



International Civil Aviation Organization

WORKING PAPER

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ASSEMBLY — 40TH SESSION

ADMINISTRATIVE COMMISSION

Agenda Item 46: Report on the Working Capital Fund

REPORT ON THE WORKING CAPITAL FUND

(Presented by the Secretary General)

EXECUTIVE SUMMARY

This paper presents the December 2018 update of the level of the Working Capital Fund (WCF) for review by the Assembly. An increase of the level of the WCF, currently at USD 8.0 million, is not considered to be necessary at the present time.

Action: The Assembly is invited to:

- a) note the information and confirm that an increase in the level of the WCF is not needed at this time; and
- b) adopt the Assembly Resolution presented in the Appendix.

<i>Strategic Objectives:</i>	This working paper relates to all Strategic Objectives.
<i>Financial implications:</i>	Not applicable.
<i>References:</i>	Doc 7515, <i>The ICAO Financial Regulations</i> Doc 10075, <i>Assembly Resolutions in Force</i> (as of 6 October 2016)

1. INTRODUCTION

1.1 The 39th Session of the Assembly considered the level of the Working Capital Fund (WCF) and borrowing authority, and resolved, in Resolving Clause 2 of A39-33, that the level of the WCF remain at USD 8.0 million and the Council shall continue to monitor the level of the Working Capital Fund no later than November of each year until 2019 to determine if an increase is urgently needed during that year or for the following year.

1.2 In February 2019, the Council noted the information contained in C-WP/14853 and that the updated information of cash balances did not indicate the need for an increase in the level of the WCF at that time. This working paper reports on the adequacy of the current level of the WCF and on the appropriation of the level of the borrowing authority as requested by the Assembly in Resolving Clause 2 of A39-33.

2. FLOW OF RECEIPTS AND DISBURSEMENTS

2.1 Based on the current approved budget estimates for 2017 to 2019, the average monthly disbursements are CAD 8.4 million, which is mainly funded from assessments. Considering that under delegated authority of the Assembly, the Council has the ability to increase the Working Capital Fund by up to 25% (to USD 10.0 million), and that the current level of WCF is considered sufficient to cover any projected increase in budget for the 2020-2022 triennium, the Council invites the Assembly to consider maintaining the Working Capital Fund at USD 8.0 million.

2.2 Expenditures are generally constant on a monthly basis but assessments are not received evenly. Past experience shows that when major contributors pay their dues during the last quarter, cash shortfalls may occur in the previous quarters which may result in the use of the WCF to meet the temporary cash shortfall. We assess our cash balance in terms of the number of months' expenditures it can fund. The WCF represents one further month's cushion since it is equivalent to a month's expenditures.

2.3 Table 1 illustrates the monthly cash positions of the General Fund, including the WCF, in 2018. It shows fluctuations between CAD 24.1 million and CAD 55.3 million due to the timing of cash receipts and disbursements.

TABLE 1**End of Month Cash Balances in 2018
(in millions of CAD)**

	<u>General Fund</u>	<u>WCF*</u>	<u>Total</u>
January	38.7	10.1	48.8
February	49.6	9.9	59.4
March	50.1	10.2	60.3
April	55.3	10.3	65.6
May	50.8	10.3	61.1
June	50.2	10.6	60.8
July	46.2	10.6	56.8
August	37.8	10.5	48.3
September	31.6	10.4	41.9
October	31.1	10.4	41.5
November	24.1	10.5	34.6
December	37.8	10.9	48.7

*The differences between the monthly balances of the WCF shown in CAD in Table 1, and the level of the WCF of USD 8.0 million is due to exchange rate variance.

2.4 Table 2 illustrates the cash position of the General Fund, including the WCF, at the end of each quarter from 2011 to 2018, which are expressed in CAD since ICAO's functional currency has been changed to CAD since 2008.

TABLE 2
8 Year Actual Quarterly Cash Position
(in millions of CAD)
End of Quarter

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
2011	25.6	14.4	16.5	14.9
2012	40.4	29.1	20.5	14.5
2013	28.0	31.4	26.5	6.7
2014	26.8	31.2	18.7	28.8
2015	35.7	33.7	32.0	29.0
2016	47.4	50.9	46.0	38.8
2017	55.0	59.8	39.1	30.4
2018	60.3	60.8	41.9	48.7

2.5 It should be noted that the quarterly positions do not reflect the wide fluctuations that may arise from month to month, as illustrated in Table 1. Unless payments towards assessments are received from Member States on a timely basis, in the year that they are due and in conformity with the Financial Regulations, pressures will always be exerted on the finances of the Organization. Apart from the WCF, there are no reserves in the General Fund to meet contingencies.

