WORKING PAPER

INTERNATIONAL CIVIL AVIATION ORGANIZATION

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ASSEMBLY - 32ND SESSION

ADMINISTRATIVE COMMISSION

Agenda Item 38: Financial Questions
Agenda Item 38.4: Report on the Working Capital Fund

REPORT ON THE WORKING CAPITAL FUND

SUMMARY

This paper reports on the adequacy of the level of the Working Capital Fund, the financial position of the Organization and financial trends affecting the necessary level of that Fund. It recommends increasing the present level of the Working Capital Fund from \$ 6.0 million to \$ 8.0 million and maintaining the borrowing authority at \$ 3.0 million for the next triennium.

Action by the Assembly is in paragraph 4.

REFERENCES

Doc 9662, *Assembly Resolutions in Force (as of 4 October 1995)*
Doc 7515/9, *The ICAO Financial Regulations*

1. INTRODUCTION

1.1 Resolving Clause 3 of Assembly Resolution A31-25 provides that "the Council shall report to the next ordinary session of the Assembly:

a) on the adequacy of the level of the Working Capital Fund in light of experience during 1995, 1996 and 1997;

b) whether the financial position of the General Fund and the Working Capital Fund would indicate the need for assessing Contracting States for cash deficits caused by arrears of contributions; and

c) on the appropriateness of the level of the borrowing authority."

1.2 In accordance with Financial Regulation 7.2 b) i), the Working Capital Fund (WCF) is utilized to make advances to the General Fund to finance budgetary appropriations pending receipt of contributions from Contracting States. The amounts so advanced are to be reimbursed as soon as funds are available in the General Fund.

1.3 Under Article 5.2 of the ICAO Financial Regulations, the Council may, in respect of a given financial year, approve appropriations in excess of the budget voted by the Assembly, which may be met to the extent necessary by advances from the WCF.

2. INFORMATION ON THE WORKING CAPITAL FUND

2.1 Information regarding the following items is at Appendix A

- Authorized Level of the Working Capital Fund;
- Payment of Assessments;
- Financial Position of the Organization for 1996 and 1997; and
- Working Capital Funds of Other Agencies of the United Nations System.

3. CONCLUSIONS AND RECOMMENDATIONS

3.1 Level of the Working Capital Fund

3.1.1 In recent years, 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 serious cash flow difficulties.

3.1.2 The relatively long budgetary cycle of ICAO, namely 3 years, has a bearing on the determination of the prudent level of the WCF and borrowing authority, as only the Assembly can levy assessments on Contracting States.

3.1.3 Given the number of permanent staff in ICAO, there is virtually an irreducible minimum which the Organization has to pay out each month to meet the staff costs which amounts to U.S.$ 3.7 million. This amount is not amenable to short term reduction through adjusting the work programme, since permanent staff remain in post and have to be paid in any event. The difficult financial experience of the past few years has shown that the Organization should have sufficient funds in the WCF to cover two months expenditures rather than the month and a half represented by the current level of $ 6.0 million.

3.1.4 While it would appear that cash crises could be avoided by careful management of expenditure on the work programme, the fact is that monthly outgoings of cash cannot be reduced in the short term below the $ 3.7 million needed to pay the permanent staff, and a lack of sufficient cash could be faced at any time as a result of States' decisions on when to pay their assessed contributions to ICAO.

3.1.5 In 1995 and 1996, the effect of uncertainty about the receipt of major contributions had caused the Secretary General to maintain a high vacancy rate and reduce the resources committed to the work programme. When the contributions had finally come in, they therefore produced a large cash surplus, which provided a resource additional to the WCF, thus avoiding the need to have recourse to the Fund. It was not envisaged that ICAO could rely on such circumstances repeating themselves in the future.

3.1.6 Experience showed that some sizable contributions were subject to the political imperatives of the State concerned, and that ICAO could not rely on contributions being paid even by the end of the year to which they related.

3.1.7 As long as the cash flow remains uncertain, ICAO would need the WCF as a buffer, on which it could draw to meet its unavoidable cash commitments.

3.1.8 ICAO's only other potential source of funds, excluding commercial borrowing, is the AOSC surplus. But its amount is uncertain, it belongs to the Technical Co-operation Programme (TCP), and TCP might need it to avoid having to call on the Regular Programme for supplementary financing. Relying upon this source in place of securing an appropriate level for the WCF would therefore be flawed in both principle and practice, and does not offer a prudent financial option. Objections by certain States to ICAO utilizing the borrowing authority means that this avenue may not be a reliable emergency mechanism.

