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**ADMINISTRATIVE, FINANCIAL AND STATUTORY MATTERS**

**(c) Audit report on the ST-EP Foundation and UNWTO Osaka office**

**Addendum 1**

**Note by the Secretary-General**

The Secretary-General transmits to the Executive Council in the following document the audit report on the ST-EP Foundation and UNWTO Osaka Office.

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**Addendum 1**

*Original: French*

*“Cour des comptes*

*The First President*

*Paris, 3 April 2009*

901763

*Mr. Secretary-General,*

*Please find attached our report of final observations on the “ST-EP” Foundation of the World Tourism Organization in Seoul and the UNWTO regional support office for Asia and the Pacific in Osaka.*

*Accept, Mr. Secretary-General, the assurances of my highest consideration.*

*Best regards, [handwritten]*

*[Signed]*

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## TABLE OF CONTENTS

I.	<b>OBJECTIVES, METHODS AND SCOPE OF THE AUDIT</b> -----	3
II.	<b>OBSERVATIONS ON THE KOREAN "ST-EP" FOUNDATION in Seoul</b> -----	4
	<b>A. The foundation has not managed to bring together the contributors to the "ST-EP" programmes</b> -----	5
	a) The statutory boards -----	5
	b) The collection of contributions -----	7
	<b>B. A very small portion of the funds that the Republic of Korea had pledged to contribute was allocated belatedly to the ST-EP programmes</b> -----	9
	a) The pledges of the Korean Government -----	9
	b) Belated reception of the funds by the UNWTO -----	9
	c) The allocation of the fund -----	13
	d) The agreement with GTZ for the evaluation of the programmes -----	15
	<b>C. The UNWTO does not, no more than the board of directors does, have precise knowledge of the accounts and of the functioning of the Foundation</b> -----	15
	a) No account of the activities of the Foundation had been produced until the start of the audit -----	15
	b) The accounts produced in the course of the audit indicate that the Foundation is essentially funded by subsidies from the Korean Government ----	17
	c) The team of the Foundation -----	20
	<b>D. The Foundation conducts, on its own initiative, and using contributions that it solicits, activities unrelated with the ST-EP programmes</b> -----	21
	<b>E. The re-examination of the relations between the UNWTO and the Foundation should lead to the resolution of the current ambiguities</b> -----	25
	<b>F. Final recommendation</b> -----	27
III.	<b>THE UNWTO REGIONAL SUPPORT OFFICE FOR ASIA-PACIFIC IN OSAKA</b> -----	28
	<b>A. The statutes of the support office provide but a very partial vision of its organization and its functioning</b> -----	28
	<b>B. The overlap of the two entities is total</b> -----	29
	<b>C. The activities of the office remain modest, even including those of APTEC</b> -----	34
	<b>D. Relations between the headquarters and the office would gain from being better defined and monitored</b> -----	35
IV.	<b>GENERAL CONCLUSION</b> -----	36
V.	<b>ACKNOWLEDGEMENTS</b> -----	36



## I. OBJECTIVES, METHODS AND SCOPE OF THE AUDIT

1. By virtue of a vote taken at the 17th session of the UNWTO General Assembly, held in Cartagena, Colombia, in November 2007, the First President of the National Audit Commission (*Cour des comptes*) of France received a mandate to carry out an audit on the entities created over the past several years within the sphere of influence of the Organization: the support office for Asia-Pacific in Osaka, Japan; the Themis Foundation in Andorra; the ST-EP Foundation in Seoul; and the Centre of Excellence for Destinations in Montreal. The Secretary-General pointed out that "while it is true that these organizations, save for exceptions, do not administer resources coming from the budget of the UNWTO, the contributions that they receive are solicited in the name of the latter, which justifies that the UNWTO should not fail to take an interest in them."

2. At the request of the Committee on Budget and Finance on 12 March 2008, France's *Cour des comptes* was entrusted with carrying out an audit on the ST-EP1 (Sustainable Tourism Eliminating Poverty) Foundation based in Seoul and the UNWTO regional support office for Asia and the Pacific in Osaka, Japan.

3. The audit was conducted in accordance with the resolutions of the General Assembly and Article 7 of the Financial Regulations and Rules of the United Nations and its annex.

4. It is based on Article 26 of the Statutes of the UNWTO and Regulation 16 of its Financial Regulations, which stipulate that "In addition to auditing, the Auditors may make any observations they consider necessary with respect to the efficiency of the financial procedures and administration, the accounting system, the internal financial controls and, in general, the financial consequences of administrative practices" as well as "such observations with respect to their findings resulting from the audit and such comments on the Secretary-General's financial report as they deem appropriate".

5. The external auditor:

- a) requested, on 24 April 2008, a dossier on each of the entities subject to inspection,
- b) submitted an initial detailed questionnaire on 27 June, to which a response was transmitted to him on 12 September,
- c) submitted a second detailed questionnaire on 29 September,
- d) met in Madrid, on 3 October, with the Secretary-General, the principal officials involved in relations with the Seoul foundation, and Mrs. Han, Director-General of the latter,
- e) sent, on 22 October, to the Secretary-General an initial preliminary draft report containing, among others, initial recommendations with regard to the ST-EP Foundation,
- f) met again, in Madrid, on 28 October, with the Secretary-General, several officials of the headquarters, as well as with Mr. Honda, the official responsible for the support office in Osaka.

- g) sent, on 30 October, to the Secretary-General a new preliminary draft report indicating the recommendations with regard to the ST-EP Foundation,
- h) sent, on 17 November, two questionnaires to the ST-EP Foundation and to the regional support office in Osaka, respectively.

He requested that a mission letter signed by the Secretary-General specify the conditions of the audit of the two entities. As they receive no contribution from the UNWTO, the aforementioned entities cannot be subjected to a traditional accounting audit, which entails considerable added difficulty given that the justifying documents are in Korean and in Japanese. This precaution was all the more necessary in light of the fact that the officials of the Osaka office had, initially, contested the validity of the very notion of the audit.

6. The auditor was in Seoul on 8 and 9 December 2008 and met with the officials of the Foundation as well as with representatives of the Ministry of Culture and Tourism and of the Korea International Cooperation Agency (KOICA); he then travelled, on 11 and 12 December, to Osaka where he met with the officials of the regional support office for Asia and the Pacific, being unable to meet (in Tokyo) with the officials of the Ministry of Tourism or of the very recently created Japan Tourism Agency.

## **II. OBSERVATIONS ON THE KOREAN “ST-EP” FOUNDATION in Seoul**

7. The principle for an initiative to fight poverty through tourism was launched by the UNWTO at the Johannesburg Summit on Sustainable Development in 2002.

The implementation of this initiative was to be carried out in two ways:

- the launch of the programme “Sustainable Tourism – Eliminating Poverty” (ST-EP)

in the developing countries,

- the creation of a foundation that, according to intentions of its promoters, was to obtain funds from public partners (cooperation and development agencies of various countries) and from private entities.

8. Agreements were quite quickly concluded with various public partners (SNV of the Netherlands and the Italian cooperation agency), but the discussions prior to its constitution were laborious.

Initially envisaged to be based in Switzerland, the foundation was finally headquartered in Seoul in 2004 and its chairmanship was given to Korea after the Korean Government pledged to contribute five million dollars over four years.

9. Its Constitution was the subject of long negotiations and went through numerous successive versions. It was finally adopted in November-December 2005 by the 16th session of the UNWTO General Assembly.

The Constitution states that the Foundation's mission is to “contribute to the safeguarding of natural and cultural heritage and to socio-economic development by cooperating with international organizations, governments and related authorities, foundations, private corporations, associations and individuals who are willing to contribute to the same goals of reducing poverty levels through sustainable tourism projects and initiatives”. “The ST-EP Foundation is a vital complementary institution, which enhances the value of the UNWTO Sustainable Tourism Development programme for poverty elimination.”

**A. The Foundation has not managed to bring together the contributors to the “ST-EP” programmes**

10. The Foundation has a dual nature. For the UNWTO, its vocation is to become “a foundation with the mission of obtaining special funding from the private sector, humanitarian organizations and public institutions”. However, for the time being, it is no more than a not-for-profit association as provided for by Article 32 of the Korean Civil Code, whose resources are for the most part limited to those granted to it by the government of the country.

a) The statutory boards

11. Article VIII of the Constitution adopted by the UNWTO General Assembly in Dakar in December 2005 stipulates that the Foundation shall be administered by a council of governors and a board of directors.

**Table 1:  
Composition of the statutory boards**

<b>a ST-EP Board of Directors composed of:</b>	<b>a Council of Governors composed of:</b>
<b>the UN Secretary General or his/her representative</b>	<b>the Chairman of the Executive Council of the UNWTO</b>
<b>the UNWTO Secretary-General</b>	<b>the UNWTO Secretary-General</b>
<b>one representative of the host Government</b>	<b>one representative of the host Government</b>
<b>seven representatives of the member states of the UNWTO (one per regional commission plus an additional one from Africa)</b>	<b>seven representatives of the member states of the UNWTO (one per regional commission plus an additional one from Africa),</b>
<b>the President of the ST-EP Foundation (non-voting member).</b>	<b>the President and Director-General of the ST-EP Foundation (non-voting members)</b>
	<b>one representative from the World Committee on Tourism Ethics established by the UNWTO (who seems not to have been appointed)</b>

At the UNWTO Executive Council session that was held in Madrid in June 2006, an additional provision was considered stipulating that additionally, donors contributing 500 000 \$ or more per year to the ST-EP Foundation shall have the right to designate a representative to the council (of governors) providing that their representatives does not surpass the number of other, non-donor, members.

In actuality, this council of governors, whose functions--truth be told--are little different from those of the board of directors, has not been constituted, and the reasons for such non-constitution have not been given.

