A37-WP/62 EX/17, AD/16 16/08/10 **Revision No. 1** 27/9/10

ASSEMBLY — 37TH SESSION

EXECUTIVE COMMITTEE ADMINISTRATIVE COMMISSION

Agenda Item 18: Contributions in arrears Agenda Item 67: Contributions in arrears

FINANCIAL ASPECTS OF THE QUESTION OF CONTRIBUTIONS IN ARREARS

(Presented by the Council of ICAO)

EXECUTIVE SUMMARY

This paper provides information on the status of contributions in arrears and of Contracting States that had their voting rights deemed suspended as at 24 September 2010. This working paper also deals with the impact of delays in receipt of contributions, measures in dealing with contributions in arrears and the incentive scheme for settlement of arrears.

The list of States that are in arrears is in Appendix A; States that have entered into agreements to settle their outstanding assessments over a period of years are listed in Appendix B; and States that have their voting rights deemed suspended are in Appendix C. A draft Assembly Resolution is included in Appendix D to direct the Secretary General to report to the Council any voting rights deemed to be suspended or suspension revoked under Resolving Clause 6, and to apply measures stipulated in Resolving Clause 9. A revision is proposed to Resolving Clause 4 a), which sets out the pre-conditions for entering into an agreement for repayment of arrears, as described in paragraph 3.3.2.

Action: The Assembly is invited to approve the draft Resolution in Appendix D to this working paper.

Strategic Objectives:	This working paper relates to Supporting Implementation Strategy 4 and does not relate to any specific Strategic Objective.
Financial implications:	The delay in the receipt of contributions impacts the cash resources of the Organization and could impact programme delivery.
References:	Doc 9902, Assembly Resolutions in Force (as of 28 September 2007) Doc 7515, The ICAO Financial Regulations Doc 7300, Convention on International Civil Aviation, signed at Chicago on 7 December 1944 and amended by the ICAO Assembly

1. **INTRODUCTION**

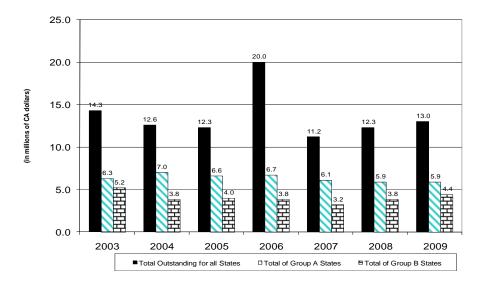
- Article 62 of the Convention on International Civil Aviation (Chicago, 1944) stipulates that the Assembly may suspend the voting rights in the Assembly and in the Council of any Contracting State that fails to discharge, within a reasonable period, its financial obligations to the Organization. Assembly Resolution A36-33 contains resolving clauses that, inter alia, require Contracting States to recognize the necessity to pay their contributions in the year in which they fall due, set out the conditions and terms under which Contracting States may enter into agreements to liquidate long-outstanding arrears, and make reference to the application of the provisions of Article 62 of the Convention relating to the suspension of voting rights. Assembly Resolution A36-33 also directs the Council to further intensify the current policy of inviting States in arrears to make settlement proposals in accordance with the provisions of the Assembly.
- 1.2 Assembly Resolution A35-27 describes the incentives for the settlement of long outstanding arrears. In addition, Assembly Resolution A35-27, *inter alia*, requests the Council to closely monitor the question of outstanding contributions, the effect of the incentive schemes on payment of arrears by States, and to report to the next ordinary session of the Assembly on the results of their efforts, including other measures to be considered. This paper addresses these requirements.

2. STATUS OF CONTRIBUTIONS IN ARREARS

2.1 Status of Contributions in Arrears since 2003

- 2.1.1 Figure 1 below shows the comparative position of total outstanding assessments as at 31 December for the years 2003 to 2009. The figure also shows separately the arrears for Group A and Group B States (please refer to the definition in paragraph 2.2).
- 2.1.2 The outstanding assessments of Group B States decreased from a peak of \$ 5.2 million as at 31 December 2003 to a low of \$ 3.2 million as at 31 December 2007 as more States entered into agreements to settle their long-outstanding arrears. It has increased slightly to \$ 4.4 million in December 2009. The combined outstanding assessments in respect of Group A and Group B States improved slightly over the years from \$ 11.5 million as at December 2003 to \$ 10.3 million as at 31 December 2009.