3.1.9 The financial position at this time does not indicate the need to assess Contracting States for cash deficits caused by contributions in arrears as per A31-25 (see paragraph 1.1). However, since assessments in arrears have been increasing substantially and at 31 December 1997 totalled $ 21.3 million, the Assembly may wish to consider other measures for improving the payment of contributions in arrears.

3.1.10 It would appear thus prudent that the level of the WCF be increased to $ 8.0 million in order to finance budgetary appropriations pending receipt of contributions from Contracting States as provided by Financial Regulation 7.2 b) i). In accordance with Financial Regulation 7.5, interest on the WCF is credited to miscellaneous income and thus used to reduce assessments on Contracting States.

3.1.11 If in the future, the Organization's experience on the timing of contribution payments improves, and it became apparent that it could rely on a high level of contributions being received in the early part of each year, it is expected that the Secretary General would propose a reduction in the level of the WCF.

3.2 **Borrowing Authority**

3.2.1 The Assembly in 1995 (A31-25) authorized the Secretary General, with the prior approval of the Finance Committee, to borrow, if necessary, amounts to finance regular and supplementary appropriations, provided that the outstanding total indebtedness of the Organization at no time exceeds $ 3.0 million during the triennium. It has not been necessary to use this borrowing authority during the current triennium as there were sufficient funds on hand.

3.2.2 Although there will be a separate report to the Assembly on measures to deal with contributions in arrears, it is to be noted that if payment of contributions is not received in a timely manner and the WCF is exhausted, the only recourse when AOSC funds are not available would be to resort to external borrowing. Accordingly, it is recommended that the borrowing authority of $ 3.0 million be retained under the same conditions as provided in Assembly Resolution A31-25 Resolving Clause 2.

4. ACTION BY THE ASSEMBLY

4.1 The above conclusions and recommendations are summarized in the attached Resolution (**Appendix B**), which Council recommends that the Assembly adopt.

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APPENDIX A

1. AUTHORIZED LEVEL OF THE WORKING CAPITAL FUND

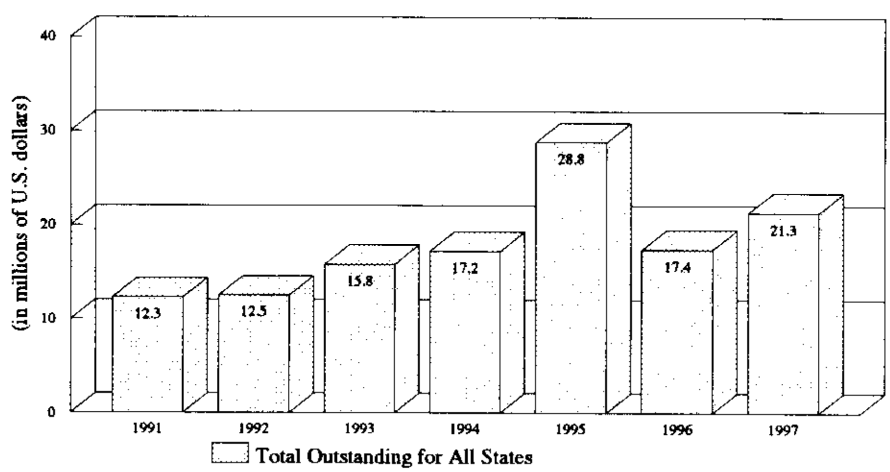
1.1 From 1984 to 1989 the level of the WCF was $ 2.2 million. It was increased to $ 4.2 million in 1990 through a transfer from the accumulated surplus without additional assessment on States. During 1990 the level of the WCF was reduced to $ 4.0 million as a result of an advance of $ 0.2 million to the General Fund. The level was restored to $ 4.2 million on 1 January 1991 through advances by Contracting States to the WCF. In accordance with Assembly Resolution A29-30, the level was increased to $ 5.1 million in 1993 and $ 6.0 million in 1994. The 31st Session of the Assembly agreed to maintain the level of the WCF at $ 6.0 million for the years 1996 to 1998.

2. PAYMENT OF ASSESSMENTS

2.1 The most important element in determining the Organization's financial position is the timing of payment of assessments by Contracting States. The Organization's expenditures are predominantly staff costs. These costs amount to approximately 80 per cent of the total expenditures and must be met as they arise. Thus the Organization's disbursements are fairly regular throughout the year. Based on the approved budgeted expenditures for 1997, the average monthly expenditures of the Organization are estimated at $ 4.3 million of which $ 3.7 million relates to salaries. Hence, the timely availability of assessment payments from Contracting States is of critical importance in meeting regularly recurring disbursements.

