



International Civil Aviation Organization

WORKING PAPER

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ASSEMBLY — 41st SESSION
ADMINISTRATIVE COMMISSION

Agenda Item 49: Report on the Working Capital Fund

REPORT ON THE WORKING CAPITAL FUND

(Presented by the Council of ICAO)

EXECUTIVE SUMMARY

This paper presents an update on the level of the Working Capital Fund (WCF) as at 31 December 2021 for review by the Assembly. Assembly Resolution A40-31 Resolving Clause 2 confirmed the level of the WCF at USD 8.0 million. An increase of the level of the WCF is not considered to be necessary at the present time.

Considering that payments of assessments are not generally received when due, prudence must continue to be exercised in the projection of the cash position, and it is proposed to maintain the borrowing authority at the same level for the next triennium.

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 10140, <i>Assembly Resolutions in Force</i> (as of 4 October 2019)

1. INTRODUCTION

1.1 The 40th Session of the Assembly considered the WCF level and borrowing authority, and resolved, in Resolving Clause 2 of Assembly Resolution A40-31, that the level of the WCF should remain at USD 8.0 million, and that, should the Council determine that it is warranted, the Council shall establish the WCF at a level no higher than USD 10.0 million.

1.2 This working paper reports on the adequacy of the current level of the WCF and the borrowing authority as requested by the Assembly.

2. FLOW OF RECEIPTS AND DISBURSEMENTS

2.1 The receipt of assessments continues to fluctuate throughout the year and is challenging to predict. Table 1 illustrates the monthly cash positions of the General Fund and WCF 2021. Table 2 illustrates the cash position of the General Fund, including the WCF, at the end of each quarter from 2016 to 2021.

TABLE 1

End of Month Cash Balances in 2021¹
(in millions of CAD)

	General	WCF*	Total
January	52.2	10.2	62.4
February	72.6	10.1	82.7
March	73.9	10.1	84.0
April	71.4	10.1	81.5
May	63.8	9.8	73.6
June	68.0	9.9	77.9
July	61.5	9.9	71.4
August	65.5	10.0	75.5
September	57.7	10.1	67.8
October	53.3	10.2	63.5
November	48.0	10.1	58.1
December	47.1	10.2	57.3

* 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 are due to exchange rate variance.

¹ Excludes Revolving Fund

TABLE 2

**Six Years' Actual Quarterly Cash Positions²
(in millions of CAD)**

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
2016	46.0	49.5	44.6	37.4
2017	53.6	58.4	37.7	29.0
2018	58.8	59.3	40.5	47.2
2019	69.3	55.9	50.8	34.9
2020	28.0	55.1	50.4	59.0
2021	84.0	77.9	67.8	57.3

2.2 It should be noted that the quarterly positions do not reflect the wide fluctuations that may arise from month to month. 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. Other than the WCF, there are no reserves in the General Fund to meet contingencies.

3. LEVEL OF THE WORKING CAPITAL FUND

3.1 Based on the authorized appropriations for 2020, 2021 and 2022 mainly funded from assessments, the average monthly cash requirement is estimated at CAD 9.0 million. With the current level of the WCF at USD 8.0 million, and considering the trend of the exchange rate between USD and CAD in recent years, the cash in WCF could cover one month's disbursements.

3.2 In 2021, the Finance and Budget Network of the United Nations High-level Committee on Management (HLCM) established a Working Group on Operational Reserves. The report of the Working Group highlighted that the industry standards from the non-profit sector for minimum reserve (equivalent to WCF) varies from three to four months of an organization's relevant expenditure, and suggested some guidance on determining such target levels. The Secretariat will closely monitor the development in this area.

3.3 The liquidity crisis in 2020 highlighted ICAO's vulnerability in the event of unforeseen events that affect cash inflows and the importance of timely collection of assessments. During this period of unprecedented risk, the Secretariat expended a great deal of effort to reprioritize activities, and had to activate severe austerity measures that impacted the implementation of planned activities. Therefore, in conjunction with the HLCM recommendations, the Secretariat will continue to assess the need to adjust the WCF level during the triennium of 2023, 2024, and 2025, and will inform the Council accordingly.

3.4 In the interim, it is recommended to maintain the WCF at USD 8.0 million in order to cover a minimum of one month's projected expenditures.

² Excludes Revolving Fund

4. BORROWING AUTHORITY

4.1 In 2007, the Assembly authorized the Secretary General to borrow, if necessary and with the prior approval of the Finance Committee of the Council, 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 (A36-34). The continuation of the borrowing authority has been provided for in Resolving Clause 2 d) of Assembly Resolution A40-31. Thus far, the borrowing authority has not been exercised. However, in light of uncertainties and the unpredictable nature of cash flow in the upcoming years, it would be prudent to retain the borrowing authority at the current level for future years. This avenue to fund temporary cash deficits should be regarded as the last resort, and exercised only when no other options are available.

5. CONCLUSIONS

5.1 Taking into consideration the above, an increase in the level of the WCF is not requested at this time. However, the borrowing authority should remain. This conclusion is reflected in the Appendix attached herewith.

APPENDIX

DRAFT ASSEMBLY RESOLUTION FOR ADOPTION BY THE 41ST SESSION OF THE ASSEMBLY

(To supersede A40-31)

Resolution 49/1

Working Capital Fund

The Assembly:

1. *Notes that:*

- a) in accordance with Resolution A40-31, 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~~ detrimental delay in complying with 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 periodically reviews the financial situation of the Organization and the level of the Working Capital Fund.

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 to determine if an increase is urgently needed;
 - 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 during ordinary sessions of the Assembly:
 - i) on the adequacy of the level of the Working Capital Fund;
 - 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 A40-31 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 [A41-xx].