The Board of Directors is in charge of policy decisions and the raising of funds.

According to Article 8 of the Constitution, it is supposed to:

- “define ways and means to achieve the objectives of the ST-EP Foundation
- approve plans and programmes for the implementation of its activities and projects
- review the ST-EP Foundation’s cost-effectiveness, financial integrity and transparency
- approve ST-EP budget and accounts upon proposal by its President
- appoint an external auditor
- appoint the President of the Foundation
- ratify the Director-General of the ST-EP Foundation, proposed for this function by the Government of the Republic of Korea
- approve the organizational framework of the ST-EP Foundation
- approve personnel policies and basic salaries
- approve the establishment of subsidiary offices.”

12. The Board of Directors of the ST-EP Foundation has met five times
- on 9 March 2006 in Berlin,
  - on 26 June 2006 in Quito,
  - on 2 February 2007 in Madrid,
  - on 24 November 2007 in Cartagena de Indias,
  - on 12 June 2008 in Seoul.

Although they are not included, statutorily speaking, among the members of the board, the principal contributors to the funding of the ST-EP programmes have often been invited to its meetings and the board has been informed about all the ST-EP programmes beyond those that were to receive assistance from just the Korean foundation.

13. In his report to the 80th session of the Executive Council (in June 2007) on the progress of the ST-EP Programme, the UNWTO Secretary-General stated that at its 3rd meeting, on 2 February 2007 in Madrid, the Board of Directors of the ST-EP Foundation invited SNV, the Netherlands Development Organisation, and the government of Italy to join the Foundation.

At the 3rd meeting of the Board of Directors in February 2007, the UNWTO Deputy Secretary-General reiterated his proposal. In fact, the representative of SNV participated in the 4th meeting in November 2007 and representatives of Italy took part in the 5th meeting held in Seoul in June 2008.

**Table 2:**  
**List of participants in the fifth meeting of the Board of Directors**  
**(Seoul, 12 June 2008)**

<b>Chairperson</b>		Ms. Dho	
<b>Members</b>	India	Mr. Banerjee	Ministry of Tourism
	Italy	Mr. Micoletti	Counsellor, Ministry of Foreign Affairs
		Mr. Di Pietro	Director of Tourism
		Mr. Pantaleoni	Directorate of Tourism
		Mr. Pedalino	Expert, Ministry of Foreign Affairs
	Lesotho	Mr. Tseole	Ministry of Tourism
		Mr. Mthwalo	Tourism Development Agency
	Saudi Arabia	Mr. Almubarak	Adviser to the Secretary-General of the Tourism



			Commission
	Senegal	Mr. Sy	Adviser to the Minister of Tourism
<b>Observers</b>	SNV (Netherlands)	Mr. Wehkamp	Regional Director for Asia
<b>ST-EP Foundation</b>		Ms. Han	acting director
<b>UNWTO</b>		Mr. Frangialli Mr. Rifai Mr. Yunis Mr. Varma Ms. Bernardet Ms.Maccoll	Secretary-General Deputy Secretary-General Director of Prog. and Coordination Director, Technical Assistance Chief, Conference Service Chief of cabinet of the SG

By diverging from the Constitution in this way, the UNWTO aims to strengthen the role of the board of directors of the Foundation as an information structure for all ST-EP programmes. However, the various contributors do not intend to subject their commitment to the board or to have their contributions go through a foundation which to them appears as essentially Korean.

#### 14. Recommendation no.1:

**The composition of the governing organs of the Foundation, which is not in accordance with the Constitution, should be the subject of a clarification that, as the case may be, formalizes the inclusion of donors.**

#### b) The collection of contributions

15. After 2002, the UNWTO concluded cooperation agreements with different partners with a view to the implementation of a series of poverty-reduction programmes throughout the world.

SNV of the Netherlands pledged 2 million euros on 25 November 2004, shortly followed by Italy, with three successive commitments (391,913; 650,000 and 330,000 euros, totalling 1,371,913 euros).

The agreements were signed bilaterally, without the involvement of the Foundation, and the contributions were to be paid directly to the UNWTO without passing through, as in the case of those of the Korean Government, the accounts of the Foundation.

According to a report prepared in June 2008, 51 approved projects (24 in Africa, 16 in the Americas, 10 in Asia and one in Europe) were to be funded by:

- the ST-EP Foundation, 15 projects
- SNV (Netherlands), 22 projects
- the Italian Government, 13 projects
- and a last one with own funds of the UNWTO.

France (Directorate-General for International Cooperation and Development of the Ministry of Foreign Affairs) likewise participates in the programmes through the secondment of an official to the Madrid headquarters.

16. The reports of the auditors for financial years 2006 and 2007 (pages 8 and 10, respectively, of the French versions of the reports), specify the amount of "funds received to finance the activities of the ST-EP programme"

**Table 3 Financing of the ST-EP programmes according to the reports of the UNWTO's auditors (in euros)**

Donor	Balance as at 31/12/ 2005	Income 2006	Expenditures 2006	Balance as at 31/12/2006	Income 2007	Expenditures 2007	Balance as at 31/12/2007
SNV (Netherlands Dev. Organisation)	1,377,533.13	(30,777,71)	706,465,20	640,290.22	37,093.00	456,605,04	220,778.18
Gov. Thailand	3,887.05			3,887.05			3,887.05
Gov. Italy		391,913.00	,142,827.03	249,085.97	330,000.00	246,333.96	332,752.01
Gov. Cambodia					88,080.00	32,695.57	55,384.43
Belgian Technical Coop.					12,145.00	,12,065.97	79.03
Technical Coop. of Ecuador					3,594.92	3,587.83	7.09
<b>Total</b>	<b>1,381,420.18</b>	<b>361,135.29</b>	<b>849,292.23</b>	<b>893,263.24</b>	<b>470,912.92</b>	<b>751,288.37</b>	<b>612,887.79</b>

These tables, which seem to correspond to a special fund-in-trust within the UNWTO's accounts, make it appear that the bulk of the funds comes from the Netherlands and from Italy, that no contribution was made by the Foundation during the two years, and that the UNWTO advanced a substantial part of the funds pledged. It is true that the amounts in question remain modest in relation to the overall accounts of the Organization.

**Table 4:  
Part of the ST-EP programmes in the UNWTO accounts  
according to the auditors' report (in euros)**

	Income 2006	Expenditures 2006	Income 2007	Expenditures 2007
<b>1. UNWTO</b>	14,708,684	14,708,684	16,232,889	16,310,974
<b>2. ST-EP Programmes</b>	361.,35	849,292	470,912	751,288
<b>% 2/1</b>	<b>2.8 %</b>	<b>5.7 %</b>	<b>2.9 %</b>	<b>4.6 %</b>

**B. A very small portion of the funds that the Republic of Korea had pledged to contribute was allocated belatedly to the ST-EP programmes**

a) The pledges of the Korean Government

17. The agreement signed on 25 September 2004 between the UNWTO and the Ministry of Culture and Tourism of the Republic of Korea specified a concrete timetable of disbursements of the contributions of the ministry to the Foundation for the purpose of funding the activities carried out under the ST-EP Programme:

**Table 5:  
(Agreement of 25 September 2004 between the Ministry of Culture of the Republic of Korea and the UNWTO)**

Date of payment	Amount in \$	Beneficiary account
8 October 2004	2,000,000	UNWTO temporary account
31 March 2005	1,000,000	Account of the ST-EP Foundation
31 March 2006	1,000,000	Same
31 March 2007	1,000,000	Same

In 2005, the 16th session of the UNWTO General Assembly thanked the Korean Government for “its generous donation of US\$ 5 million for the ST-EP Foundation’s initial patrimony and other valuable support for the Foundation set-up and interim operation in 2005.”

b) Belated reception of the funds by the UNWTO

18. A table produced by the UNWTO official responsible for accounting specifies how the UNWTO handles the funding of the ST-EP programmes. This table distinguishes among three categories of funds: voluntary contributions, the funds of the “Madrid reserve” and those of the “Seoul reserve”.

**Table 6: “Funding of ST-EP Programmes as at 16 October 2008” (€and \$)  
(produced by the accounting services of the UNWTO on 27/10/08)**

- Voluntary contributions: these are funds that do not pass through the Foundation, and which are managed within the framework of funds-in-trust specific to each contributor. These are the only accounts mentioned in the auditors' report under the heading of the funding of the ST-EP programmes.

**Table 6(a):  
ST-EP Programmes ("voluntary contributions")**

Date	Partners	Income €	Expenditure €	Balance €
2004	SNV	1,617,500.00		?
2005	Thailand	3,887.05		?
	SNV	?	270,744.58	?
2006	SNV	27,674.05	706,465.20	?
	Italy	391,913.00	142,827.03	?
2007	SNV	57,005.87	456,605.04	?
	Italy	330,000.00	246,333.96	?
	Cambodia	88,080.00	32,695.57	?
	Belgium	12,145.00	12,065.97	?
	Ecuador	3,594.92	3,587.83	?
2008	SNV	188,429.39	152,140.49	?
	Italy	328,611.00	371,203.59	?
	Cambodia		- 9,993.18	?
<b>Total</b>		<b>3,048,840.28</b>	<b>2,384,676.08</b>	<b>664,164.20</b>

- The "Madrid reserve": the headquarters keeps an account of a "Madrid reserve" of the ST-EP Foundation. This "reserve", which appears in the UNWTO's documents but which does not appear as such in the auditors' report, was originally funded by a contribution by the UNWTO, charged against its appropriations for technical cooperation, which had been demanded by the Korean party as a counterparty contribution to its own pledge. This table confirms that the Foundation did not contribute to the funding of the projects prior to 2008. Previously, only the funds from the UNWTO and those from Macau (in 2004), from Thailand, and from the Flemish Community of Belgium were mentioned. Indeed, it would be reasonable to raise questions about the status of these contributions that do not appear in the accounts of the Korean foundation but, which, according to the headquarters, appear to be destined to be paid to it.

