relates to administrative and conference services expenditure.
10 The Finance Committee is currently considering the issue of equitable sharing of financial and other economic benefits.
11 Zero real growth implies no increase in programmes or activities but permits recosting to adjust the budget to account for such changes as inflation, exchange rate fluctuations and externally determined costs (e.g., salary scale).
(c) The need for additional meetings of the Legal and Technical Commission and the Council. Once the first application for approval of a plan of work for exploitation is submitted, it is anticipated that additional meetings of the Legal and Technical Commission and the Council will be needed to process the application. Under the draft regulations on exploitation, both the Commission and the Council, as well as the Secretary-General, have been given significant responsibilities and will therefore need sufficient meeting time in order to fulfil them. The financial impacts would be offset in part by the $1 million application fee prescribed in the draft regulations;  

(d) The full operationalization of the Compliance Assurance and Regulatory Management Unit. The Secretary-General has already taken steps to increase the capacity of the secretariat to deliver the regulatory functions expected of it under the draft regulations. The first step was to establish a Contract Management Unit in 2017. The Unit has since evolved into the Compliance Assurance and Regulatory Management Unit, with additional functions and responsibilities, including processing applications, overseeing the activities of contractors, processing the reports, data and information submitted by contractors, reporting to the Legal and Technical Commission and the Council, and supporting the systematic publication and review of standards and guidelines. The needed level of capacity cannot be supported by the existing budgetary resources, and a progressive increase in budgetary resources will be required between 2023 and 2027. Indicative post and budgetary requirements for the Compliance Assurance and Regulatory Management Unit, from establishment to full operationalization, are provided in tables 1 and 2 of the annex;  

(e) The establishment of the inspection mechanism. A fully operational inspection mechanism is a fundamental requirement of the draft regulations and is also provided for in articles 162 (2) (z) and 165 (2) (m) of the Convention. No such capacity currently exists, but the Legal and Technical Commission has begun to consider the necessary scope and functions of such a mechanism. While it is unlikely that the inspection mechanism will need to function at full capacity before commercial production begins, consideration should be given to the fact that some initial funding, including for the development and implementation of remote monitoring technology, will be required to establish the mechanism from the point at which the first application for a plan of work for exploitation is submitted.

20. The financial implications of the above scenarios are presented in table 3 of the annex. An increase in the budget of approximately $3.6 million would be required for the financial period 2023–2024. A further increase of approximately $2.5 million would be required for the financial period 2025–2026, with increases of about $2 million in the financial periods 2027–2028 and 2029–2030 as the regulatory capacity of the Authority increases.

21. Table 4 of the annex shows the projected impact of the above scenarios on member State contributions to the budget, with the assumption that there are modest increases in annual overhead charges for contractors between 2023 and 2030 and a maximum of two applications for approval for plans of work for exploitation during the period 2025–2030. The analysis shows that the most significant increase in member State contributions would be required during the period 2023–2025. From 2025, increases in member State contributions are likely to be offset by fees paid by contractors and can be expected to decline thereafter. Once commercial production begins (and with the

12 Under the draft regulations on exploitation (ISBA/25/C/WP.1), contractors would be required to pay, in addition to the application fee of $1 million, an annual reporting fee (amount not yet determined) and an annual fixed fee payable from the date of commencement of commercial production ($1 million is the proposed amount).

13 The biggest impact would be felt by the largest contributors to the budget. With the assumption that the scale of assessed contributions remains the same as in 2020, the floor rate would increase from $100 per year in 2021 to $135 per year in 2030.
assumption that contractors pay an annual fixed fee in the region of $1 million, as proposed in the draft regulations), it can be expected that member States would not be required to increase their contribution to the budget. Furthermore, these contributions should progressively reduce over time as revenue from exploitation increases.

22. The above projections are shown in figures I to IV in the annex. These projections are subject to many different variables but are as accurate as possible on the basis of the information currently available. They are designed to demonstrate the overall trend and provide a suitable baseline for the Finance Committee to work from when considering the future budgetary requirements of the Authority.

VI. Further revised budget format

23. In the light of the changes that are expected in the coming years, the Committee may wish to consider further revising the budget format, so as to more clearly separate and identify expenditure on different aspects of the Authority’s work (see table below). This would aid transparency and make it easier to identify which elements of the budget are still evolving and which may be considered stable and thus appropriate for a zero real growth approach. Further revising the format would also help to identify more clearly where revenue is allocated, especially in terms of cost recovery. Lastly, a revised format would introduce greater flexibility in adjusting the Authority’s operations on the basis of actual demand and would promote accountability.

Proposed revisions to the budget format

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
<th>Relation to existing format</th>
<th>Primary source of funding</th>
<th>Budget policy (2023–2028)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General administrative (core) budget</td>
<td>Existing section 1, part 1</td>
<td>Assessed contributions</td>
<td>Zero real growth</td>
</tr>
<tr>
<td>2</td>
<td>Meeting services</td>
<td>Existing section 1, part 2</td>
<td>Assessed contributions, offset in part by cost recovery</td>
<td>Necessary growth on the basis of actual requirements</td>
</tr>
<tr>
<td>3</td>
<td>Programme budget</td>
<td>Existing section 2</td>
<td>Assessed contributions and extrabudgetary contributions</td>
<td>Zero real growth, subject to the priorities in the strategic plan</td>
</tr>
<tr>
<td>4</td>
<td>The Enterprise</td>
<td>New section</td>
<td>Assessed contributions with transition to cost recovery</td>
<td>Zero real growth</td>
</tr>
<tr>
<td>5</td>
<td>Regulatory budget (initially to fund the Compliance Assurance and Regulatory Management Unit and subsidize DeepData; later to include the inspection mechanism)</td>
<td>New section</td>
<td>Assessed contributions subsidized by cost recovery and transition to full cost recovery from deep sea mining revenue</td>
<td>Necessary growth based on evolution of activities in the Area</td>
</tr>
</tbody>
</table>
VII. Conclusion and recommendations