3. LEVEL OF THE WORKING CAPITAL FUND

3.1 The Joint Inspection Unit (JIU) has recommended that the level of the WCF should be sufficient to meet one month's disbursements. Being currently established at USD 8.0 million and considering the trend of the exchange rate between USD and CAD in the recent years, the equivalent CAD value of the USD 8.0 million is higher than the estimated monthly disbursements of CAD 8.4 million. Given that under delegated authority of the Assembly, the Council has the ability to increase the Working Capital Fund by up to 25% (to USD 10.0 million). this current level of WCF is considered sufficient to cover any projected increase in budget for the 2020-2022 triennium. In the past, it has been mentioned that, ideally, the Organization should have a buffer of two months' cash requirement in order to assure the timely payment of all commitments. Past experience of ICAO shows that the delay in receipt of assessments has resulted in significant shortfalls between current year contributions and disbursements.

3.2 However, at this time there is limited risk that the level of the WCF may not be sufficient to cover the needs during the next triennium.

3.3 It is recommended to maintain the WCF at USD 8.0 million to cover at a minimum one month of projected expenditures.

4. BORROWING AUTHORITY

4.1 The Assembly in 2007 (A36-34) authorized the Secretary General to borrow, if necessary, with the prior approval of the Finance Committee, amounts to finance regular and supplementary appropriations, provided that the outstanding total indebtedness of the Organization at no time exceeds CAD 3.0 million during the triennium. The continuation of the borrowing authority has been provided for in Resolving Clause 2 d) of Assembly Resolution A39-33. It has not been necessary to use this borrowing authority as there were sufficient funds on hand.

4.2 ICAO's only other potential source of funds, excluding commercial borrowing, is miscellaneous income, surplus of other Special Funds and Accounts. Relying upon the cash of other Funds and Special Accounts in place of securing an appropriate level for the WCF would be flawed in both principle and practice, and does not offer a prudent financial option.

4.3 Although the borrowing authority has not been utilized, in light of uncertainties and the unpredictable nature of cash flow in future years, it would be prudent to retain the borrowing authority at the current level for future years. This avenue of funding temporary cash deficits, if at all necessary, should be regarded as an avenue of last resort to be exercised under extreme circumstances.

APPENDIX

**DRAFT ASSEMBLY RESOLUTION FOR ADOPTION BY THE
40TH SESSION OF THE ASSEMBLY**

(To supersede A39-33)

Resolution 46/1

Working Capital Fund

The Assembly:

1. Notes that:

- a) in accordance with Resolution A39-33, the Council has reported upon, and the Assembly has considered, the adequacy of the level of the Working Capital Fund and the related borrowing authority;
- b) the accumulation of contributions in arrears has constituted, together with the delays in payment of current year contributions, a growing obstacle to the implementation of the work programme while creating financial uncertainty;
- c) based on past trends, there is only a limited risk that the level of the Working Capital Fund may not be sufficient to cover the needs in the foreseeable future;
- d) experience has shown that in general payments are not made at the beginning of the year when contributions are due and that ICAO cannot rely on contributions being paid even by the end of the year to which they relate and that such unacceptable avoidance of their financial obligations under the Convention by some Member States is leading to a potential financial crisis within the Organization that could impact all Member States;
- e) as long as the cash flow remains uncertain, ICAO would need the Working Capital Fund as a buffer on which it could draw to meet its unavoidable cash commitments; and
- f) the Council reviewed the financial situation of the Organization and the level of the Working Capital Fund in February 2019 and noted that it has not been necessary to use the Working Capital Fund in 2018.

2. *Resolves that:*

- a) the level of the Working Capital Fund remain at USD 8.0 million;
 - b) the Council shall continue to monitor the level of the Working Capital Fund no later than November 2020, 2021 and 2022 to determine if an increase is urgently needed during that year or for the following year;
 - c) if the Council determines that it is warranted, the level of the Working Capital Fund shall be established at a level no higher than USD 10.0 million, subject to increases resulting from advances paid by new States becoming members of the Organization after approval of the scales. Such adjustment to the Working Capital Fund will be based on the scales of assessment in effect for the year for which the increase in the level of the Working Capital Fund is approved;
 - d) the Secretary General be authorized, with the prior approval of the Finance Committee of the Council, to finance regular and supplementary appropriations that cannot be financed from the General Fund and the Working Capital Fund, by borrowing externally amounts needed to meet immediate obligations of the Organization, and that the Secretary General be required to repay such amounts as rapidly as possible; the outstanding total of such indebtedness of the Organization at no time to exceed CAD 3.0 million during the triennium;
 - e) the Council shall report to the next ordinary session of the Assembly:
 - i) on the adequacy of the level of the Working Capital Fund in the light of experience during 2019, 2020 and 2021;
 - ii) whether the financial position of the General Fund and the Working Capital Fund would indicate the need for assessing Member States for cash deficits caused by arrears of contributions; and
 - iii) on the appropriateness of the level of the borrowing authority; and
 - f) Resolution A39-33 is no longer effective and is hereby superseded;
- and

3. *Urges:*

- a) all Member States to pay their assessments as early as possible in the year in which they fall due in order to lessen the likelihood of the Organization having to draw on the Working Capital Fund and resort to external borrowing; and
- b) the Member States in arrears to meet their obligations to the Organization as promptly as possible, as called for by Resolution [A40-xx].