**Table 6(b):**

**ST-EP Foundation ("Madrid reserve")**

Date	Transactions	Income \$	Expenditures \$	Balance \$
2004	Contribution from UNWTO	500,000.00		
	Contribution from Macau	200,000.00		
	Interest received	295.57		
	Expenditures		1,099, 21	699,196.36
2005	Interest received	4,245 .76		
	Expenditures		1,269,10	702,173.02
2006	Bank interest accrued 2006	20,095.12		
	Expenditures		282,921.73	439,346.41
2007	Contribution from Thailand (€ 4 047, 60)	5,537.45		
	Contribution from the Flemish Government (Belgium) (€ 80 000)	111,761.28		
	Bank interest accrued 2007	6,584.93		
	Expenditures		653,992.73	(-90,762.66)

<b>2008</b>	Contribution from the ST-EP Foundation (Korea)	116,000.00		
	Contribution from the ST-EP Foundation (Korea)	490,000.00		
	Contribution from the ST-EP Foundation (Korea) – Agreement between SNV and ST-EP Foundation	500,000.00		
	Expenditures		244,847.08	770,390.26
<b>Total</b>		<b>1,954,520.11</b>	<b>1,184,129.85</b>	<b>770,390.26</b>

- The “Seoul reserve”: the UNWTO makes an effort to keep an account of a “Seoul reserve” based on estimations available to it regarding the operations of the Korean Foundation. This table confirms the meagreness of such information. Thus, personnel costs are estimated in a highly approximative manner at 100,000\$ in 2006 as well as in 2007. During the field mission it was observed that salaries were booked (in won) at: 197,700,000 in 2006 and 231,397,748 in 2007, that is, some 211,972\$ and 245,284\$, respectively. The Foundation, moreover, sent in March 2008 to the director of administration and finance, a budget statement containing salary figures that are closer to reality (226,205\$ in 2006, 281,456 in 2007). Furthermore, the foundation charges all of its operating expenditures, above and over just salaries, against government contributions. Due to this, the reserves that it has are substantially lower than those that the headquarters believes it has.

**Table 6(c):**

**ST-EP Foundation (“Seoul reserve”)**

<b>Date</b>	<b>Transactions</b>	<b>Income \$</b>	<b>Expenditures \$</b>	<b>Balance \$</b>
<b>2004</b>	Korean Government	2,000,000	0	2,000,000
<b>2005</b>	Korean Government	1,000,000	0	3,000,000
<b>2006</b>	Korean Government	1,000,000	0	4,000,000
	Est. pers. exp.		100,000	3,900,000
	Interest 2004-2006	109,679	0	4,009,679
<b>2007</b>	Est. pers. exp.		100,000	3,909,679
	Estimated interest 2007	44,000	0	3,953,679
<b>2008</b>	Transfer to ST-EP Madrid		116,000	3,837,679
	Transfer to ST-EP Madrid		490,000	3,347,679
	Transfer to ST-EP Madrid (SNV-Foundation agreement)		500,000	2,847,679
	Est. pers. exp.		100,000	2,737,679
<b>Total</b>		<b>4,153,679</b>	<b>1,406,000</b>	<b>2,747,679</b>

**Note: the overall balance does not tally with the final balance**

19. The contribution received in 2008 comes, partly, from an account opened at the Citibank of Seoul in the name of the UNWTO, regarding which the latter says it had great difficulties keeping itself informed. Only summary statements are available at the headquarters.

**Table 7:**  
**Transactions appearing in the Citibank account in 2008 (in \$)**  
**(table prepared by the auditor based on bank statements)**

Account numbers	Opening balance (28/12/07)	Debits	Credits	Closing balance
5/015449/006	Not specified	31.60 (25/01) <b>116,000</b> (25/01) 5.39 (03/03) 30.10 (9/03) <b>490,000</b> (29/03)	53.95 (25/01) <b>400,000</b> (10/03)	10,421.56 (29/03)
5/015449/014	Not specified	4,738.58(28/12/07) 1.78 (03/03)		29,557.44 (03/03)
5/015449/022	<b>300,000</b>	5,895.28 (10/01) 1,205.33 (11/01)	47.09 (03/03)	292,926.48 (03/03)

The amounts of 116,000\$ and 490,000\$ correspond to transfers to the "Madrid reserve". The 400,000\$ paid into the account on 10 March 2008 came from the Korean foundation but the 300,000\$ appearing in the opening balance was paid in by KOICA (Korean International Cooperation Agency) on 28 December 2007. The UNWTO does not know the reasons why three accounts were opened at the start. According to the statements of the accountant, it demanded on various occasions the payment, which was finally made in 2008.

During his field visit, the auditor verified that the numbers corresponded to those of the three accounts opened by the Foundation at Citibank in Seoul, but the transactions stated by the foundation regarding each of them are not the same:

**Table 8:**  
**Citibank accounts prepared during the mission to Seoul**

Account no.	Transaction in question	Period of opening	Type of account
5-015449-006	"General "	08.10.08-09.02.05	Time deposit
5-015449-014	"West Africa project"	08.10.07-09.02.04	Same
5-015449-022	"Small Libraries" budget	08.10.08-09.02.25	Same

("Small Libraries": see paragraph 35, page 18)

20. The other contribution (amounting to 500,000\$) corresponds to a tripartite partnership agreement concluded in March 2008 among SNV, the ST-EP Foundation, and the UNWTO for the three-year period 2008-2010, in which the three parties agreed to contribute the following funding, not including personnel services.

**Table 9: (according to SNV/ST-EP Foundation/UNWTO partnership agreement, in won)**

Partners	In 2008	In 2009 /2010	Total
ST-EP Foundation	500,000	1,000,000	1,500,000
SNV	580,000	725,000	1,305,000
UNWTO	465,000	156,361	621,361
<b>Total</b>	<b>1,545,000</b>	<b>1,881,361</b>	<b>3,426,361</b>

**21. Recommendation no. 2:**

**The nature of the “Madrid reserve” and of the “Seoul reserve” of the ST-EP Foundation should be specified. In any event, the UNWTO must be able to know the resources available to the Foundation for the ST-EP programmes, whether they come from contributions by the Korean Government or from other governments.**

c) The allocation of the funds

22. According to the ST-EP Foundation Projects State of Affairs Report prepared in October 2008 by the UNWTO, the funds received in 2008 were allocated to the funding of 15 of the 51 projects (slightly fewer than a third), for a total amount of 516,025\$.

**Table 10: Projects benefiting from financial participation by the Foundation  
(table in \$ produced by the UNWTO in October 2008)**

<b>Title of the project</b>	<b>Budget</b>	<b>Expenditures</b>	<b>Available balance</b>	<b>Implementation status</b>
<b>Ecuador</b> New Technologies for Communication and Competitiveness for Tourism Micro-Enterprises	50,000 \$	50,000 \$	nil	Completed
<b>Honduras</b> Establishing linkages between Garifunas' Small Businesses and the Bahia de Tela "Los Micos Beach and Golf Resort"	100,000 \$	59,000 \$	41 000 \$	In progress
<b>Peru</b> Sustainable Tourism and Birdwatching at Luichipucro	13,550 \$	nil	13,550 \$	In progress
<b>Peru</b> Sustainable Development for Families of "La Encantada"	10,000 \$	8,000 \$	2,000 \$	In progress
<b>Lao PDR</b> Tourism development in two villages	36,500 \$	19,700 \$	16,800 \$	In progress
<b>Viet Nam</b> Development of Handicraft Villages in Ha Tay Province	70,000 \$	49,300 \$	20,700 \$	In progress
<b>Ethiopia</b> Konso Community Tourism Project	80,000 \$	40,000 \$	40,000 \$	In progress
<b>Gambia</b> Kartong Community-based and Ecotourism Project	95,000 \$	2,000 \$	93,000 \$	Suspended
<b>Guinea</b> Ecotourism Development in the Dubreka Region	25,000 \$	25,000 \$	nil	Completed
<b>Kenya</b> The Kitengela Footbridge Project	30,000 \$	30,000 \$	nil	In progress

<b>Madagascar</b> Development of Community-Based Ecotourism in the Anjozorobe-Angavo Protected Area	112,525 \$	112,550 \$	nil	In progress
<b>Mozambique</b> Community-Based Lodges Training Programme	62,400 \$	62,000 \$	nil	In progress
<b>Tanzania</b> Pangani-Saadani Coastal Protection	77,500 \$	58,125 \$	19,375 \$	In progress
<b>West Africa</b> Network of Cross-Border Parks and Protected Areas in Nine Countries	50,000 \$	nil	50,000 \$	Pending approval
<b>Zambia</b> Village Action for Sustainable Tourism	113,000 \$	nil	113,000 \$	In progress
<b>15 ST-EP Projects</b>	<b>925,450 \$ 2</b>	<b>516,025 \$</b>	<b>435,900 \$</b>	<b>56% spent</b>

Total amount of expenditures booked (516,025\$) seems to correspond to the first two payments recorded on 25/01/08 (116,000\$) and on 10/03/08 (400,000\$). The official responsible for development points out that the funds are only allocated and, if necessary, reallocated, in step with the progress, often difficult, of the implementation of the projects. Thus:

- The Ecuador project, presented as "completed" in June 2008, was abandoned in October in favour of a project to be launched at the end of 2008.
- The Gambian project was abandoned in the end, as the host country had not paid its contribution.
- The project in Madagascar is stated to be in progress although its allocation has been exhausted.

