

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

Spec(86)7

19 February 1986

ADMINISTRATIVE AND FINANCIAL QUESTIONS

Measures to encourage payment of outstanding contributions

1. The delay in payment of contributions to the budget of international organizations by many governments has been a cause of major concern for many years. In 1979, the Committee on Budget, Finance and Administration of GATT reviewed the various measures which other international organizations, confronted with the same difficulties as GATT, had considered or adopted (L/4853). These measures included periodical publicizing of lists of member governments in arrears of contributions, charging interest on outstanding contributions as from the date when the contributions fell due, suspension of documentation services provided by the organization, the loss of voting rights and non-acceptance of trainees from debtor countries. However, the Committee made no specific recommendations.

2. The problem of outstanding contributions has two aspects. One concerns the cash-flow difficulties resulting from late receipt of contributions in each year. This aspect is the main subject of the present paper. The other is the persistent problem of contributions which are not paid at all, or are paid only in part, or are several years in arrears.

A. Late receipt of contributions

3. Failure by some countries to meet their financial obligations to GATT has on several occasions placed the secretariat in a critical situation, the consequences of which were avoided only because substantial payments were made very late in the year and advance contributions by some countries were made to the budget for the following year. In view of the recurrence of such situations, in October 1984 the Committee recommended that the Director-General be authorized, if necessary, to have recourse to bank overdraft facilities in 1984 (L/5699, paragraph 19). However, last-minute payment of contributions in arrears, and advances to be credited to 1985 contributions, made it possible to abstain from using this authorization. Again in October 1985 the cash situation caused great concern, but payments received in the last quarter just enabled the secretariat to meet current and undeferrable cash commitments up to the end of the year.

4. In reviewing the situation of outstanding contributions at its meeting held in October 1984, the Committee on Budget, Finance and Administration examined a working document (Spec(84)50) recalling one of the means envisaged in 1979 whereby it was proposed to charge interest on arrears of contributions as was done in two organizations within the common system. The discussion which took place on this question was summarized in paragraphs 18 to 23 of the Committee's report (L/5699).

5. Annex I contains a suggestion evolved from a proposal submitted by one member in order to encourage countries to meet their financial obligations to GATT more promptly. The proposed scheme is comparable in its main outlines to the ^{1/}one developed by another organization outside the United Nations system.

6. The scheme has a dual justification: (1) If contributions are not paid when due, this creates a cash management problem that may give rise to bank overdrafts, the financial consequences of which would have to be borne by the CONTRACTING PARTIES. (2) Interest on bank deposits resulting from payments made by some contracting parties should accrue only to them, and not systematically to all countries, some of which might be in a debtor position.

7. The scheme, which is explained in Annex I, could become operational at an early date, beginning in 1987.

B. Long-standing arrears of contributions

8. The net amount of long-standing arrears of contributions increases regularly. For the last ten years, the situation at the end of each calendar year has steadily deteriorated in terms of contributions collected, as shown in the table below:

Amounts outstanding as at 31 December (in Swiss francs)				
Year	Against prior year's assessment	Against the current year's assessments	Total net amount	Total percentage of current year's assessments
1976	1,271,641	2,156,691	3,428,332	10.19
1977	1,701,282	1,632,093	3,333,375	9.36
1978	2,063,676	2,557,167	4,640,843	12.26
1979	3,013,992	1,670,191	4,684,183	12.39
1980	2,917,265	1,582,902	4,500,167	11.54
1981	3,350,574	2,657,717	6,008,291	14.87
1982	3,988,659	2,453,447	6,442,106	14.51
1983	4,869,150	3,102,781	7,971,931	16.38
1984	5,964,601	3,665,085	9,629,686	18.97
1985	7,753,707	3,760,039	11,513,746	20.38

^{1/} The OECD, which introduced its encouragement scheme as from 1 January 1985.

