

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/5009

30 July 1980

Limited Distribution

ADMINISTRATIVE AND FINANCIAL QUESTIONS

Working Capital Fund

Note by the Director-General

1. In view of the cash flow problems which resulted from the high level of outstanding contributions, the Committee on Budget, Finance and Administration requested the secretariat, at its meeting in October 1979, to make a thorough examination of the level of the Working Capital Fund and to report to the Committee at its next meeting (document L/4852, paragraph 18).

2. The Working Capital Fund was established by a resolution of the CONTRACTING PARTIES in November 1956. The rules governing the use of the Fund were modified by decisions in November 1958, November 1960, December 1965 and November 1967 and, as presently in force, are as follows:

(i) The Working Capital Fund created by Resolution of 17 November 1956 shall be of such amount as may be voted from time to time by the CONTRACTING PARTIES and shall be constituted by:

(a) advances made by contracting parties. Such sums shall be carried to the credit of the contracting parties which have paid them;

(b) any sums which the CONTRACTING PARTIES may cause to be paid into it from time to time. Such sums shall be carried to the credit of the organization.

(ii) Any government acceding to the General Agreement shall make an advance to the Fund in accordance with the scale of contributions applicable to the budget for the year of its accession. The minimum advance to the Working Capital Fund amounts to 0.5 per cent of the principal of the Fund for countries whose share of the total trade of contracting parties and associated governments is 0.5 per cent or less.

(iii) The Director-General is authorized to advance from the Working Capital Fund:

- (a) such sums as may be necessary to finance budgetary appropriations pending receipt of contributions;
- (b) in exceptional circumstances and subject to prior authorization of the CONTRACTING PARTIES, such sums as may be necessary to finance commitments relating to extraordinary expenditure.

(iv) Sums advanced under (iii)(a) above shall be reimbursed to the Working Capital Fund as soon as receipts from contributions are available for the purpose. Sums advanced under (iii)(b) above shall be reimbursed to the Working Capital Fund by including an appropriate credit in the budget. Advances made from the Fund during the first six months of the year shall be reimbursed in the first year succeeding that in which the advances were made. Sums advanced during the second six months of the year shall be reimbursed in the second year succeeding that in which the advances were made.

3. In 1956, when the Working Capital Fund was created at a level of US\$190,000 (approximately SwF 820,000), it represented 42 per cent of the GATT budget or the equivalent of five months day-to-day secretariat expenditure. Through the payment into the Fund of the equivalent of SwF 95,000 in 1960, the assessment of additional advances on member governments decided in 1965, and assessments on newly acceding contracting parties, the Working Capital Fund has now reached the level of SwF 1,438,279 representing 3.61 per cent of the 1980 GATT budget. Thus, in the case of a liquidity crisis caused by the delayed or non-receipt of contributions from contracting parties, the Working Capital Fund at its present level would cover the secretariat's day-to-day cash requirement for some thirteen days only. In other terms, the Fund would not cover one month's staff cost.

4. The need to draw on the Working Capital Fund under Rule (iii)(a) - Such sums as may be necessary to finance budgetary appropriations pending receipt of contributions - usually occurs at year-ends or at the beginning of a new financial year. Over the past ten years the situation with regard to outstanding contributions and the use made of the Working Capital Fund has been as follows:

	Total outstanding contributions at year-end	Shortfall at year-end	Shortfall covered by transfer from	
			Surplus account	Working Capital Fund
31.12.1970	\$ 258,273	\$ 13,752	\$ 13,752	-
31.12.1971	\$ 304,855	\$ 46,582	\$ 46,582	-
31.12.1972	\$ 355,626	\$ 50,771	\$ 4,172	\$ 46,599
31.12.1973	SwF 1,571,179	SwF 433,176	SwF 433,176	-
31.12.1974	SwF 1,590,096	SwF 25,865	SwF 25,865	-
31.12.1975	SwF 2,279,197	SwF 689,101	SwF 689,101	-
31.12.1976	SwF 3,428,332	SwF 1,149,135	SwF 469,604	SwF 679,531
31.12.1977	SwF 3,333,375	-	-	-
31.12.1978	SwF 4,640,843	SwF 1,307,468	SwF 1,303,803	SwF 3,665
31.12.1979	SwF 4,684,183	SwF 43,340	SwF 43,340	-

5. As can be seen from the above table, the fact that GATT's Working Capital Fund is small could have had serious consequences which, because of the fortuitous presence of other financial resources at the time that the difficulties have arisen, have not resulted in an inability to meet day-to-day cash commitments. Over past years relatively large surpluses, including the uncommitted unforeseen expenditure item of SwF 200,000, have fortunately been available to assist in covering unpaid contributions. Furthermore, at times when the rate of collection of contributions was low, other funds have happened to be available, such as the Building Fund from 1973 to 1978, the special temporary account in 1978 and 1979/1980, etc., in so far as these funds were either in suspense or were temporarily available due to a slower-than-projected expenditure flow.

6. On one occasion (December 1966) when the cash position was particularly precarious, the Director-General had no other alternative than to make a special plea to contracting parties, requesting early payment of the 1967 contributions in order to avoid cash problems and the need to contract interest-bearing loans. A number of contracting parties were able to respond favourably to this appeal.