A contribution of 350,000\$ has been directly allocated by the Korean Cooperation Agency (KOICA) to the network of cross-border national parks in West Africa.

Even if the amounts under consideration are small, the amounts and balances posted in this table do not correspond to the amounts of the budgets and expenditures, which confirms that we are dealing with a working document that is not of a strict accounting nature:

**Table 11:**  
**Errors in the balances posted in Table 10**  
**(prepared by the auditor)**

Project	Budget	Expenditure	Balance posted	Real balance
<b>Madagascar</b>	112,525 \$	112,550 \$	nil	- 25 \$
<b>Mozambique</b>	62,400 \$	62,000 \$	nil	400

In fact, this table does not tally with that which was produced by the foundation during the field mission in December.

2 The total should be stated as 925 475 \$.



**Table 12:  
Comparison of the state of funding of the projects according to the documents  
available in Madrid and in Seoul**

	<b>UNWTO document (October 2008)</b>	<b>Foundation document (December 2008)</b>
<b>Overall budget</b>	925,450 \$	
<b>Foundation funds</b>		1,026,450 \$
<b>Total funds available</b>		1,766,625 \$

**23. Recommendation no. 3:**

**The funds allocation table should be discussed in real time between the Foundation and the UNWTO.**

- d) The agreement with GTZ for the evaluation of the programmes

24. At the meeting in June 2008, the Chairperson of the Foundation informed the board about her talks with the German development agency (GTZ). It appears that these talks did not have the objective of obtaining participation in the funding of the ST-EP programmes, but rather, they were aimed at the organization of an evaluation, funded by the Korean government, of the ST-EP programmes carried out by the UNWTO.

The full extent of the confusion of responsibilities is thus apparent, with the chairperson of the Foundation assuming the right, without referring the matter to the UNWTO, to negotiate an initiative for the evaluation of programmes in whose funding its participation is partial and only recently mobilized. Moreover, to this end, she is approaching an entity that is similar to those that already contribute to the funding of these programmes (SNV, Italian Government, etc.)

The conclusion of the agreement between the foundation and GTZ, and the animated reactions it provoked at the UNWTO show the insufficient precision of the agreements on how the evaluation of projects is to be done, but also the incapability of the Foundation to carry out such evaluation itself, in contrast to other cooperation agencies (SNV, the Italian agency, and KOICA).

**25. Recommendation no. 4:**

**The evaluation of the programmes, the responsibility for which falls on the board of directors, should be the subject of a clear agreement among the partners.**

**C. The UNWTO does not, no more than the board of directors does, have precise knowledge of the accounts and of the functioning of the Foundation**

- a) No account of the activities of the Foundation had been produced until the start of the audit

26. In accordance with its status as a non-profit association under Article 32 of the Korean Civil Code, the competent administration (in this case, the Ministry of Culture, Sports and Tourism) can require the association to present its accounts and to inspect its management and its assets. The Foundation has not been subjected to any inspection of this kind.

27. Article 12 (Financing) paragraph 4 of its Constitution established in agreement with the UNWTO stipulates that “an annual audit of the operations of the ST-EP Foundation shall be conducted by an independent international accounting firm appointed by the Board of Directors”. “The audit report reviewed by the Board of Directors shall be reported to the Council of Governors and the UNWTO.” In fact, the “ST-EP” Foundation has been unable to submit its accounts to an independent international audit. Hence, no report is available at Madrid. In a letter dated 12 August 2008, the acting Director-General (Mrs. Bo-hwa Han) confirms that: “Since it would be too expensive to pay for an independent auditor who is familiar with international organizations, the best solution would be to rely on UNWTO’s auditors as suggested by Mr. Frangialli and approved by the Board of Directors of ST-EP Foundation during the BOD meeting in Madrid in 2007.”

28. At the 4th meeting of the board of directors, in November 2007, the chairperson said that an analysis of the financial situation of the Foundation would be presented at the following meeting scheduled for June 2008.

The accounting items submitted at the fifth meeting of the board of directors in Seoul in June 2008, are shown in the table below:

**Table 13:**  
**Document submitted to the 5th meeting of the Board of Directors, Seoul,**  
**June 2008**

<b>Funding</b>	5 ST-EP projects for 2006 in 6 countries (Ethiopia, Guinea, Kenya, Peru, Ecuador, Vietnam)	470,000 \$
	Network of national parks in 9 countries of West Africa	350,000 \$
	7 ST-EP projects for 2007 (Gambia, Madagascar, Mozambique, Tanzania, Zambia, Honduras, Lao PDR)	590,925 \$
	<b>Total</b>	<b>1,410,925 \$</b>
<b>Total assets</b>		
	Bank deposits	2,983,279.78 \$
	Deposits and cash	16,687.98 \$
	Equipment and etc.	20 403.08 \$
	<b>Total</b>	<b>3,020,370.84 \$</b>
<b>Operating cost in 2007</b>		
	Salary(ies?)	230,767.75 \$
	Office maintenance	58,908.20 \$
	Public relations and travel	113,036.75 \$
	Fringe benefits (of what nature?)	35,094.40 \$
	Miscellaneous	13,765.42 \$
	<b>Total</b>	<b>451,572.52 \$</b>
	<b>Average monthly cost</b>	<b>37,631 \$</b>
<b>Personnel (January-December 2007)</b>	<b>Acting Director-General (Korean Minister of Sports and Tourism)</b>	

	<p><b>Korean personnel:</b> one accountant and three general staffers</p> <p><b>Foreign personnel:</b> one Canadian one Frenchwoman one American (USA)</p>
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The breakdown and amounts of the funding do not tally with the statement submitted in June 2008 to the board of directors.

Funding ( <b>according to the above document</b> ) 13 projects amounting to 1,410,925 \$
Total disbursements made by the Foundation according to the statement of the "Madrid reserve of the Foundation": 1,106,000 \$ ( <b>Table 6</b> )
Document June 2008: 15 projects with a total budget of 925,450 \$ ( <b>Table 10</b> )

b) The accounts produced in the course of the audit indicate that the Foundation is essentially funded by subsidies from the Korean Government

29. In October 2008, Mrs. Han, recently appointed acting Director-General, sent the auditor detailed tables corresponding to the operating account and the balance sheet for the years 2006 and 2007.

Previously, the officials of the UNWTO had never been informed of such a document; in fact, there is no assurance that they had ever formally requested it. These documents have been summarized by the accounting department of the UNWTO, which also carried out the conversion into US dollars.

### 30. Operating account

In the statement for 2007, the "other income" amounting to 132,540,668 won includes the interest on a deposit amounting to 129,845,419 won, already included in the 1,270,566,500 won of income, the additions are therefore erroneous.

**Table 14:**  
**Operating account**  
**(Source: Foundation)**

Average exchange rate US dollar / Korean won 2007: 921. 2006: 952				
	2007 won	2006 won	2007 \$	2006 \$
Subsidies	1,270,566,500	0	1,379,551	0
Other income	132,540,668	90,830,282	143,910	95,410
<b>Total Income</b>	<b>1,403,107,168</b>	<b>90,830,282</b>	<b>1,523,461</b>	<b>95,410</b>
Administrative costs	634,987,656	414,007,144	689,455	434,881
Other costs				

	203,132,476	14,323,646	220,556	15,046
<b>Total Expenditures</b>	<b>838,120,132</b>	<b>428,330,790</b>	910,011	449,927
<b>Net results</b>	<b>564,987,036</b>	<b>337,500,508</b>	<b>613,450</b>	<b>354,517</b>

For the same fiscal year 2007, two versions of the operating account were produced.

**Table 15:**  
**Comparison of the two versions of the operating account**  
**(prepared by the auditor based on the accounts produced by the Foundation)**

In Korean won	First version	Second version
Subsidies from the government	1,140,721,081	1,140,721,081
Donations	282,644,996	0
Reserve for "essential" missions = interest on deposits	129,845,419	129,845,419
<b>Total</b>	<b>1,553,211,496</b>	<b>1,270,566,500</b>

The nature of the donations in question should be specified.

These accounts were completed during the onsite visit by a series of tables covering the two previous years.

**Table 16:**  
**Evolution of the resources and expenditures of the Foundation**  
**(Source: Foundation, in US dollars)**

	2004	2005	2006	2007	2008 (at 30/10)	Total
Subsidies from the government	1,802,640	892,545	808,832	811,861	0	4,315,878
Expenditures	4,296	153,610	361,354	403,989	259,420	1,182,669
<b>Balance</b>	<b>1,798,344</b>	<b>738,935</b>	<b>447,478</b>	<b>407,872</b>	<b>-259,420</b>	<b>3,133,209</b>

This last table does tally with those that were previously produced for years 2006 and 2007, or with the statement of account (in won) of subsidies actually received from the government, produced during the mission:

**Table 17:**  
**(Comparison of Table 16 and statement of account of subsidies received)**

	2004	2005	2006	2007	Total
Subsidies in \$	1,802,640	892,545	808,832	811,861	4,315,878
Subsidies In won	2,082,716,445	1,031,220,000	934,500,000	938,000,000	4,986,436,445
Subsidies in \$ (Exch. rates: 2006 :952 ; 2007 :921)			971,113	1,018,458	

The brevity of the onsite mission and the fact that documents are in Korean made it impossible to carry out a detailed comparison or an in-depth verification of these accounts which could explain these differences.

Whatever their inconsistencies, these tables confirm:

- that the resources of the Foundation come mainly from subsidies and very secondarily from interest accrued from deposits,
- that no contribution was made to the UNWTO by the Foundation in 2006 and 2007.

According to the documents obtained onsite, one-third of expenditure is accounted for by salaries and one-sixth by travel.