9. Several countries, whose arrears of contributions are large, have instalment payment arrangements with the secretariat. In this connection reference should be made particularly to documents Spec(81)12 and L/5380 (Annex II) concerning Nicaragua and Spec(83)37 (Annex II) regarding Chad. It should be pointed out that arrangements made with contracting parties concerning the settlement of arrears by instalment payments should stipulate that new amounts assessed during the repayment period should be paid in addition to the above-mentioned instalment payments.

10. In spite of the efforts made by some contracting parties to liquidate the sums overdue to GATT, the total amount representing the arrears increases every year. To write-off the long-standing debts would raise a question of principle, but in realistic terms could prove to be the only solution to this repetitive problem and unless the defaulting debtors were put under pressure by various measures, such as those examined in document L/4853 (Annex II).

11. Considering the difficulties encountered, mainly by the contracting parties assessed at the minimum of 0.12 per cent, in meeting their financial obligations towards GATT, the Committee may wish to review the level of the minimum contribution which could be in some cases excessive in relation to the actual trade figures of certain contracting parties. The table contained in Annex V shows the actual share of each contracting party in international trade. The disparity between these figures and the current shares in the budget, particularly for countries whose actual share in world trade is lower than the minimum of 0.12 per cent, is manifest.

ANNEX I

(i) Generalities

1. It should be noted that the elimination of the item "interest on investments" under the heading "miscellaneous income" in the annual income budget estimates necessitates increasing by a corresponding amount the overall scale of contributions. The difference compared with the present situation consists in crediting to certain countries, i.e. those which pay their contributions in due time, interest amounts in excess of the corresponding increases in their contributions and, as a result, in increasing contributions of countries in arrears.

2. However, the encouragement afforded by the proposed scheme is limited to those countries which pay their contributions during the year for which they are due, because contracting parties in arrears from more than one year are encouraged to pay more promptly only to the extent that they can pay all their arrears, which, in some cases, relate to several budget years. In order to encourage payment of such arrears, the Committee might study the feasibility of charging interest on arrears of contributions in the case of countries which pay their contributions more than one year after the date when they fall due.

(ii) Technicalities

3. As a general rule, the secretariat, upon receiving contributions, invests in short-term deposits the funds which are not to be used immediately. As most contributions are paid in Swiss francs, deposits are made in that currency. When payments are received in United States dollars, deposits are made directly in that currency for the following reasons:

(a) As some payments to be made by the secretariat, in particular the monthly contributions to the pension fund, are denominated in dollars, it is necessary to have dollars available; a conversion to Swiss francs, which would have to be followed by a reverse conversion to dollars, would entail foreign exchange costs (the margin between buying and selling prices) and possibly also losses due to intervening changes in the exchange rate;

(b) At the date of writing, investments are more remunerative in dollars than in Swiss francs.

Since the total interest received is a combination of three factors:

- (a) the amount of funds held in deposit;
- (b) the duration of the deposits;
- (c) the interest rate;

the amount to be distributed can only be known with precision at the close of the budget year. Assuming that the total amount is to be credited between certain contracting parties, the crediting operation can

physically take place only after the beginning of the new financial year, in other words, in principle, too late for the amount credited to be deducted from the contributions assessed for the new financial year. Two measures can be envisaged here: a refund, or the opening of a credit. It would seem that the refund possibility should be dismissed, because it would entail cross-payments (as a contracting party could send a cheque in payment of its contribution and receive in return a cheque corresponding to its share in the interest apportionment) and would not facilitate cash handling by the secretariat. The second measure would consist in book-keeping entries whereby the contributions assessed for the second following year would be reduced by the amount of interest accrued. The scheme would work as follows:

- YEAR A - interest is charged;
 at the end of the year the allocation of interest is determined;
- YEAR A + 1 - the contributions assessed for year A+2 are calculated when the budget estimates are prepared;
 interest credit is taken into account and deducted from the contributions assessed for year A+2;
- YEAR A + 2 - payment of contributions assessed less interest credited.