7. There has been, however, a steady deterioration in the contributions collection situation over the past five years and it is evident that serious difficulties will arise when the level of outstanding contributions for one particular financial year is large and there is no balance on the Surplus Account and no other funds available to offset the arrears.

8. On examining the level of the Working Capital Fund and its adequacy for meeting contingent liabilities such as repatriation and termination entitlements, the GATT Budget Working Party had felt in 1965 (document L/2482, paragraph 5) that the level of the Working Capital Fund should be kept under review in order to ensure the availability at any time of a Fund sufficiently large to cover the various contingencies for which it was originally established (document L/1367, paragraph 18). As a result of an enquiry in 1979 by GATT's external auditor on this matter, it was recognized that in the unlikely event of the dissolution of GATT, repatriation and termination indemnities, estimated at present at more than SwF 15 million, would warrant special ad hoc measures being taken rather than create a fund to cover such liabilities.

Other organizations

9. The following table shows the level of Working Capital Funds of other organizations in relation to their respective budgets.

	<u>1980 gross</u> <u>budget estimates</u>	<u>Working</u> <u>Capital Fund</u>	<u>Percentage</u>
GATT	SwF 39,830,000	SwF 1,438,279	3.61
ILO	\$ 101,889,577	\$ 18,449,006	18.11
WHO	\$ 213,645,000	\$ 11,126,630	5.21
WMO	\$ 17,495,000	\$ 2,500,000	14.29
UN	\$ 531,594,450	\$ 40,000,000	7.52
FAO	\$ 132,782,000	\$ 6,513,000	4.91
UNESCO	\$ 151,500,000	\$ 16,800,000	11.09
ICAO	\$ 25,436,000	\$ 1,500,000	5.90
IMCO	\$ 8,334,000	\$ 250,000	3.00
IAEA ^{1/}	\$ 75,656,000	\$ 2,000,000	2.64
WIPO ^{1/}	SwF 29,657,000	SwF 1,890,000	6.37
ITU ^{2/}	SwF 31,432,250	-	-

Recommendation

10. The Director-General recommends that the Working Capital Fund be set and kept at a level sufficient to guarantee the Organization's financial stability. That this guarantee no longer exists at present is evident and, should there be delay in the payment of the larger contributions to the budget in the circumstances outlined above, the secretariat would find itself in serious financial difficulties.

11. The Director-General therefore proposes that the Working Capital Fund be set at the level of approximately 10 per cent of the GATT budget, i.e. SwF 4 million. The increase could be financed as follows:

¹The Governing Bodies of WIPO have authorized the increase of the Working Capital Fund to SwF 3,750,000 by 1983, by annual instalments. Thus by 1983 the Working Capital Fund will reach approximately 12 per cent of the gross budget level.

²ITU has no Working Capital Fund but, in accordance with the terms of a special agreement, may receive advances from the Swiss Government in case of cash-flow difficulties.

	<u>Swiss francs</u>
Present level of the Fund	1,438,279
Additional advances to be made by contracting parties	<u>2,561,721</u>
	<u>4,000,000</u> =====

For easy reference a scale of the proposed assessment is annexed hereto (Annex I).

12. Since the level of the Working Capital Fund is closely related to the level of the annual budgets of the secretariat, and in order to keep the principal of the Fund at a level corresponding to these budgets, the Director-General further proposes that annual cash payments be made to the Fund. It is therefore proposed that interest earned on the Fund be paid into the Working Capital Fund. At present interest on Working Capital Fund investments is credited to Miscellaneous Income of the GATT budgets in accordance with the Financial Rules and Regulations of the United Nations.

13. The Committee on Budget, Finance and Administration may wish to take this opportunity of examining the Rules governing the Working Capital Fund. The Director-General feels that the existing rules should include rules covering reimbursements of advances to member countries. His proposal in this respect is attached as Annex II.

ANNEX I

DRAFT SCALE OF REVISED ASSESSMENTS OF
ADVANCES TO THE WORKING CAPITAL FUND

(in Swiss francs)

(Based on the 1981 scale of contributions with an
0.50 per cent minimum contribution)

Country	Revised assessment of SwF 4,000,000	Present advances	Credits resulting from revised assessment in 1965 (L/2482)	Additional assessment
<u>Contracting Parties</u>				
Argentina	19,525	9,682		9,843
Australia	41,393	21,983	2,492	16,918
Austria	39,050	11,932		27,118
Bangladesh	19,525	6,940		12,585
Barbados	19,525	6,718		12,807
Belgium	117,150	36,499		80,651
Benin	19,525	6,175		13,350
Brazil	38,659	10,823	13,652	14,184
Burma	19,525	6,175		13,350
Burundi	19,525	6,175		13,350
Cameroon	19,525	6,175		13,350
Canada	130,427	54,447		75,980
Central African Republic	19,525	6,175		13,350
Chad	19,525	6,175		13,350
Chile	19,525	6,175		13,350
Congo, People's Republic of	19,525	6,175		13,350
Cuba	19,525	6,175	6,063	7,287
Cyprus	19,525	6,175		13,350
Czechoslovakia	33,583	18,977		14,606
Denmark	37,097	16,526		20,571
Dominican Republic	19,525	6,175		13,350
Egypt, Arab Republic of	19,525	6,175		13,350
Finland	23,820	9,785		14,035
France	226,100	68,480		157,620
Gabon	19,525	6,175		13,350
Gambia	19,525	6,175		13,350
Germany, Federal Republic of	359,651	109,877		249,774
Ghana	19,525	6,175		13,350
Greece	19,525	6,175		13,350
Guyana	19,525	6,684		12,841
Haiti	19,525	6,175		13,350
Hungary	19,525	12,000		7,525
Iceland	19,525	6,175		13,350
India	19,525	15,763	8,712	(4,950)