### 31. Balance

The Foundation has accumulated considerable "capital" and reserves due to the disparity in the volume of the funds received from the government and the sums actually paid out to the UNWTO for ST-EP programmes.

**Table 18: Balance Sheet  
(Source: Foundation)**

	2007 won	2006 won	2007 \$	2006 \$
<b>Assets</b>				
<b>Circulating assets</b>	<b>3,548,696,056</b>	<b>2,964,614,601</b>	<b>3,853,090</b>	<b>3,114,091</b>
Banks and cash	3,548,696,056	2,964,614,601	3,853,090	3,114,091
<b>Fixed assets</b>	<b>669,378,780</b>	<b>680,894,454</b>	<b>726,796</b>	<b>715,225</b>
Land, buildings and equipment	20,403,080	32,146,454	22,153	33,757
Intangible fixed assets	1,767,700	1,540,000	1,919	1,618
(Other fixed assets)	647,208,000	647,208,000	702,723	679,840
<b>Total assets</b>	<b>4,218,074,836</b>	<b>3,645,509,055</b>	<b>4,579,886</b>	<b>3,829,316</b>
<b>Liabilities</b>				
<b>Debt</b>	<b>10,329,805</b>	<b>2,751,060</b>	<b>11,216</b>	<b>2,890</b>
<b>Own capital</b>	<b>4,207,745,031</b>	<b>3,642,757,995</b>	<b>4,568,670</b>	<b>3,826,426</b>
Capital	3,360,112,999	3,642,757,995	3,955,220	3,826,426
Reserves	847,632,032	0	613,450	0
<b>Total liabilities</b>	<b>4,218,074,836</b>	<b>3,645,509,055</b>	<b>4,579,886</b>	<b>3,829,316</b>

The table produced (does not tally with the document presented to the board in June 2008).

**Table 19:  
Total assets**

	Document submitted to the board in June 2008 (undated, but probably as at 31/12/07)	Table produced during the mission (at 31/12/07)
Bank Cash or	2 983 279,78 16 687,98 <b>2 999 967,76</b>	<b>3 853 090</b>
Equipment and etc. Land, buildings and equipment Intangible fixed assets Other fixed assets or	    <b>20 403,08</b>	22 153 1 919 702 723 <b>726 796</b>
<b>Total</b>	<b>3 020 370,84</b>	<b>4 579 886</b>

The tables confirm that the foundation has accumulated “capital” and reserves against which administrative operating expenditures are charged.

Moreover, the large number of discrepancies points to the need for a more in-depth audit mission than that defined by the specifications for the present mission, and a team capable of reading the documents in Korean.

**32. Recommendation no. 5:**

**The large number of discrepancies found in the course of the mission would justify the implementation of the controls provided for in the Constitution:**

- ministerial inspection provided for by the founding constitution under Korean law,
- an audit of the accounts by a local auditor capable of reading the documents in Korean.

c) The team of the Foundation

33. At its first meeting the board of directors of the ST-EP Foundation elected Madam Ambassador Dho Young Shim as its executive chair, having been unable to appoint a chairman of the council of governors.

Ms Dho has occupied the same office at the Ministry of Culture, Sports and Tourism for ten years. Before devoting herself to the Foundation, she ran the ministry's operations for the promotion of the reception of foreign tourists on the occasion of the football World Cup. She is not remunerated from the budget of the Foundation. Possessing a large network of relations with the governing institutions of the country, she demonstrates a level of personal commitment that is truly remarkable.

At this first meeting the board “took note of the appointment of Mr. Jun Young Jae as Director-General”. The wording used in the minutes is in accordance with the Constitution and clearly indicates that the choice of the board was, in fact, limited. Its role has not been different with regard to the different directors-general that came since: at no time was its approval requested.

The Foundation only has a very modest team: aside from the acting Director-General, it employs six persons, two of whom, according to the Chairperson, would be remunerated in 2008 through the contract concluded with GTZ. Such a team can in no way participate, with the UNWTO as the cooperation agencies of the Netherlands or Italy are capable, in the prospection, piloting and evaluation of ST-EP programmes. In many regards, it would be more effective, for the UNWTO, to work directly with the Korea International Cooperation Agency (KOICA) which already directly participates in the funding of an important programme in West Africa. The Agency, which possesses undeniable know-how, has stated to the auditor that it was absolutely ready to develop its cooperation.

**34. Recommendation no. 6:**

**The respective roles of the Foundation and of the Korea International Cooperation Agency should be the subject of a more attentive reflection process that would make it possible to determine more precisely what justifies the intervention of the Foundation.**

**D. The Foundation conducts, on its own initiative, and using contributions that it solicits, activities unrelated with the ST-EP programmes**

35. The services of the UNWTO have not been able to produce any information on the activities conducted by the Foundation while using its acronym, other than those appearing on its website.

It is true that on the website there is a summary listing of programmes launched by the UNWTO in 2006 and 2007 that have received aid from the Foundation in 2008.

But the own activities of the Foundation have been more systematically developed there over the course of its four years of existence through numerous reports and press releases.

**Table 20: Activities of the Foundation  
(According to the website)**

2005	10 000 persons attend event at Angkor-Wat on the occasion of a meeting between Korean and Cambodian ministers
2006	The chairperson participated in the event "Our Common Humanity in the Information Age" at the UN Headquarters in New York. Support for the Korea-Africa Forum Reception of the Kenyan winner of the Jong-Ang marathon Organization of a lecture by a foreign visitor on sustainable development in Africa Participation in the ST-EP board of directors in Madrid Reception of the UNWTO Secretary-General in Madrid Fact-finding trip to Ghana, Togo and Congo (Brazzaville) First meeting of the ST-EP Foundation board of directors in Berlin Second conference of the ST-EP Foundation (Milan)

2007	<p>Eight "Thank You Small Libraries" launched in Ethiopia</p> <p>Assistance in the organization of the Little Dong-ji festival (Korea)</p> <p>Participation in the UNWTO General Assembly in Cartagena de Indias</p> <p>Support to an expedition by two New Zealanders to Baekdu-daegan (Korea)</p> <p>Launch of "Thank You Small Libraries" in Korea and Korea-Africa exchange forum</p> <p>Donations of sports equipment to ANOCA for children</p> <p>Visit by SNV official to Seoul to explore avenues of cooperation</p> <p>The Chairperson of the foundations attends the visit by the United Nations Secretary-General to the UNWTO headquarters in Madrid</p> <p>Parade of Nations</p> <p>Launch of the "African Children Sing!" initiative in Addis Ababa (Ethiopia)</p> <p>Reception of a delegation from Malawi</p> <p>Participation in the International Tourism Fair (Berlin) and in the 5th ST-EP forum</p> <p>Participation in ST-EP board of directors meeting and UNWTO-FIFA meeting</p> <p>Workshop with African ambassadors in Seoul</p>
2008	Launch of eight "Thank You Small Libraries" in Ethiopia

36. During the mission, the Foundation produced the details of the operations conducted at its own initiative.

**Table 21:**  
**Own operations of the Foundation**  
**(Source: Foundation)**

Date	Contributor	Subject	Amount in US dollars
28/12/07	Korean Sports Council	Speech by Ms. Dho at the International Forum on Sport and Peace	6,728
12/12/07	Boeing	Promotion of the "Thank You Small Libraries" project at a regional meeting in Korea	17,632
27/03/07	Constructor's Association of Korea	Support for a choral group of African children for the promotion of the 2010 World Cup in South Africa (presentation by the UNWTO SG in Addis Ababa)	173,105
09/04/07	American Chamber of Commerce in Korea	Parade of Nations (Association Diplomats' Wives in Korea)	2,597
25/04/07	USO	Same	1,298
30/04/07	Korea Electric Power Industrial Development	Same	2,597
30/04/07	Kangwon Land	Same	8,655
11/05/07	Galleria	Same	25,966
02/07/07	Liberty League in Korea	Same	6,059



<b>12/03/08</b>	Ministry of Culture, Sports and Tourism	GTZ	666,453
<b>24/04/08</b>	Same	Climate change	51,912
<b>09/10/07</b>	Korea International Cooperation Agency	West African Project	150,000
<b>09/10/07</b>	Same	Same	100,000
<b>Total</b>			<b>1,213,001</b>

**Notes:** 1) According to an observation by the Foundation upon examining the provisional report, only 120,000 \$ were paid to GTZ rather than the 666,453 \$ as mentioned in the table produced during the mission.

2) the balance seems to actually amount to 1,213,002 \$.

These operations, which will be imputed to the 2008 accounts, are highly diverse in nature and amount.

Some are simple public relations operations aimed, according to the Chairperson, at promoting the Foundation and ST-EP projects.

This is the case of the first two operations in the table, which correspond to speeches by the Chairperson at local meetings.

The same is true of the participation in the annual meeting of foreign diplomats' wives in Korea, which received various contributions amounting to 47,172\$ of which the foundations states that it gave 30,000\$ to a cooperative of women potters on the occasion of a trip to Ethiopia by its chairperson and its director-general.

The participation in the support for a choir of African children for the promotion of the 2010 World Cup falls under the same initiative.

It should be possible to classify the participation in the organization of a symposium, in the course of which the United Nations Secretary-General spoke, under the same category.

The organization of the "Thank You Small Libraries" in various African countries, promoted by the Chairperson of the Foundation with remarkable energy and enthusiasm, does not appear to have been discussed within the Board of Directors, and seems not to have received a "ST-EP" label.

These libraries:

- hire local teachers,
- are supplied with 100 books each,
- are lit using solar energy,
- have a "first-aid corner",
- organize choirs,
- provide popcorn to the children.