4. Bearing in mind that the date of payment and the amount paid are two important factors, one could consider that the determination of the amounts of interest to be distributed should be based on a formula under which these two factors would serve as a basis for the calculation of interest entitlements. As the total interest figure would not be known before the end of the financial year, the calculation should be made in terms of points or numbers, to which a value would be assigned at the end of the year.

5. Where a contribution was received during the year when it was due, a fairly precise and equitable method would, based on the study made by the OECD, consist in determining the number of points to be credited to the account of the contracting party concerned, but the calculation could be simplified as follows;

$$\text{number of points} = \frac{\text{amount}}{1,000} \times \text{number of months to run up to the end of the year}$$

For example - assuming a country paid Sw F 153,870 on 13 March, the number of points credited in its favour would result from the following formula:

$$\frac{153,870 \times 9}{1,000} = 1,385$$

Assuming further that the total number of points apportioned during the year amounted to 50,000 and that the amount of interest to be distributed was 150,000 francs, the amount credited to the country concerned would be:

$$150,000 \times \frac{1,385}{50,000} = 4,155 \text{ francs}$$

6. The implementation of such a scheme could be made more encouraging still if points were granted only to countries which paid their contributions during a certain period, for example between 1 January and 30 September, or even between 1 January and 30 June.

7. Another system has been elaborated by the International Civil Aviation Organization. The basic principles of this system are similar to those set out above but a mathematical formula is used that gives a comparatively greater advantage to countries which pay their contributions at the beginning of the year.

ANNEX II

(Extract from document Spec(81)12 of 26 March 1981)

ADMINISTRATIVE AND FINANCIAL QUESTIONSOutstanding Contributions due from NicaraguaNote by the Director-General

1. The Director-General hereby informs the Committee on Budget, Finance and Administration of a communication dated 30 January 1981, received from the Government of Nicaragua, proposing the progressive reduction of its arrears of contributions, the situation with regard to which is at present as follows:

	<u>Swiss francs</u>
Balance of 1974 contribution	18,938.10
1975 contribution	31,600.00
1976 contribution	40,300.00
1977 contribution	42,700.00
1978 contribution	45,400.00
1979 contribution	45,400.00
1980 contribution	46,800.00
1981 contribution	<u>48,480.00</u>
Amount outstanding	<u>319,618.10</u> =====

2. The Government of Nicaragua proposes to settle its arrears of contributions which will have accumulated up to 31 December 1981 (Sw F 319,618.10) by the payment of ten equal annual instalments, commencing in 1982. In addition, also as from 1982 Nicaragua would pay its current contributions in full in the years for which they are due.

3. The Director-General invites the Committee on Budget, Finance and Administration to recommend that the CONTRACTING PARTIES accept the arrangement proposed by the Government of Nicaragua for the settlement of the arrears of contributions.

(Extract from document L/5380 of 22 October 1982)

21. In connexion with the arrears of contributions due from the Government of Nicaragua, a representative of the secretariat recalled that in June 1981 (document C/M/148), the Council had accepted a proposal from the Nicaraguan authorities to settle its arrears at December 1981 by means of ten equal annual payments commencing in 1982. In June 1982, the Nicaraguan authorities had proposed that, in view of the further financial difficulties they were experiencing, the commencement date for the repayment schedule be delayed for one year, to 1983.

22. The Committee expressed its appreciation of action by any contracting party in arrears with a view to the settlement of such arrears and recommends that the Council accept the proposal of the Government of Nicaragua to settle its arrears of contributions at 31 December 1982 by ten equal instalments commencing in 1983, noting that, also as from 1983, Nicaragua would pay its current contribution in full in the year in which it was due.