FIGURE 1
ASSESSMENTS RECEIVABLE FROM CONTRACTING STATES
AS AT 31 DECEMBER



2.2 Status of Contributions in Arrears as at 24 September 2010

2.2.1 The total contributions in arrears as at 24 September 2010 was \$ 9.6 million of which \$ 8.1 million was in arrears in respect to 2008 and prior years and \$ 1.5 million related to 2009. Appendix A contains a schedule of unpaid contributions as at 24 September 2010 for all financial years presented in the following four groups:

- 3 -

- **Group A** States that have concluded agreements with the Council to liquidate their arrears over a period of years in accordance with Assembly Resolution A36-33, Resolving Clauses 3 and 4. (18 States)
- **Group B** States with contributions in arrears equivalent to the assessments of the three preceding years or more and which have not concluded agreements with the Council to liquidate their arrears. (8 States)
- **Group C** States with contributions in arrears for more than one year, but less than three full years. (10 States)
- **Group D** States with contributions outstanding only for the year 2009. (13 States)
- 2.2.2 In accordance with their agreements, Group A States are required to pay the current year assessment and an agreed annual instalment to liquidate long-outstanding prior years' arrears of assessments. Appendix B shows the status of assessments and instalments outstanding for prior years in respect of Group A States as at 24 September 2010.

2.3 Impact of Delays in Receipt of Contributions

2.3.1 Delays in the payment of contributions by Contracting States against the current year assessments and arrears, which continue to be a matter of concern, have an adverse impact on the cash position of the Organization and the possible delay in the implementation of the work programmes. Member States have an obligation to ensure that the Organization continues to operate effectively. In previous triennia, accumulated cash surplus covered shortfall in receipt of the current year's dues. However, cash surplus has been earmarked and is not as available as before.

3. MEASURES IN DEALING WITH CONTRIBUTIONS IN ARREARS

3.1 Advising States of Balances Outstanding

3.1.1 The Organization follows up on the collection of assessments in accordance with Resolving Clause 2 of Assembly Resolution A36-33, Financial Regulations 6.4 and 6.5, and Financial Rule 106.4. For practical reasons, the State letters have been issued in May (reflecting status at April) upon completion of the External Audit, in July (for status at June) and November (for status at October, as well as to inform of the assessment for the following year). In addition, since 2004, the status of contributions has been published on the ICAO web site, with access restricted to Contracting States only, to further enhance the frequency and timeliness of the information available to Contracting States.

3.2 Suspension of Voting Rights under Assembly Resolution A36-33

- 3.2.1 The power to suspend voting rights is provided under Article 62 of the Convention. In accordance with Clause 6 of Assembly Resolution A36-33, the voting rights in the Council and Assembly are suspended for States that have failed to discharge their financial obligations to the Organization equivalent to the preceding three years' assessments or more, and which have not concluded an agreement or have not complied with the terms of the agreement. Since the effective date of this Resolution from 1 January 2008, Clause 6 has been applied automatically and consistently by the Secretariat through a close monitoring of unpaid assessments. During the Council's 179th Session, the Secretariat specified that the application of Clause 6 did not require the Council's approval, and the Secretariat's role was to indicate the impact of its application. In order to clarify the resolution, it is proposed to add a clause (Clause 11) to the proposed Assembly Resolution as reflected in Appendix D.
- 3.2.2 Appendix C presents the arrears of the 15 Contracting States that fall within Article 62 of the Convention, relating to the suspension of voting rights, as at 24 September 2010.
- 3.2.3 It should be noted that some States delay paying their obligations until immediately prior to the Assembly, and pay only the minimum amount required to reinstate their voting rights. For States with agreements, the minimum amount needed to reinstate voting rights comprises the assessments and instalments due in accordance with their agreement.
- Resolving Clause 6 of Assembly Resolution A36-33 provides that suspension of voting rights will be immediately revoked upon either the payment in full of contributions that are in arrears for at least three years or the conclusion with the Council of an agreement to liquidate arrears over a period of time and compliance with the terms of the agreement. It should be noted that with effect from 1 January 2005, the voting rights of a State with an agreement is suspended if it is not in compliance with the terms of its agreement, irrespective of the amount of arrears outstanding. Since 1 January 2005, the treatment of Group A and Group B States as concerns reinstatement of voting rights differs: Group B States would be required to bring the balance of arrears outstanding below the level of three preceding years' assessments, whereas Group A States would be required to comply with the terms of their agreement irrespective of the amount of arrears outstanding.
- 3.2.5 The Council, being very concerned with the level of the arrears, recommended during the previous triennium, the approval of additional measures needed to encourage Contracting States to pay their contributions when due. These measures were approved in Assembly Resolution A35-26, Clause 9 for application to the Contracting States whose voting rights have been suspended under Article 62 of the Convention with effect from 1 January 2005. These measures have been applied by the Secretary General and monitored by the Council. It is proposed to maintain these practices as a directive in Clause 9 to the resolution presented in Appendix D.
- 3.2.6 The Council also recommended that only those States that have no outstanding annual assessed contributions except for the current year's assessment be eligible for election to the Council, Committees and bodies.