The reference to the contribution of the Korea International Cooperation Agency to the operation carried out by UNWTO in West Africa is of yet another nature given that although the funds pass through the accounts of the Foundation, the latter plays no real part in the set-up of the project. Moreover, the table is partial since the total amount of the contribution of the Agency is actually 350,000 \$.

The GTZ operation, funded by the Ministry of Culture, Sports and Tourism, is by far the biggest in terms of its financial amount. It corresponds to the evaluation agreement concluded with GTZ, an agreement that is mentioned above. It makes it possible to fund the salaries of two agents whose functions are not related to this evaluation. The amount of the operation is comparable to that of the funds from the Foundation allocated to the ST-EP programmes in 2008.

More recently, the Foundation is planning a new initiative aimed at developing pilgrimage itineraries in Korea.

The amount shown in the table below clearly does not represent the overall cost of the operation, whose breakdown was produced in the course of the mission. Whatever interest it may have, it has but tenuous relationships with the ST-EP programmes.

**Table 22:**  
**"Small Libraries" operation**  
**(Source Foundation, exchange rate as at 13/11/08)**

<b>Countries</b>	<b>Number of libraries</b>	<b>Budget</b>	<b>Contributor</b>
<b>Ghana</b>	<b>14</b>	260,100,000 Won 185,653 \$ 148,459 €	Korean National Library (30,000,000 won in October 2007) Korea International Cooperation Agency (100,000 won in April 2008) « KSCFC/KSCA » (90,000 won in April 2008)
<b>Ethiopia</b>	<b>8</b>	145,585,443 won 106,057 \$ 84,809 €	Korea International Cooperation Agency (100,000 \$ in January 2008) Parade of Nations (8,485,443 won in January 2008)
<b>Viet Nam</b>	<b>6</b>	180,000,000 won 128,479 \$ 102,793 €	POSCO (90,000,000 won in April 2008) Kookmin Bank (90,000,000 won in September 2008)
<b>Tanzania</b>	<b>13</b>	360,100,000 won 257,031 \$ 205,537 €	Commission on Youth Protection (30,000,000 won in July 2008) Korea International Cooperation Agency (100,000 \$ in July 2008) Korea Exim Bank (100,000,000 won in July 2008) KSFC/KSCA (90,000,000 won in July 2008)
<b>China</b>	<b>1</b>	30,000,000 won 21,413 \$ 17,123 €	Private donor (30,000,000 won in December 2008)
<b>Total</b>	<b>42</b>	<b>948,785,443 won</b> <b>677,220 \$</b> <b>541,544 €</b>	<b>9 contributors</b>

**Note: The overall sum of contributions rather appears to amount to 975,785,443 won, 698,633\$ and 558,721€**

37. Generally speaking, the initiatives taken by the Foundation, and more particularly by its Chairperson, with the undeniable personal commitment of her team, nevertheless seem to go beyond the vocation assigned to it by its acronym and its Constitution, which is to “contribute to the safeguarding of natural and cultural heritage and to socio-economic development by cooperating with international organizations, governments and related authorities, foundations, private corporations, associations and individuals who are willing to contribute to the same goals of reducing poverty levels through sustainable tourism projects and initiatives...”.

There is nothing to indicate, moreover, that the board of directors has ever discussed the projects specific to the Foundation or exercised any control over their implementation, although a note (“addendum”) by the Secretary-General dated May 2007 to the UNWTO Executive Council briefly mentions these activities and the minutes of the fifth session of the board of directors (in June 2008 in Seoul) indicate that its Chairperson provided some details regarding the “Small Libraries” project.

**38. Recommendation no. 7:**

**The initiatives taken by the Foundation, outside of the funding of ST-EP programmes which had justified its creation, should be the subject of an orientation discussion with the UNWTO, as well as within the board of directors.**

**E. The re-examination of the relations between the UNWTO and the Foundation should lead to the resolution of the current ambiguities**

39. At its 16th session, in 2005, the UNWTO Executive Council:

- took note of a report by the Secretary-General that stated that the UNWTO, as Founder, “will ensure that it is run with the necessary transparent governance and budgetary rigour to meet accepted UN standards”;
- took note “with satisfaction that the ST-EP Foundation is and will continue to be fully placed under the aegis of the World Tourism Organization and that its activity is to be closely coordinated with that of the Secretariat”
- requested “the Board of Directors to propose to the first session of the WTO Executive Council in 2006 a complement to the Foundation’s Constitution in order to:
  - i. clarify the relationship between the World Tourism Organization and the Foundation, especially in what refers to the status of its President as being independent from WTO and from the Government of the Republic of Korea, and preferably non-salaried;
  - ii. ensure that the Foundation submits regular and truly informative reports to the WTO General Assembly and to all ordinary sessions of the Executive Council; and
  - iii. ensure objectivity in the criteria used by the Foundation in the allocation of its funds;”

Neither the first two commitments, nor the last three recommendations have actually been followed.

40. Drawing the lessons of the initial inquiries carried out in Madrid, a preliminary draft audit report, communicated on 22 October to the Secretary-General of the Organization, considered that "it is beginning to be possible to formulate an initial observation":

"While the ST-EP Foundation participates, starting recently, in the financing of slightly less than a third of the ST-EP programmes implemented by the UNWTO, it devotes to the pilot ST-EP programmes of the UNWTO but a fraction of the resources that it allocates to its own activities over which the UNWTO has no control."

"A central recommendation could therefore be sketched out. It would aim at clarifying the distribution of the currently confused responsibilities between the UNWTO and the Foundation by making a clear choice between two approaches:"

" - the first would lead to continuing along the path that began with the incorporation of the representative of SNV into the "board of directors" and explicitly making this board of the foundation responsible for both its own activities and the ST-EP programmes. But such a prospect would entail:"

" - the acceptance by all the governments of the granting of all contributions through the intermediation of the Foundation (while the Korean Government itself has not refrained from directly financing certain projects),"

" - real control by the board of directors over all of the activities of the Foundation,"

" - the second approach would entail a clear 'decoupling':"

" - on the one hand, a board of directors with the power to oversee all of the UNWTO's ST-EP programmes, but in this case there would be no justification for it to be chaired *de jure* by the representative of Korea,"

" - on the other hand, the Foundation, which would remain free to conduct its activities, notably, to participate in the funding of ST-EP programmes in the same manner as SNV or other national development entities, as well as to carry out other own initiatives, but would naturally be ineligible to use the acronym of the UNWTO or that of the United Nations, unless it remains in coherence with the general orientations of the ST-EP programmes."

41. On 17 November, the Secretary-General sent to Mrs. Dho a concept paper, which the auditor, who learned about its existence in Seoul, did not take cognizance of until after his departure from Korea.

This document, attached herewith as an annex,

- recognizes "that the initial intention of bringing all donors under one single roof, namely that of the ST-EP Foundation, has not been achieved. Partly for this reason and partly because the Foundation is seen by many as a purely Korean institution, it has not been able to attract suitable, internationally recognised personalities to constitute its Council of Governors, which has not been established. Similarly, the appointment of its President has not taken place."

- "considers necessary at this stage to review the overall structure of the Foundation and to examine possible ways of improving the efficiency of the entire ST-EP Initiative of the Organization (...) keep(ing) in mind the following three main principles:

- i. The ST-EP concept (...) including its methodological framework (...) the aims of ST-EP and the various ways and techniques to achieve those aims (...) should be (...) maintained.
- ii. efforts to gather (...) donors should be continued (...) under the leadership of the UNWTO (...) and the ST-EP Foundation should continue working within the UNWTO global framework and respecting its ST-EP philosophy and methodological guidelines,
- iii. the approval of ST-EP programmes and projects submitted by UNWTO to potential donors should be simplified in order to achieve faster decisions and project implementation (..) due to the fact that (the Foundation) has to convene its Board of Directors to take decisions on project funding.”

- It consequently proposes “to give the ST-EP Foundation a role similar to the other donors. This would mean more independence from UNWTO (...). UNWTO could , however, (...) continue to formulate ST-EP projects that would be subsequently be submitted to the Foundation (...), as it has been the case until now”,

- suggests that “the Foundation's Board of Directors should be composed mainly by Korean members selected by the (Korean) Government. A small number of international personalities could be included in the Board, among them and especially the President, if the Government agrees that it is convenient to maintain the international character of the Foundation.”

- considers that “the link of the Foundation to UNWTO should be precisely through its President; thus the Board of Directors should propose to the UNWTO Executive Council a candidate for the position of the President of the Foundation, respecting the principle that he/she should neither be from the host country nor a UNWTO official.”

- considers that "the candidate approved by the Executive Council should also be sanctioned by the General Assembly" and that "reciprocally, the Foundation would designate a representative to the UNWTO Technical Committee of Sustainable Development of Tourism", who could be the President of the Foundation,

- “Finally, if the changes suggested are approved, the Foundation would need to change also its external image including its logo, which cannot further include the UNWTO logo”, but “it could (...) indicate that it ‘works for the benefit of the UNWTO Member States’”. “The revised Constitution should be submitted to the Executive Council of UNWTO at its 85th session (May 2009).” “Eventually, these changes need to be submitted to the 18th session of the UNWTO General Assembly (October 2009).”

## **F. Final recommendation**

**42. The diagnostic assessment formulated in the (provisional) document of 17 November is perfectly in accordance with that which the auditor reached in his preliminary report communicated to the UNWTO officials on 13 October 2008.**

**The proposal to give the Foundation a role comparable to that of the other donors, and abandoning the initial prospect of a grouping of such donors within it constitutes a reasonable option. It would nevertheless entail:**

**- the need for the Foundation to modify its acronym, which may no longer include that of the UNWTO or of the United Nations, would be a logical consequence of this,**

- the attentive re-examination of the respective roles of the Foundation and of the Korea International Cooperation Agency, which seems willing to collaborate in the ST-EP programmes beyond the assistance that it has already directly provided to the West African programme.