(Document:Spec(83)37 of 23 September 1983)

ADMINISTRATIVE AND FINANCIAL QUESTIONS

Outstanding Contributions due from Chad

Note by the Director-General

1. The Director-General hereby informs the Committee on Budget, Finance and Administration of a communication dated 28 April 1983, received from the Government of Chad, proposing the progressive reduction of its arrears of contributions. The situation with regard to contributions due from Chad is at present as follows:

	<u>US \$</u>	<u>Swiss francs</u>
Balance of 1969 contribution	1,735	
1970 Contribution	4,170	
1971 Contribution	4,580	
1972 Contribution	5,330	
1973 Contribution		25,500
1974 Contribution		27,800
1975 Contribution		31,600
1976 Contribution		40,300
1977 Contribution		42,700
1978 Contribution		45,400
1979 Contribution		45,400
1980 Contribution		46,800
1981 Contribution		48,480
1982 Contribution		53,170
1983 Contribution		<u>58,250</u>
Amount outstanding to date	<u>15,815</u>	<u>465,400</u>

2. The Government of Chad proposes to settle its arrears of contributions which will have accumulated up to 31 December 1986 by the payment of twenty equal annual instalments, commencing in 1987. In addition, also as from 1987 Chad would pay its current contributions in full in the years for which they are due.

3. The Director-General invites the Committee on Budget, Finance and Administration to recommend that the CONTRACTING PARTIES accept the arrangement proposed by the Government of Chad for the settlement of the arrears of contributions.

(Extract from document L/4853 of 26 October 1979)

REPORT OF THE COMMITTEE ON BUDGET,
FINANCE AND ADMINISTRATION

Arrears of Contributions

1. At its meeting from 9 to 19 October 1979 the Committee on Budget, Finance and Administration again examined in detail the question of arrears of contributions to the budgets of the CONTRACTING PARTIES which was giving rise to a great deal of concern both to the secretariat and the Committee. The Committee had before it a statement of the situation at 30 September 1979 (Annex).

2. The Committee noted that the development of the arrears situation over the last five years was as follows:

	<u>Total outstanding contributions</u> SwF	<u>Percentage</u> ^{1/}
31 December 1975	2,279,197	8.06
31 December 1976	3,428,332	10.03
31 December 1977	3,333,375	9.18
31 December 1978	4,640,843	12.03

At 30 September 1979, a total amount of SwF 8,808,686 was outstanding in respect of arrears of contributions, representing 22.73 per cent of the overall 1979 expenditure budget. A considerable proportion of these arrears would have to be received before 31 December 1979, to avoid serious cash difficulties.

3. There had been a steady deterioration over the past five years both in apparent and real terms and the members of the Committee were in agreement that all possibilities should be considered with a view to adopting measures to ensure the regular and timely payment of contributions by contracting parties as a matter of urgency.

^{1/}Percentage of total of outstanding contributions to relevant year's overall expenditure budget.

4. The Committee had considered possible courses of action in previous years without reaching definitive conclusions although it had regularly recommended to the Council that governments be urged to pay pending contributions and to pay each year's contribution as early as possible in the year in which it falls due. In 1979, following a proposal by the Committee, a statement of arrears was examined by the Council in the hope that governments would be encouraged to pay their contributions in due time but the effect of this step had not yet been perceptible.

5. The Committee was aware that other international organizations were in a similar or worse situation. It reviewed measures that had been considered or adopted by these organizations as well as those that had been discussed in CCAQ as early as 1950.

Publicity

6. The publicizing of lists of member governments in arrears of contributions had been envisaged through press releases or by the issue of periodical lists to all member governments.

Loss of voting rights

7. Most organizations had statutory provisions for withholding the right to vote from member countries whose contributions were in arrears for a certain period (e.g. two years).

Charging interest

8. The Committee noted that, in one organization, contributions were payable by 1 January of the year to which they related and interest was payable from that date at an annual rate of 3 per cent for the first six months thereafter and at 6 per cent as from the seventh month.

Suspension of activities and services

9. The suspension of activities and of services provided to member countries in arrears of contributions included the non-acceptance of participants from such countries for training courses, the suspension of the supply of documentation, etc.

Instalment payments

10. A measure which had had a limited success in GATT was the encouragement of contracting parties to arrange with the secretariat to pay off arrears of contributions in regular instalment payments. One

country in particular had undertaken to make regular payments until the entire balance of arrears had been liquidated. Eleven payments, totalling US\$75,000, had been received since April 1978 and the arrears had thus been considerably reduced. No response had been received from other countries in this connexion.