3.3 Special Arrangements for payment of arrears

3.3.1 Resolving Clause 4 of Assembly Resolution A36-33 sets out the pre-conditions for entering into an agreement for repayment of arrears. Under this Clause, one State has negotiated the terms of their agreement during the triennium.

3.3.2 In order to discourage the practice by some States of only making a token payment during the Assembly to enter into agreement and restore their voting rights only to further default, it is proposed to amend Clause 4 a) of Assembly Resolution A36-33 to ensure that the deposit paid is commensurate with the outstanding arrears due as shown in the new Clause 4 a) proposed resolution in Appendix D.

3.4 Incentive Scheme for the Settlement of Long-outstanding Arrears

- 3.4.1 The 32nd Session of the Assembly approved Assembly Resolution A32-27, creating the Incentive Scheme for the Settlement of Long-outstanding Arrears and a related special account. Its continuation was confirmed by Assembly Resolution A35-27 in Resolving Clause 3. The amounts and movements in the special account are reported separately.
- 3.4.2 Noting that the transfer of the arrears of contributions to a separate account in accordance with Assembly Resolution A35-27 means that the cash available for funding the Regular Programme Budget is correspondingly reduced.
- 3.4.3 Therefore, it is proposed to further review the incentive scheme and its possible impact during the next triennium.

4. **CONCLUSION**

- Assembly Session, especially from Group A and Group B, it is noteworthy that we continue to pursue the States with arrears and encourage them to settle their dues in accordance with the ICAO Financial Regulations. During the previous Assembly Session 31 States had agreements to settle their arrears with ICAO whilst currently there are only 18 States, as 14 States have settled their agreements in full and 1 State entered into an agreement. The number of States with repayment terms of more than 20 years has also dropped from 18 States at last Assembly Session to 9 States and this trend should be encouraged.
- 4.2 It is proposed to continue to monitor the long outstanding arrears and to apply the measures adopted by the Assembly during the next triennium, and to report on the financial aspects of the question of contribution in arrears at the next ordinary session of the Assembly.

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${\bf APPENDIX~A}$ STATUS OF CONTRIBUTIONS IN ARREARS FOR THE FINANCIAL YEARS 1982-2009

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AS AT 24 SEPTEMBER 2010 (in Canadian dollars)