On the other hand, the proposal to maintain a special link with the UNWTO through a President – who cannot be Korean nor be a member of the management of the Organization – but whose name would nevertheless be approved by the Executive Council and subsequently ratified by its General Assembly appears to be in contradiction with the preceding proposals. Such a decision would, in effect, be largely out of reach for the UNWTO when the preceding orientations are indeed adopted.

It seems that this should be the case for the election of the president of the Foundation that took place on 27 January 2009.

### III. THE UNWTO REGIONAL SUPPORT OFFICE FOR ASIA AND THE PACIFIC IN OSAKA

43. The UNWTO regional support office was opened in June 1995 in the wake of the world tourism forum held in Osaka in late 1994. This initiative, decided at the 44th session of the Executive Council in Rome, on 25-27 November 1992, was aimed at providing the UNWTO with support in the Far East, without entailing the recreation of a worldwide network of regional offices.

Indeed, in the past, the UNWTO had already established regional offices which it eventually had to close, as it was unable to establish and exercise supervision over them.

#### A. The statutes of the support office provide but a very partial vision of its organization and its functioning

44. Upon the conclusion of long negotiations between the UNWTO and the government of Japan, and "despite the unsatisfactory character of the agreement" (according to a note by the Deputy Secretary-General to the Secretary-General dated 18 April 1995), the creation of the office came about through a simple exchange of letters between the Ambassador of Japan to Spain (4 May 1995) and the UNWTO Secretary-General (16 May 1995) by virtue of which Japan, without saying anything about the activities of the office or its objectives:

- approved an appropriation of 42 million yen in its budget for 1995,
- undertook to shoulder the cost of personnel, accommodations, operating costs including, among others, a vehicle with a driver.

For its part, the UNWTO undertook "to implement its activities of cooperation for development, education and training, environment and planning, statistics and market research, communication and documentation through its office in Osaka".

45. The office is a very modest one, composed of a president (non-remunerated), a deputy and a single other person. It has no autonomous legal existence vis-à-vis the association that hosts it.

46. In fact, in September of the same year, APTEC ("Asia-Pacific Tourism Exchange Center") was created, and Article IV of its statutes establishes as its objectives:

- 1) supporting initiatives of the UNWTO regional representation for Asia-Pacific, including surveys of the tourism market, training and technical cooperation in the region,

2) organizing international conferences and seminars linked to the promotion of tourism exchanges between Japan and other countries of the region,  
 3 to 8) support for the conclusion of agreements, development of research, information and publications in these different areas.

47. APTEC consists of:

- A General Assembly composed of 82 members,
  - i. thirteen associations of travel agencies and hoteliers,
  - ii. five large travel agencies,
  - iii. sixteen rail companies,
  - iv. thirteen companies linked to the above,
  - v. three large air transport companies,
  - vi. four large airports,
  - vii. two transport companies,
  - viii. four power companies,
  - ix. two large hotels,
  - x. eight prefecture governments,
  - xi. the main municipalities of the prefectures concerned,
  - xii. the Osaka chamber of commerce,
  - xiii. five other companies.
- a board of directors composed of 26 members,
  - xiv. one non-executive Chairman, who is also the president of the Chamber of Commerce of Osaka,
  - xv. assisted by three vice-chairmen,
  - xvi. one executive president,
  - xvii. twenty members (executive directors),
  - xviii. and one auditor.

The executive president is assisted by a secretary-general.

## **B. The overlap of the two entities is total**

48. In reality, the two entities are more than closely linked. They share the same management, the same staff, the same premises and their accounts are closely overlapping. The means are common to both, whether we are talking about:

- their heads,

The executive presidents of APTEC have always been the chiefs of the support office:

1. Mr. Tetsuro Yamashita (October 1994-July 2000)
2. Mr. Masazumi Nagamitsu (July 2000-July 2002)
3. Mr. Harunori Yuki (July 2002-June 2004)
4. Mr. Yuichiro Honda (Since July 2004)

The deputy chief of the office is also the Secretary-General of APTEC: Mr. Yasuhiro Iijima since July 2008.

- their staff,

Only two staffers appear on the accounts of the support office. But in reality, the Secretary-General, the officials responsible for the three divisions of APTEC:

- i. International affairs,
- ii. Marketing and promotion,
- iii. Administration,

as well as the person specially assigned to the office, at all times actively participated in the interviews during the audit mission.

- their premises.

The two entities occupy the same office space on the 24th floor of a mixed-use skyscraper near the Kansai airport, which has offices and a hotel.

49. Their accounts are also closely overlapping

According to the UNWTO, the predecessor of the current director of finance of the Organization had gone to Osaka several years ago and was unable to obtain the information that he wanted on the finances of the organization.

Although they initially objected to the very idea of an audit, underlining that the office did not receive any contribution from the UNWTO and that their accounts were, moreover, inspected by the services of the prefecture and certified by firm Seiyu Audit, the officials of the office produced without difficulty the documents that they had translated beforehand, and agreed with complete willingness to provide the details of the tables whose framework was proposed to them during the mission.

**Table 1:  
Accounts and budgets  
(source: Osaka office)**

	Fiscal year 2006 Account in Yen	Fiscal year 2007 Account in Yen	Fiscal year 2008 Account in Yen	Fiscal year 2008 Budget in Euros 1Euro = 120 Yen
<b>Total Income</b>	<b>22,638,793</b>	<b>22,647,728</b>	<b>22,630,000</b>	<b>188 583</b>
Contribution from the Government of Japan	22,633,000 5,793	22,633,000 14,728	22,630,000 ?	
Interest from deposits				
<b>Total expenditure</b>	<b>22,638,793</b>	<b>24,288,253</b>	<b>22,630,000</b>	<b>188 583</b>
Salary of deputy chief	6,078,560 3,084,039	6,078,560 3,105,580	6,500,000 3,150,000	
Payments for staffer	4,444,495 9,031,699	5,367,285 9,736,828	4,000,000 8,980,000	
Travel expenses Other administrative expenses				
Balance	<b>0</b>	<b>-1,640,525</b>	<b>0</b>	<b>0</b>

**Note: According to the representative for Asia and the Pacific, the amount of 22 630 000 yen appearing in the 2008 column is that of the expected contribution.**

The operating expenses of the office are in theory fully shouldered by the Japanese Government whose subsidies, however, have been steadily declining over the past several years.



**Table 2:  
Evolution of the contributions of the Japanese Government  
(according to the local officials, in Yen)**

<b>Commitment 1995</b>	<b>42,000,000</b>
<b>From 2000 to 2003</b>	<b>38,808,000</b>
<b>In 2004</b>	<b>30,852,000</b>
<b>From 2005 to 2007</b>	<b>22,633,000</b>

But any resulting deficits were compensated, as was the case in 2007, by a contribution from APTEC, and the officials did not hide the fact that the accounts are "sorted out" beforehand in order for the accounts to be presented in balance by adjusting the distribution of costs between the office and APTEC.

By virtue of several successive agreements on 1 April 2002, 2005 and 2006, operating expenses are divided into two categories (expenses of just the support office, and those shared, equally in principle, between the office and APTEC). The rental of the office is nonetheless fully shouldered by APTEC.

**Table 3:  
"Other administrative expenses"**

<b>In Yen</b>	<b>Year 2007/2008</b>	<b>Year 2006/2007</b>
<b>(1) Unconsolidated costs by the support office</b>	<b>1,304,847</b>	<b>888,558</b>
Charges of translation and interpretation	309,700	161,175
Expenses for the preparation of internal meetings	685,397	307,383
Auditing (Seiyu)	210,000	210,000
Printing costs	99,750	210,003
<b>(2) Consolidated costs by the office and APTEC</b>	<b>8,431,981</b>	<b>8,143,141</b>
Rents for the office	(19,941)	(19,941)
Electricity, air-conditioning	2,607,811	2,631,138
Supplies	2,044,645	1,648,054
Communications	1,613,134	1,475,202
Rents for the Deputy Chief	675,600	1,006,400
Office cleaning	376,740	376,740
Rental costs	376,425	428,715
Petty charges	737,626	576,892
<b>(3) Total</b>	<b>9,736,828</b>	<b>9,031,699</b>

The office also receives, for various projects that it implements, contributions from APTEC or from the Foundation of Japan, which substantially augment its means.

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3 For the printing of 1000 pamphlets presenting the office (500 in English) in the first year and then 500 in Japanese in the second year.