Personal contacts/correspondance

11. The Director-General has continued to take every opportunity, either in writing or by personal contacts, to remind governments of the importance of prompt payment of their contributions and of total settlement of arrears.

Conclusions

12. The Committee was aware that each of the measures described above had advantages and disadvantages, some of which might give rise to questions of principle. It felt therefore unable to make any specific recommendation at this stage but requests guidance from governments as to possible measures to be taken with a view to ensuring the regular and timely payment of contributions by contracting parties and the liquidation of arrears. In the light of such comments the Committee would then be in a position to make proposals to the Council in order that a decision may be taken in this regard in 1980. In view of the gravity of the situation which is worsening from year to year, the Committee agreed to recommend to the Council that governments be urged to pay pending contributions as soon as possible and to pay each year's contribution as early as possible in the year in which it falls due.

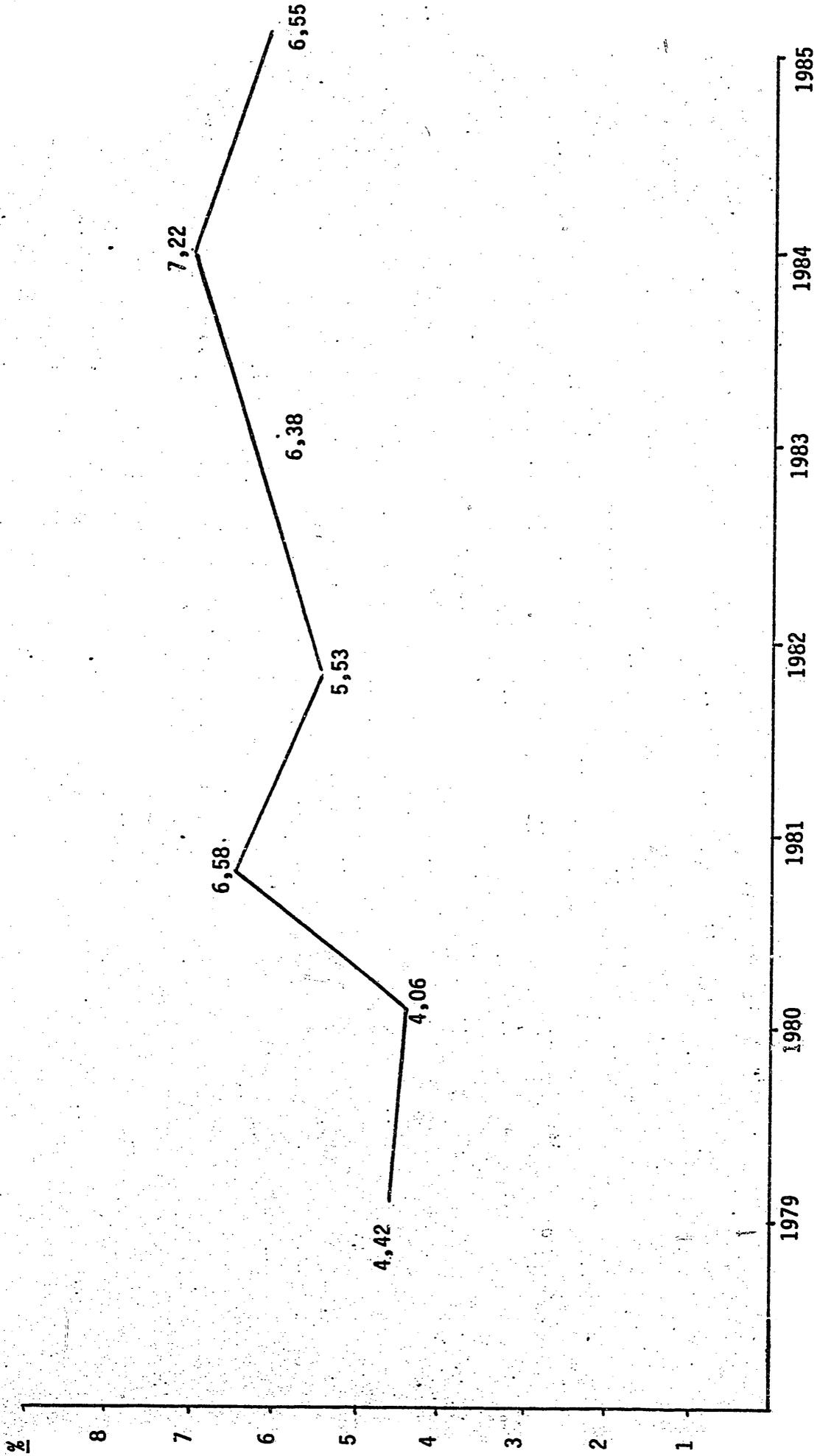
ANNEX III

Amounts Invested by the GATT secretariat

(in Swiss francs)

At end	1980	1981	1982	1983	1984	1985
March	11.794.600	13.815.300	4.579.800	3.935.800	6.811.600	7.115.800
June	12.802.400	15.317.100	8.593.600	9.216.000	9.935.600	14.186.300
September	7.406.900	6.053.100	2.958.000	3.606.500	1.312.400	14.186.900
December	2.932.000	638.400	674.700	1.408.100	-	-

PERCENTAGE OF CONTRIBUTIONS DUE FOR A GIVEN YEAR AND STILL OUTSTANDING AT THE END OF THE YEAR



ANNEX V/ANNEXE V/ANEXO V