Contracting States	2009	2008	2007	2006	2005	1982-2004 Years	Total Arrears	Working Capital Fund	Total Amount Outstanding
Group A									
Belarus Cambodia Cook Islands	44 436	36 508				3 945 (1997) 147 271 (2000-1995) 69 252 (1998-1996)	84 889 147 271 69 252		84 889 147 271 69 252
Democratic Republic of the Congo Gambia	44 436 44 436	44 510 44 510	35 780 35 780	35 555	34 437	274 732 (2003-1994) 246 024 (2002-1991)	469 450 370 750		469 450 370 750
Georgia Grenada Guinea	44 436 44 436	44 510	35 780	25.555	34 437	253 114 (2004-1996) 191 427 (2000-1994) 146 453 (1997-1992)	287 551 280 373 146 453 911 777		287 551 280 373 146 453
Iraq Kyrgyzstan Liberia	44 436	44 510	33 780	35 555	34 437	717 059 (2004-1991) 129 448 (2000-1996) 200 634 (2003-1990)	129 448 200 634		911 777 129 448 200 634
Malawi Republic of Moldova Rwanda	44 436	44 510	35 780	35 555	34 437	129 776 (2004-1996) 102 411 (2001-1998) 4 208 (1997)	324 494 102 411 4 208		324 494 102 411 4 208
Sao Tome and Principe Sierra Leone	44 436	44 510	35 780	35 555	34 437	380 812 (2004-1987) 219 156 (2003-1990)	575 530 219 156		575 530 219 156
Solomon Islands Suriname	44 436	44 510	35 780	35 555	34 437	78 588 (2003-2001) 88 197 (2000-1997)	78 588 282 915		78 588 282 915
Total Group A	355 488	348 078	214 680	177 775	206 622	3 382 507	4 685 150		4 685 150
Group B									
Antigua and Barbuda Djibouti	44 436 44 436	44 510 44 510	35 780 35 780	35 555 35 555	34 437 34 437	428 861 (2004-1989) 445 680 (2004-1988)	623 579 640 398	962	624 541 640 398
Marshall Islands	44 436	44 510	35 780	35 555	33 261		193 542		193 542
Nauru Papua New Guinea	44 436 44 436	44 510 44 510	35 780 35 780	35 555	34 437	288 628 (2004-1995)	483 346 124 726		483 346 124 726
Palau Saint Kitts and Nevis Somalia	44 436 44 436 44 436	44 510 44 510 44 510	35 780 35 780 35 780	35 555 35 555 35 555	34 437 2 307 34 437	24 819 (2004) 498 038 (2004-1985)	219 537 162 589 692 756	1 059	219 537 162 589 693 815
Total Group B	355 488	356 080	286 240	248 886	207 753	1 686 026	3 140 473	2 021	3 142 494
Group C									
Afghanistan	44 436	44 510	26 344				115 290		115 290
Bangladesh Bolivia	59 248 44 436	9 358 44 510					68 606 88 946		68 606 88 946
Eritrea	44 436	44 510					88 946		88 946
Kiribati	44 436	44 510					88 946		88 946
Micronesia, Federated States of Montenegro	44 436 44 436	44 510 44 510	3 311				92 257 88 946		92 257 88 946
Sudan	44 436	44 510	35 150				124 096		124 096
Syrian Arab Republic Timor-Leste	44 436 44 436	4 478 44 510					48 914 88 946		48 914 88 946
Total Group C	459 172	369 916	64 805				893 893		893 893
Group D									
Andorra	35 853						35 853		35 853
Bosnia and Herzegovina	43 728						43 728		43 728
Cape Verde Guyana	32 350 160						32 350 160		32 350 160
Iran, Islamic Republic of	4 817						4 817		4 817
Kazakhstan	24 023						24 023		24 023
Kenya Nepal	43 397 3 429						43 397 3 429		43 397 3 429
Saint Vincent and the Grenadines	5 642						5 642		5 642
Trinidad and Tobago	44 436						44 436		44 436
Turkmenistan	44 436						44 436		44 436
Zambia Zimbabwe	35 407 17 611						35 407 17 611		35 407 17 611
Total Group D	335 289						335 289		335 289
The former Socialist Federal Republic of Yogulsavia *						501 175	501 175		501 175
Grand Total	1 505 437	1 074 074	565 725	426 661	414 375	5 569 708	9 555 980	2 021	9 558 001

 $^{{\}rm * The \ devolution \ of \ the \ amount \ owing \ by \ the \ former \ Socialist \ Republic \ of \ Yugoslavia \ is \ to \ be \ ascertained}.}$

APPENDIX B

CONTRIBUTIONS AND INSTALMENTS PAYABLE FOR PRIOR YEARS UNDER AGREEMENTS FOR SETTLEMENT OF ARREARS AS AT 24 SEPTEMBER 2010

(in Canadian dollars)