**Table 4:**  
**Expenditure of the UNWTO regional support office for Asia and the Pacific in**  
**Osaka**  
**(according to the Activity Summary prepared by the office)**

Mil- lions of Yen			Support Office	APTEC	Nippon Founda tion	Contri- butions of the govern- ment for specific project s	Total
Fis- cal year 2006	May	Holding of Japan-China Symposium on culture and tourism exchange (Kunming, China)	0	7.40	5.60		13.00
		Participation in the UNWTO Commission meeting for East Asia- Pacific and South Asia (Macau, China)	1.14				1.14
		Training of employees of tourism- related enterprises in developing countries (Ulan-Bator, Mongolia)	0.42	3.11			3.53
		Participation in the UNWTO International Conference on Metropolitan Tourism (Shanghai, China)	0.18	0.18			0.36
		Visit to UNWTO headquarters	2.70	0			2.70
		Expenses for the preparation of internal meetings	0.31	0			0.31
		Other administrative expenses	17.89				17.89
		<b>Total FY</b>	<b>22.64</b>	<b>10.69</b>	<b>5.60</b>	<b>0</b>	<b>38.93</b>
2007	April	Participation in the UNWTO Commission meeting for East Asia- Pacific and South Asia (Islamabad, Pakistan)	0.95				0.95
		Holding of UNWTO-Japan Symposium on Cultural and Nature Tourism in Mongolia (Ulan-Bator)	0	4.90	5.30		10.20
		Participation in the UNWTO International Conference on Metropolitan (Pusan, Korea)	0.10	0			0.10
		Visit by UNWTO delegation to Japan (Tokyo and Kobe)	0.60	0			0.60
		First International Symposium on Tourism and Economy (Wakayama, Japan)				9.82	9.82
		Participation in the 17th UNWTO General Assembly (Colombia)	2.08	0			2.08

2008	March	Participation in the Seminar on Sustainable Tourism Management at World Heritage Sites (Huangshan, China)	0.50	0			0.50
	March	First International Seminar on Industrial Tourism (Nagoya, Japan)				7.00	7.00
		Visit to UNWTO headquarters	1.15	0			1.15
		Expenses for the preparation of internal meetings	0.69	0			0.69
		Other administrative expenses	18.24	0			18.24
		<b>Total FY</b>	<b>24.31</b>	<b>4.90</b>	<b>5.30</b>	<b>16.82</b>	<b>51.33</b>

The contributions of APTEC and of the Nippon Foundation go more freely to activities for the general promotion of tourism and to those that are more specially aimed at countries corresponding to the priorities of Japan.

In reality, the accounts of APTEC and of the UNWTO regional support office for Asia and the Pacific appear to be particularly "porous" and only a combined account, which the officials were kind enough to prepare, makes it possible to have a realistic overall view of the pair formed by them.

**Table 5:**  
**Simplified Combined Accounts of APTEC and the UNWTO regional support office for Asia and the Pacific in Osaka**  
**(source APTEC, in millions of yen)**

<b>2007</b>	<b>UNWTO regional support office for Asia and the Pacific</b>	<b>APTEC</b>	<b>Total</b>
Contribution of the Japanese government to the UNWTO regional support office for Asia and the Pacific	<b>22.6</b>		
Contributions from APTEC members		<b>34</b>	
Contribution from Osaka Prefecture to APTEC		<b>43</b>	
Contribution from the Nippon Foundation		<b>7</b>	
Contribution from APTEC to regional support office		<b>1.6</b>	
<b>Total income APTEC + Regional support Office</b>	<b>22.6</b>	<b>85.6</b>	<b>108.2</b>
Salaries	<b>9.2</b>	<b>6.0</b>	
Salaries APTEC ("independent")		<b>22</b>	
Travel expenses	<b>5.4</b>		
APTEC travel expenses ("independent")		<b>3</b>	
<b>Current operating expenses of the regional support office</b>	<b>1.3</b>		
<b>Current operating expenses APTEC</b>		<b>5</b>	
<b>"Shared" expenses</b>	<b>8.4</b>	<b>20</b>	
Other APTEC expenditures		<b>27.9</b>	
<b>Total expenses APTEC+ Regional support office</b>	<b>24.3</b>	<b>83.9</b>	<b>108.2</b>

This table, prepared by the officials of the office during the course of the mission, clearly shows that APTEC, whose top objective according to its statutes is supporting the UNWTO regional support office for Asia and the Pacific, allocates substantially more means to other activities, aimed mainly at the tourism development of Japan. But this difficult to take issue with, given that the members of the organization are evidently more directly interested in this regard, than to that which the office is capable of promoting.

**50. Recommendation no. 1:**

**Based on this initial information, it should be possible to arrange for the provision, over the course of the annual briefing meetings whether onsite or at the headquarters, of a minimum level of information regarding budgets and accounts.**

**C. The activities of the office remain modest, even including those of APTEC**

51. No detailed report of the activities of the office was produced by the headquarters during the mission. The only thing to have been received in Madrid is the information letter from the office, which limits itself to reporting on the organization of meetings of various kinds.

According to the Activity Summary that was presented during the mission, the office limits its actions to three categories of operations:

- participation in UNWTO meetings (General Assemblies or meetings convened by the headquarters in the region),
- organizing once a year a meeting in a country that is a priority for Japan's diplomacy (This was the case in Mongolia in 2007 on the occasion of the 35th anniversary of the establishment of diplomatic relations between the two countries),
- receiving delegations from the headquarters or visits to the headquarters.

The headquarters also affirmed:

- the support to the programme of work of the regional representation for Asia and the Pacific through the participation of Japanese experts in regional conferences and meetings,
- the participation in the organization of international or regional conferences or seminars in collaboration with APTEC,
- the dissemination of UNWTO publications and statistics in Japan.

52. These activities were carried out between 2006 and 2007 with the arrival of Mr. Honda, with whom the UNWTO representative for the Asia-Pacific region has forged links, as the number of meetings that the bureau has organized or in which it has participated has doubled, according to him. He reports on his activities at two annual meetings: during the joint working commission with the UNWTO and during the annual visit to the headquarters. But it appears that the headquarters did not carry out, notably on the occasion of the visit of the secretary-general in 2007, an explicit inquiry regarding the orientations of the office.

53. In contrast to the office, which has no planning and which no formally stated priorities established vis-à-vis the headquarters, APTEC does prepare an annual programme of work. Its officials spontaneously produced the activity report for 2007 and the programme for 2008. The activities sponsored by APTEC as support to the UNWTO take the top priority in the report, over the promotion of inbound tourism in Japan, research and public relations. But the summary translation prepared by the headquarters remains basic.

for 2007:

- it reports the holding of a symposium for the promotion of tourism in Mongolia,
- regarding support to activities related to the UNWTO, it highlights a meeting in Busan, Korea, reception of the UNWTO Secretary-General and the representative for Asia-Pacific, and participation in the UNWTO General Assembly.

for 2008, the following is planned:

- hosting of meetings by the UNWTO Commission for Asia-Pacific and of the conference on metropolitan tourism in Kobe,
- tourism promotion with the Asian countries,
- training in developing countries that are members of the UNWTO.

This information is still too cursory to allow a precise vision. The detailed translation might be able to provide more precise information and plans. But in any case, the persons responsible for the office appear perfectly willing to provide the necessary clarifications.

**54. Recommendation no. 2:**

**It is recommended that headquarters ensure that, in future, the office is requested to prepare an activity plan, or failing that, to request the communication of that of APTEC.**

**D. Relations between the headquarters and the office would gain from being better defined and monitored**

55. According to the initial orientation documents of the UNWTO (according to the note by the DSG of 24/1994), "in accordance with the decisions of the Executive Council, it is agreed that the chief of the office shall be a member of the general staff of the UNWTO designated by the Secretary-General on the recommendation of the Japanese Government". In reality, according to a memorandum of the UNWTO regional representative for Asia, dated 18 May 1995, the Japanese Government appointed the first chief of the office without referring the matter to the UNWTO. The Organization limited itself to ratifying the appointment of this first chief (Mr. Yamashita, director at the Ministry of Tourism of Japan). Its Secretary-General states that he was informally consulted regarding the appointment of the chief's successors.

In the above-mentioned note of 18 May 1995, the UNWTO regional representative for Asia was considering that the chief of the Osaka office could also be his deputy. This prospect seems to have been quickly abandoned.

56. The relations between the UNWTO headquarters and the regional support office for Asia and the Pacific are lacking in clarity.

It seems that during a long period the office showed little dynamism, but:

- the highly institutional composition of APTEC makes it not very well suited for the development of proactive and imaginative activity, beyond the promotion of Japanese tourism;
- the headquarters does not seem to have carried out an in-depth reflection process with the entity regarding its organization or its orientation: no strategic programme of the UNWTO for the Asia-Pacific region has been prepared.

The arrival of Mr. Honda nevertheless seems to have opened up more favourable prospects.

57. In the days immediately before the mission, the official in charge of external relations of the very recently created Japan Tourism Agency requested the UNWTO's official responsible for the Asia-Pacific region to revise the amount of the contributions that had been claimed from them in a letter dated 11 September by the headquarters corresponding to its contribution as a member of the UNWTO, as well as to its additional contribution for the operation of the regional support office for Asia and the Pacific.

The conditions of this exchange confirm the need for a clarification of the relations between the UNWTO headquarters and the Japanese government with regard to the financing of the UNWTO regional support office for Asia and the Pacific.

**58. Recommendation no. 3:**

**It is recommended to ensure better dissemination of the information regarding the amount of the contribution of Japan to the maintenance of the Osaka, more in-depth organization of the annual meetings that should be clarified by this information, and to proceed with the preparation of agreements recalling the strategic orientations of the UNWTO, specifying the working orientations of the office and the conditions of its operation in exchange for the granting of the "label" of the UNWTO and of the United Nations.**

#### **IV. GENERAL CONCLUSION**

In both cases, although they are quite dissimilar, it must be noted that the headquarters has not established clear and perfectly effective working relations with the respective persons responsible for the two entities audited.

To be sure, periodic auditing missions would help in clarifying this. But the least that could be suggested is for it to:

- better define the objectives it is pursuing in each case,
- ensure the existence of mutual information that is more reliable and better-shared among the different officials of the headquarters regarding the activities and the accounts of these two entities,
- subordinate the authority to use its acronym and that of the United Nations to the consideration of these objectives within the framework of multi-year agreements,
- provide, in these agreements, for evaluations of the results of the actions carried out with regard to the objectives defined by mutual agreement and of the means actually implemented.

#### **V. ACKNOWLEDGEMENTS**

The auditor thanks, for their availability and their cooperation, all of the staff of the Korean Foundation and of the UNWTO regional support office for Asia and the Pacific in Osaka, as well as the headquarters staff contacted during this inspection.