SHARE OF TOTAL TRADE OF CONTRACTING PARTIES/
PART DE CHAQUE PARTIE CONTRACTANTE DANS LE COMMERCE TOTAL/

(as used for 1986 scale of contributions)/
(base de calcul pour le barème de contributions de 1986)/

Country/Pays/País	<u>1/</u>	%
<u>Contracting parties/Parties contractantes/ Partes contratantes:</u>		
Argentina/Argentine	43,875	0.4692
Australia/Australie	141,005	1.5079
Austria/Autriche	105,307	1.1261
Bangladesh	9,612	0.1028
Barbados/Barbade	2,516	0.0270
Belgium/Belgique/Bélgica	298,844	3.1958
Belize/Belice	691	0.0074
Benin/Bénin	1,098	0.0117
Brazil/Brésil/Brasil	122,159	1.3063
Burkina Faso	1,162	0.0124
Burma/Birmanie/Birmania	1,983	0.0212
Burundi	851	0.0091
Cameroon/Cameroun/Camerún	7,006	0.0749
Canada/Canadá	440,204	4.7074
Central African Republic/République centrafricaine/República Centrafricana	601	0.0064
Chad/Tchad	503	0.0054
Chile/Chili	20,891	0.2234
Colombia/Colombie	24,777	0.2650
Congo, People's Republic/Congo, République populaire/Congo, República Popular	4,789	0.0512
Côte d'Ivoire	13,325	0.1425
Cuba	30,936	0.3308
Cyprus/Chypre/Chipre	5,426	0.0580
Czechoslovakia/Tchécoslovaquie/Chécoslovaquie	102,291	1.0939
Denmark/Danemark/Dinamarca	98,085	1.0489
Dominican Republic/République Dominicaine/ República Dominicana	6,990	0.0748
Egypt, Arab Republic/Egypte, République arabe/ Egipto, República Árabe	37,702	0.4032
Finland/Finlande/Finlandia	77,750	0.8314
France/Francia	626,394	6.6985
Gabon/Gabón	8,752	0.0936
Gambia/Gambie	455	0.0049
Germany, Federal Republic/Allemagne, République fédérale/Alemania, República Federal	978,922	10.4683
Ghana	8,037	0.0859

1/ Total trade for the last three years (in million US\$)/Commerce total pour les trois dernières années/