		Due in	2009	Due ir	Due in 2008 Due in 2007						
								Total	Total	Due in 2010	
	Year of							Currently	Prior Years	and Future	
Contracting States	Agreement	Assessment	Instalment	Assessment	Instalment	Assessment	Instalment	Overdue	Overdue	Years	Total Due
BELARUS	1998	44 436		36 508				80 944		3 945	
CAMBODIA	2001									147 271	147 271
COOK ISLANDS	1999									69 252	69 252
DEMOCRATIC REPUBLIC OF THE CONGO	2004	44 436	13 737	44 510	13 737	35 780		165 937	97 466		
GAMBIA	2003	44 436	20 502	44 510	20 502	35 780	20 503	186 233		184 517	370 750
GEORGIA	2006									287 551	
GRENADA	2001	44 436	21 292	44 510	21 095			131 333		149 040	
GUINEA	2006									146 453	
IRAQ	2010									911 777	
KYRGYZSTAN	2001									129 448	129 448
v vn pn v v	2005									200 524	200 524
LIBERIA	2006	44.426		44.510		25 700		124726	100.760	200 634	
MALAWI	1997	44 436		44 510		35 780		124 726	199 768		324 494
REPUBLIC OF MOLDOVA RWANDA	2002 1998									102 411 4 208	-
	2000	14 126	16 015	44 510	16 015	35 780	16.015	172 771	242 (19		
SAO TOME AND PRINCIPE	2000	44 436	16 013	44 510	16 013	33 /80	16 015	1/2//1	242 618	160 141	575 530
SIERRA LEONE	2006									219 156	219 156
SOLOMON ISLANDS	2004									78 588	
SURINAME	2004	44 436	12 600	44 510	12 600	35 780	12 600	162 526	95 192		
DOM! WILL	2001	44 430	12 000	44 510	12 000	33 760	12 000	102 320)3 1)2	23 177	202 713
TOTAL		311 052	84 146	303 568	83 949	178 900	62 855	1 024 470	635 044	3 025 636	4 685 150

NOTE: The amount due each year includes the current year's assessment plus an agreed instalment.

APPENDIX C

ARREARS OF CONTRACTING STATES THAT HAVE THEIR VOTING RIGHTS DEEMED SUSPENDED AS AT 24 SEPTEMBER 2010 (in Canadian Dollars)

	Amounts Due								Working		
								Total	Capital	Amount	
Contracting States	2009	2008	2007	2006	2005	1985-2004	Years	Arrears	Fund	Outstanding	
Group A											
Belarus	44 436	36 508				3 945	(1997)	84 889		84 889	
Democratic Republic of the Congo	44 436	44 510	35 780	35 555	34 437	274 732	(2003-1994)	469 450		469 450	
Gambia	44 436	44 510	35 780			246 024	(2002-1991)	370 750		370 750	
Grenada	44 436	44 510				191 427	(2000-1994)	280 373		280 373	
Malawi	44 436	44 510	35 780	35 555	34 437	129 776	(2004-1996)	324 494		324 494	
Sao Tome and Principe	44 436	44 510	35 780	35 555	34 437	380 812	(2004-1987)	575 530		575 530	
Suriname	44 436	44 510	35 780	35 555	34 437	88 197	(2000-1997)	282 915		282 915	
										2 388 401	
Group B											
Antigua and Barbuda	44 436	44 510	35 780	35 555	34 437	428 861	(2004-1989)	623 579	962	624 541	
Djibouti	44 436	44 510	35 780	35 555	34 437	445 680	(2004-1988)	640 398		640 398	
Marshall Islands	44 436	44 510	35 780	35 555	33 261			193 542		193 542	
Nauru	44 436	44 510	35 780	35 555	34 437	288 628	(2004-1995)	483 346		483 346	
Palau	44 436	44 510	35 780	35 555	34 437	24 819	(2004)	219 537		219 537	
Papua New Guinea	44 436	44 510	35 780					124 726		124 726	
Saint Kitts and Nevis	44 436	44 510	35 780	35 555	2 307			162 589		162 589	
Somalia	44 436	44 510	35 780	35 555	34 437	498 037	(2004-1985)	692 756	1 059	693 815	
										3 142 494	
Total Outstanding	666 540	659 648	465 140	391 108	345 501	3 000 937	•	5 528 874	2 021	5 530 895	

APPENDIX D

DRAFT ASSEMBLY RESOLUTION FOR ADOPTION BY THE 37TH SESSION OF THE ASSEMBLY

Resolution 18/1: Discharge by Contracting States of financial obligations to the Organization and action to be taken in case of their failure to do so

Whereas Article 62 of the Convention on International Civil Aviation provides that the Assembly may suspend the voting power in the Assembly and in the Council of any Contracting State that fails to discharge, within a reasonable period, its financial obligations to the Organization;

The Assembly:

Considering that Article 6.5 of the ICAO Financial Regulations provides that contributions from Contracting States shall be considered due and payable in full as of the first day of the financial year to which they relate;