2.2 Assessments receivable for the years 1991 to 1997 are shown in Figure 1 below:

FIGURE 1
ASSESSMENTS RECEIVABLE AS AT 31 DECEMBER



2.3 It is to be noted from Figure 1 that unpaid contributions have increased during the period. The amounts outstanding have risen from $ 12.3 million in 1991 to $ 21.3 million at the end of 1997, an increase of 73 per cent.

2.4 Despite frequent appeals and reminders the pattern of payment of contributions has only improved slightly as demonstrated in Figure 1 and the following statistics:

	1992	1993	1994	1995	1996	1997
CURRENT YEAR						
Total number of Contracting States	175	182	183	184	184	185
Paid in full current year assessments	80	81	78	97	102	105
Paid part of current year assessments	25	21	17	21	18	14
Made no payment for current year assessments	70	80	88	66	64	66
	175	182	183	184	184	185
PRIOR YEARS						
Number of Contracting States with arrears at beginning of year	93	100	103	108	96	90
Paid arrears in full in current year	35	33	24	40	31	27
Paid part of arrears in current year	21	22	28	27	18	25
Made no payment towards arrears	37	45	51	41	47	38
	93	100	103	108	96	90

2.5 Table A indicates the quarterly cumulative rate of current year assessment payments during the years 1990 to 1997, compared with the corresponding budgetary expenditure percentage of the year elapsed.

TABLE A
Percentage of Current Year Assessments Collected

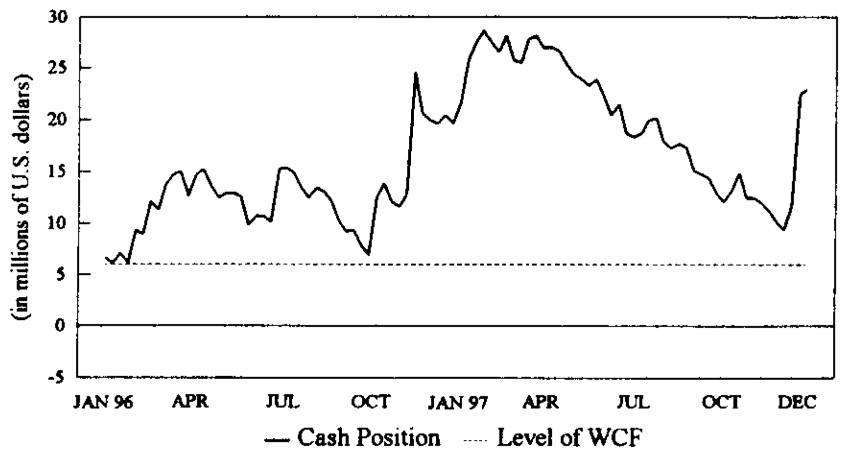
	Per Cent of Year Elapsed	1990	1991	1992	1993	1994	1995	1996	1997
March	**25.0**	28.9	23.4	27.9	30.2	28.7	29.6	31.0	31.7
June	**50.0**	48.9	32.3	37.1	45.0	32.1	35.6	37.4	38.1
September	**75.0**	51.8	55.3	60.1	53.1	54.0	59.0	40.2	43.2
December	**100.0**	78.5	83.4	86.3	82.0	84.4	62.7	88.1	79.5

2.6 When cumulative assessment payments continue to fall below the cumulative expenditure trend, it may become necessary to draw upon the WCF to meet current disbursement requirements. At 30 September 1996 and 1997, only 40.2 per cent and 43.2 per cent respectively of current year contributions were collected while approximately 75 per cent of expenditures for the year were incurred. By assuming a budget of $ 50.0 million, expenditures at the end of September should be approximately $ 37.5 million (75 per cent of $ 50.0 million) whereas current year collections for 1996 and 1997 based on actual collection rates would only average approximately $ 21.0 million per year, thus resulting in a shortfall of about $ 16.5 million in each year.

3. FINANCIAL POSITION OF THE ORGANIZATION FOR 1996 AND 1997

3.1 Figure 2 illustrates the financial position of the Organization in terms of cash balances in the General Fund and the WCF for 1996 and 1997.