Country	Revised assessment of SwF 4,000,000	Present advances	Credits resulting from revised assessment in 1965 (L/2482)	Additional assessment
Indonesia	25,773	6,175		19,598
Ireland	19,525	6,920		12,605
Israel	19,525	6,175		13,350
Italy	156,981	47,819		109,162
Ivory Coast	19,525	6,175		13,350
Jamaica	19,525	6,175		13,350
Japan	239,377	48,842		190,535
Kenya	19,525	6,175		13,350
Korea, Republic of	37,097	6,749		30,348
Kuwait	23,039	6,175		16,864
Luxembourg	19,525	6,175		13,350
Madagascar	19,525	6,175		13,350
Malawi	19,525	6,175		13,350
Malaysia	19,525	8,288		11,237
Malta	19,525	6,175		13,350
Mauritania	19,525	6,175		13,350
Mauritius	19,525	6,817		12,708
Netherlands, Kingdom of the	151,124	50,179		100,945
New Zealand	19,525	7,060	5,177	7,288
Nicaragua	19,525	6,175		13,350
Niger	19,525	6,175		13,350
Nigeria	32,411	6,175		26,236
Norway	31,630	11,510	727	19,393
Pakistan	19,525	6,175		13,350
Peru	19,525	6,175		13,350
Philippines	19,525	7,025		12,500
Poland	41,784	15,587		26,197
Portugal	19,525	6,969		12,556
Romania	23,820	10,469		13,351
Rwanda	19,525	6,650		12,875
Senegal	19,525	6,175		13,350
Sierra Leone	19,525	6,175		13,350
Singapore	21,868	10,180		11,688
South Africa	19,525	13,121	11,353	(4,949)
Spain	45,689	10,735		34,954
Sri Lanka	19,525	6,175		13,350
Suriname	19,525	7,155		12,370
Sweden	60,918	26,376		34,542
Switzerland	61,309	22,439		38,870
Tanzania	19,525	6,175		13,350
Togo	19,525	6,175		13,350
Trinidad and Tobago	19,525	6,175		13,350
Turkey	19,525	6,175		13,350
Uganda	19,525	6,175		13,350

Country	Revised assessment of SwF 4,000,000	Present advances	Credits resulting from revised assessment in 1965 (L/2482)	Additional assessment
United Kingdom of Great Britain and Northern Ireland	243,672	116,003	6,370	121,299
United States of America	448,685	167,702		280,983
Upper Volta	19,525	6,175		13,350
Uruguay	19,525	6,175		13,350
Yugoslavia	21,868	7,372		14,496
Zaire	19,525	6,851		12,674
Zimbabwe	19,525	6,175		13,350
<u>Associated Governments</u>				
Colombia	19,525	7,120		12,405
Kampuchea, Democratic	19,525	6,175		13,350
Tunisia	19,525	6,175		13,350
	3,905,000	1,343,279	54,546	2,507,175
Amount carried to the credit of GATT	95,000	95,000	-	-
	4,000,000	1,438,279	54,546	2,507,175

ANNEX IIRULES GOVERNING THE USE OF THE WORKING CAPITAL FUNDExisting Rules

(i) The Working Capital Fund created by Resolution of 17 November 1956 shall be of such amount as may be voted from time to time by the CONTRACTING PARTIES and shall be constituted by:

- (a) advances made by contracting parties. Such sums shall be carried to the credit of the contracting parties which have paid them;
- (b) any sums which the CONTRACTING PARTIES may cause to be paid into it from time to time. Such sums shall be carried to the credit of the organization.

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Proposed Additional Rules

└ (v) The CONTRACTING PARTIES may liberate all or part of the sums constituting the Working Capital Fund, and the sums so liberated in so far as they are derived from moneys placed in the Fund under paragraph (i)(a) shall be returned in Swiss francs to the contracting parties which have contributed to the Fund in proportion to their respective shares in the Fund.

(vi) Subject to a decision of the CONTRACTING PARTIES, countries which for any reason cease to be contracting parties of the GATT shall be entitled to the reimbursement of the total Swiss franc amount of their shares in the Working Capital Fund under paragraph (i)(a).

(vii) Interest accrued on the Working Capital Fund shall be added to the Working Capital Fund and carried to the credit of the Organization under Rule (i)(b) above. ┘