Noting that in recent years the accumulation of contributions in arrears has increased considerably and has constituted, together with the delays in payment of current year contributions, an obstacle to the implementation of the work programme and created serious cash flow difficulties;

Urges that all Contracting States in arrears make suitable arrangements for liquidating their arrears; and

Urges all Contracting States and, in particular, the States elected to the Council, to take all necessary measures to pay their contributions on time;

Resolves that, with effect from 1 January 2011:

- 1. all Contracting States should recognize the necessity to pay their contributions at the beginning of the year in which they fall due, in order to avoid the need for the Organization to draw on the Working Capital Fund to make good the shortfall;
- 2. the Secretary General be directed to dispatch to all Contracting States, at least three times in the year, schedules showing the current amounts due for the current year and up to 31 December of the previous year;
- 3. the Council be authorized to discuss and conclude arrangements with Contracting States, whose contributions are in arrears for three or more years, for the settlement of accumulated arrears to the Organization, any such settlements or arrangements to be reported to the next session of the Assembly;

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- 4. all Contracting States that are three years or more in arrears in the payment of their contributions should:
 - a) effect without delay payment of the amounts outstanding with respect to advances to the Working Capital Fund, the current year contribution, and partial settlement of their arrears in the amount of 5 per cent of the arrears; and
 - b) conclude within six months of the date of the payment referred to in sub-paragraph a) above, if they have not already done so, an agreement with the Organization for the settlement of the balance of their arrears, such agreement to provide for the payment annually, in full, of their current contributions and the balance of the arrears in instalments over a period of no more than ten years, which period may, at the discretion of the Council, be extended, to a maximum of twenty years in respect of special cases, i.e. those Contracting States which are classified by the United Nations as Least Developed Countries;
- 5. the Council should further intensify the current policy of inviting Contracting States in arrears to make settlement proposals for the liquidation of long-outstanding arrears of contributions in accordance with the provisions of Resolving Clause 4 above, taking full account of the economic position of the States concerned including the possibility of accepting other currencies in accordance with the provisions of Article 6.6 of the Financial Regulations, to the extent that the Secretary General can use these currencies;
- 6. the voting power in the Assembly and the Council be suspended for those Contracting States in arrears for an amount equal to or in excess of the total assessments for the three preceding financial years and of those Contracting States not in compliance with agreements entered into in accordance with Resolving Clause 4 b) above, such suspension to be revoked immediately upon the settlement of outstanding amounts due under agreements; and
- 7. the voting power of a Contracting State suspended under Resolving Clause 6 may also be restored by action of the Assembly or the Council provided:
 - a) it has already concluded with the Council an agreement that provides for the settlement of its outstanding obligations and for the payment of current contributions and has complied with the terms of that agreement; or
 - b) the Assembly is satisfied that the State's willingness to reach an equitable settlement of its financial obligations to the Organization has been demonstrated;
- 8. any State whose voting power has been suspended by the Assembly under Article 62 of the Convention may have it restored by the Council under the conditions stipulated in Resolving Clause 7 a) above, provided that a willingness on its part to reach an equitable settlement of its financial obligations to the Organization has been demonstrated;

- 9. the following additional measures be applied to those Contracting States whose voting rights have been suspended under Article 62 of the Convention:
 - a) lose eligibility to host meetings, conferences, workshops and seminars which are funded, in whole or in part, by the Regular Programme;
 - b) receive only the same free documentation as that provided to non-Contracting States, including those available in electronic media, and any other documents that are essential for safety, regularity or efficiency of international air navigation;
 - c) Nationals or Representatives lose eligibility for nomination to elected offices;
 - d) for purposes of recruitment to posts in the Secretariat, if all other circumstances are equal, candidates from States in arrears would be considered as having the status of candidates from a State that has already achieved the desired level of representation (under equal geographical representation principles), even if it has not achieved that level; and
 - e) lose the right to participate in the ICAO Familiarization course;
- 10. only those States which have no outstanding annual assessed contributions except for the current year's assessment will be eligible for election to the Council, Committees, and bodies;
- 11. the Secretary General be directed to report to Council any voting rights deemed to be suspended and suspension revoked under Clause 6, and to apply measures stipulated in Clause 9 accordingly; and
 - 12. this Resolution supersedes Assembly Resolution A36-33.