Country/Pays/País	<u>1/</u>	%
<u>Contracting parties/Parties contractantes/ Partes contratantes: (cont'd)/(suite)/(cont.)</u>		
Greece/Grèce/Grecia	41,293	0.4416
Guyana/Guyane	2,096	0.0224
Haiti/Haïti/Haití	1,606	0.0172
Hungary/Hongrie/Hungría	51,457	0.5503
Iceland/Islande/Islandia	4,773	0.0510
India/Inde	70,124	0.7499
Indonesia/Indonésie	112,434	1.2023
Ireland/Irlande/Irlanda	54,734	0.5853
Israel/Israël	45,639	0.4881
Italy/Italie/Italia	470,416	5.0305
Jamaica/Jamaïque	6,135	0.0656
Japan/Japon/Japón	847,636	9.0644
Kenya	7,667	0.0820
Korea, Republic/Corée, République/ Corea, República	156,619	1.6748
Kuwait/Koweït	54,478	0.5826
Luxembourg/Luxemburgo	25,986	0.2779
Madagascar	2,591	0.0277
Malawi	1,703	0.0182
Malaysia/Malaisie/Malasia	82,407	0.8812
Maldives/Maldivas	114	0.0012
Malta/Malte	3,407	0.0364
Mauritania/Mauritanie	1,506	0.0161
Mauritius/Maurice/Mauricio	2,534	0.0271
Netherlands, Kingdom of/Pays Bas, Royaume des/ Países Bajos, Reino de los	412,488	4.4110
New Zealand/Nouvelle-Zélande/Nueva Zelandia	33,819	0.3617
Nicaragua	3,569	0.0382
Niger/Níger	2,901	0.0310
Nigeria/Nigéria	93,361	0.9984
Norway/Norvège/Noruega	97,365	1.0412
Pakistan/Pakistán	24,679	0.2639
Peru/Pérou/Perú	17,816	0.1905
Philippines/Filipinas	37,736	0.4035
Poland/Pologne/Polonia	66,486	0.7110
Portugal	43,512	0.4653
Romania/Roumanie/Rumania	70,247	0.7512
Rwanda	1,101	0.0118
Senegal/Sénégal	4,645	0.0497
Sierra Leone/Sierra Leona	1,075	0.0115
Singapore/Singapour/Singapur	107,702	1.1517
South Africa	104,196	1.1142
Spain/Espagne/España	153,282	1.6392

1/ Total trade for the last three years (in million US\$)/Commerce total pour les trois dernières années/

Country/Pays/País	<u>1/</u>	%
<u>Contracting parties/Parties contractantes/ Partes contratantes: (cont'd)/(suite)/(cont.)</u>		
Sri Lanka	9,380	0.1003
Suriname	2,949	0.0315
Sweden/Suède/Suecia	163,686	1.7504
Switzerland/Suisse/Suiza	164,850	1.7629
Tanzania/Tanzanie/Tanzanía	4,523	0.0484
Thailand/Thaïlande/Tailandia	49,960	0.5343
Togo	1,658	0.0177
Trinidad and Tobago/Trinité-et-Tobago/ Trinidad y Tabago	16,650	0.1781
Turkey/Turquie/Turquía	47,418	0.5071
Uganda/Ouganda	2,363	0.0253
United Kingdom of Great Britain and Northern Ireland/Royaume-Uni de Grande-Bretagne et d'Irlande du Nord/Reino Unido de Gran Bretaña e Irlanda del Norte	736,039	7.8710
United States of America/Etats-Unis d'Amérique/ Estados Unidos de América	1,498,111	16.0204
Uruguay	5,660	0.0605
Yugoslavia/Yougoslavie	68,053	0.7277
Zaire/Zaire	3,728	0.0399
Zambia/Zambie	6,016	0.0643
Zimbabwe	8,359	0.0894
Kampuchea	216	0.0023
Tunisia	15,374	0.1644
	<u>9,351,267</u>	<u>100.000</u>
	=====	=====

^{1/}Total trade for the last three years (in million US\$)/Commerce total pour les trois dernières années/