FIGURE 2
CASH POSITION



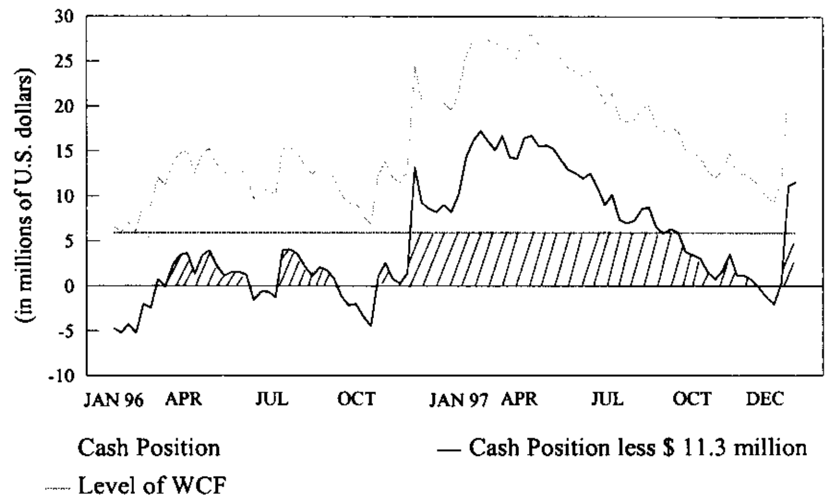
3.2 At the end of 1995, the cash on hand in the General Fund and the WCF amounted to only $ 6.5 million or $ 0.5 million in excess of the WCF level and this amount included $ 1.4 million in advance assessment applicable to 1996 as well as an estimated amount of $ 2.3 million from the forward purchase of Canadian dollars in 1995.

3.3 As can be noted in Figure 2, there was an improvement in the cash balances of the Regular Programme in 1996 compared to the end of 1995. This improvement was due to a number of reasons, some of which related to 1995. In 1995, only 63 per cent or $ 30.8 million of current year assessments were paid and the expenditures of the Organization were reduced to the greatest degree possible in light of the small percentage of assessments collected. Subsequently, in 1996 under-expenditures in 1995 together with a collection of 88 per cent of 1996 current year assessments and $ 16.6 million in arrears resulted in a cash balance which varied between $ 6.0 million and $ 15.0 million (including the WCF) during most of 1996. In November and December 1996, a total of $ 18.3 million was received of which $ 2.0 million pertained to 1997 assessments.

3.4 By the end of the first quarter of 1997, the Organization had cash resources amounting to over $ 25.0 million which was due in part to the relatively very high collection rate of current assessments in 1996 and in the first quarter of 1997. However, the situation gradually deteriorated over the course of the year and by September 1997 only 43 per cent of the current year assessments had been collected. By early December 1997, the cash resources had dwindled to less than $ 9.3 million. By 31 December 1997, the situation had improved because of the receipt of current and prior years' assessments amounting to $ 14.8 million as well as advance assessment payments for 1998 totalling $ 5.8 million.

3.5 As at 31 December 1997, the cash surplus amounted to $ 11.3 million. For illustration purposes, the line in Figure 3 below provides what the cash balance of the Organization would have been in 1996 and 1997 if the resources of the Organization were $ 11.3 million less over the period. In this illustration, it can be noted that the total cash balances for most of 1996 and part of 1997 would have been very low and at times would have been below zero.

FIGURE 3
CASH POSITION LESS $ 11.3 MILLION



3.6 While the reduction of $ 11.3 million shown in Figure 3 is in one sense arbitrary, it is an effort to illustrate the degree to which the adequacy of the WCF could be affected by the removal from ICAO's cash balance of an available, accumulated surplus. There is no certainty that there would be such a surplus available in the next triennium, and if the cash position in the future reached the same lows as in the graph above, then a WCF of the existing $ 6.0 million is shown to be insufficient.

3.7 Financial management difficulties relating to the need of the Organization to meet regular staff costs can be created during periods when the WCF is significantly utilized for more than a month. By increasing the level of the WCF, there is a corresponding abatement of such critical periods.

3.8 Should the Assembly decide to dispose the full amount of surplus, the cash resources of the Organization would be significantly lowered and the Organization could encounter cash flow difficulties in the second half of future financial years unless other measures are considered to mitigate the reduced cash resources such as the distribution of the surplus over a number of financial periods and the setting of the WCF at an appropriate level.

4. WORKING CAPITAL FUNDS OF OTHER AGENCIES OF THE UNITED NATIONS SYSTEM

4.1 Information from the United Nations Administrative Committee on Co-ordination (ACC) Report on Budgeting in Organizations of the United Nations System indicates that ten Organizations of the United Nations system have Working Capital Funds. However, direct comparison of the level of the Funds, or their respective percentage relationships to the agency appropriations, is difficult mainly because the uses to which the Working Capital Funds are put by the agencies are not uniform. For example, some agencies utilize the Fund for financing unforeseen or extraordinary expenses while others use the Fund to finance only budgetary expenditures pending receipt of contributions. It is also to be noted that some agencies have Special Funds or Reserves in addition to the WCF. With this reservation, the percentage relationships of the various Working Capital Funds to the 1997 budget of certain agencies ranged from 7.4 per cent to 10.4 per cent.