24. Overall, the evolution of the Authority has not kept pace with the increase in responsibilities resulting from the development of activities in the Area. This has led to criticism that the Authority cannot function as a fit-for-purpose regulator of future exploitation. Notwithstanding the evolutionary approach that is emphasized in the 1994 Agreement, which suggests that increases in the budget should keep pace with increases in the workload and responsibilities of the Authority, the primary driver in the budget process has been the need to restrain increases in member State contributions. Some members have insisted on a policy of zero growth, which is incompatible with the evolutionary approach.

25. The objective of the present report is to provide a broad overview of the evolution in the responsibilities of the Authority that can be anticipated over the next 10 years during the transition from exploration to exploitation. The projected budgetary implications of such an evolution are outlined. The Finance Committee is invited:

   (a) To take note of the future projections outlined in the present report;
   
   (b) To consider the further revised budget format outlined in section VI of the present report and provide direction as required;
   
   (c) To report to the Council and the Assembly, as appropriate.
## Annex

### Table 1
**Indicative summary of post requirements of the Compliance Assurance and Regulatory Management Unit, 2021–2030**

<table>
<thead>
<tr>
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</thead>
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<tr>
<td>Professional and higher</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<tr>
<td>General Service and related</td>
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<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>5</td>
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</table>

### Table 2
**Indicative budgetary requirements of the Compliance Assurance and Regulatory Management Unit, 2021–2030**

(United States dollars)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel</td>
<td>–</td>
<td>50 000</td>
<td>100 000</td>
<td>100 000</td>
<td>100 000</td>
</tr>
<tr>
<td>Workshops</td>
<td>–</td>
<td>100 000</td>
<td>100 000</td>
<td>100 000</td>
<td>100 000</td>
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<tr>
<td>Consultants</td>
<td>–</td>
<td>50 000</td>
<td>50 000</td>
<td>50 000</td>
<td>50 000</td>
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<tr>
<td>Equipment</td>
<td>–</td>
<td>50 000</td>
<td>50 000</td>
<td>50 000</td>
<td>50 000</td>
</tr>
<tr>
<td>DeepData operating costs</td>
<td>–</td>
<td>200 000</td>
<td>200 000</td>
<td>200 000</td>
<td>200 000</td>
</tr>
<tr>
<td>Cost recovery overhead (13 per cent)</td>
<td>–</td>
<td>214 458</td>
<td>276 549</td>
<td>282 048</td>
<td>286 559</td>
</tr>
<tr>
<td><strong>Subtotal, non-post costs</strong></td>
<td>–</td>
<td>664 458</td>
<td>776 549</td>
<td>782 048</td>
<td>786 559</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>245 400</td>
<td>1 864 138</td>
<td>2 403 849</td>
<td>2 451 648</td>
<td>2 490 859</td>
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<tr>
<td>Incremental growth</td>
<td>–</td>
<td>1 618 738</td>
<td>539 711</td>
<td>47 799</td>
<td>39 211</td>
</tr>
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</table>

### Table 3
**Indicative budgetary requirements of the International Seabed Authority, 2021–2030**

(United States dollars)

<table>
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</thead>
<tbody>
<tr>
<td>General Administrative Fund</td>
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<td>13 925 053</td>
<td>14 551 681</td>
<td>15 206 506</td>
<td>15 890 799</td>
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<td>Conference services</td>
<td>3 000 500</td>
<td>3 700 000</td>
<td>4 340 000</td>
<td>5 000 000</td>
<td>5 685 000</td>
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<tr>
<td>Programme budget</td>
<td>3 085 370</td>
<td>3 224 212</td>
<td>3 369 301</td>
<td>3 520 920</td>
<td>3 679 361</td>
</tr>
<tr>
<td>Compliance Assurance and Regulatory Management Unit</td>
<td>245 400</td>
<td>1 864 138</td>
<td>2 403 849</td>
<td>2 451 648</td>
<td>2 490 859</td>
</tr>
</tbody>
</table>
### Table 4

**Indicative revenue of the International Seabed Authority, 2021–2030**

(United States dollars)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Inspection mechanism</td>
<td>–</td>
<td>–</td>
<td>500 000</td>
<td>1 000 000</td>
<td>1 500 000</td>
</tr>
<tr>
<td>Enterprise</td>
<td>–</td>
<td>600 000</td>
<td>700 000</td>
<td>750 000</td>
<td>800 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19 656 680</td>
<td>23 313 403</td>
<td>25 864 831</td>
<td>27 929 074</td>
<td>30 046 019</td>
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<tr>
<td>Incremental growth</td>
<td>–</td>
<td>3 656 723</td>
<td>2 551 428</td>
<td>2 064 243</td>
<td>2 116 945</td>
</tr>
</tbody>
</table>

### Figure I

**Projected budgetary requirements by source of revenue, 2021–2030**

(United States dollars)
Figure II
*Projection of assessed contributions and contractor fees as a percentage of the total budget, 2021–2030* (Percentage)

Figure III
*Comparison of projected increases in budgetary requirements and revenue, 2021–2030* (United States dollars)
Figure IV
Comparison of actual and projected budgetary requirements (1998–2030) and projected contributions (2022–2030)
(United States dollars)