4.2 The Joint Inspection Unit (JIU) recommendation of a WCF equivalent to one twelfth of an organization's annual budget would be acceptable for ICAO if the Organization could rely on a steady inflow of cash from assessed contributions. The JIU recommendation did not cater for the consequences of a major interruption in the payment of contributions.

4.3 In a report of the United Nations Secretary General, "Reviewing the United Nations: a Programme for Reform", submitted to the United Nations General Assembly in July 1997, the Secretary General recommended that a Revolving Credit Fund capitalized at a level of up to $ 1.0 billion be established through voluntary contributions, or any other means of financing that Member States may wish to suggest, to provide liquidity as an advance on Member States' outstanding contributions. The budget of the United Nations for 1998-1999 biennium is $ 2.5 billion.

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APPENDIX B

DRAFT RESOLUTION FOR ADOPTION BY THE 32ND SESSION OF THE ASSEMBLY

Resolution 38.4/1

Working Capital Fund

The Assembly notes that:

1. in accordance with Resolution A31-25 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;

2. in recent years, 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 serious cash flow difficulties;

3. the relatively long budgetary cycle of ICAO, namely 3 years, has a bearing on the determination of the prudent level of the WCF and borrowing authority, as only the Assembly can levy assessments on Contracting States;

4. given the number of permanent staff in ICAO, there is an irreducible minimum which the Organization has to pay out each month to meet the staff costs. This amount is not amenable to short term reduction through adjusting the work programme, since permanent staff remain in post and have to be paid in any event. The difficult financial experience of the past few years has shown that the Organization should have sufficient funds in the WCF to cover two months expenditures rather than the month and a half represented by the current level of $ 6.0 million;

5. while it would appear that cash crises could be avoided by careful management of expenditure on the work programme, the fact is that monthly outgoings of cash cannot be reduced in the short term below the amount needed to pay the permanent staff;

6. experience showed that some sizable contributions were subject to the political imperatives of the State concerned, and that ICAO could not rely on contributions being paid even by the end of the year to which they related;

7. as long as the cash flow remains uncertain, ICAO would need the WCF as a buffer, on which it could draw to meet its unavoidable cash commitments;

8. ICAO's only other potential source of funds, excluding commercial borrowing, is the AOSC surplus. But its amount is uncertain, it belongs to the Technical Co-operation Programme (TCP), and TCP might need it to avoid having to call on the Regular Programme for supplementary financing. Relying upon this source in place of securing an appropriate level for the WCF would therefore be flawed in both principle and practice, and does not offer a prudent financial option. Objections by certain States to ICAO utilizing the borrowing authority means that this avenue may not be a reliable emergency mechanism;

9. the financial position at this time does not indicate the need to assess Contracting States for cash deficits caused by contributions in arrears; and

10. due to the delays experienced in receipt of current and prior years contributions in recent years and the magnitude of contributions in arrears, the Council has recommended that the level of the Working Capital Fund be increased from $ 6.0 million to $ 8.0 million and the borrowing authority be maintained at $ 3.0 million for the next triennium.

The Assembly resolves that:

1. the level of the Working Capital Fund be established at $ 8.0 million for the years 1999-2000-2001, subject to increases resulting from advances paid by new States becoming members of the Organization after approval of the 1999 scale of assessments;

2. the increased level of Working Capital Fund be attained as follows:

   a) the amount of assessed advance to the Working Capital Fund of each Member State on 1 January 1999 shall be determined on the basis of the 100% scale of assessments for the General Fund for 1999; and

   b) Contracting States shall have credited toward such assessed advances under a) above the amounts of their individual equities in the Working Capital Fund as of 31 December 1998, and where applicable, their share of refunds from surplus recommended for distribution in accordance with Resolution ________, and shall pay the balance in connection with their 1999 General Fund assessments.

3. 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 $ 3.0 million during the triennium;

4. the Council shall report to the next ordinary session of the Assembly:

   a) on the adequacy of the level of the Working Capital Fund in the light of experience during 1998, 1999 and 2000;

   b) whether the financial position of the General Fund and the Working Capital Fund would indicate the need for assessing Contracting States for cash deficits caused by arrears of contributions;

   c) on the appropriateness of the level of the borrowing authority; and

5. Resolution A31-25 is no longer effective and is hereby superseded.

The Assembly urges that:

1. all Contracting States pay their assessments at the beginning of the year in which they fall due in order to lessen the need for the Organization to draw on the Working Capital Fund and resort to external borrowing; and

2. States in arrears meet their obligations to the Organization as promptly as possible, as called for by Resolution A21-10.

– END –