ADMINISTRATIVE AND FINANCIAL QUESTIONS

Working Capital Fund and Budget Item for Unforeseen Expenditure

Note by the Director-General

1. In its report of 21 October 1966, document L/2694, paragraph 26, the Committee on Budget, Finance and Administration requested the secretariat to provide a comprehensive analysis of all aspects of the situation relating to the Working Capital Fund and the liquidity position of the secretariat for consideration at a special meeting of the Committee in 1967. With regard to the question of the inclusion of an item for unforeseen expenditure in future budgets, the Committee decided that it be examined in relation with the position of the Working Capital Fund.

History of the Working Capital Fund

2. The Working Capital Fund was first created by a Resolution of the CONTRACTING PARTIES dated 17 November 1956 of which the pertinent paragraphs read as follows:

"... (4) The Reserve set up on 27 November 1950 shall be replaced by a Working Capital Fund which shall be maintained at a level of US$190,000. Governments which were contracting parties before the eleventh session shall make advances to the Working Capital Fund in accordance with Annex D to this Resolution. Such advances shall be transferred from the Reserve Fund. Any government acceding to the General Agreement on Tariffs and Trade shall make an advance to that Fund in accordance with the scale of contributions applicable to the budget of the year of its accession.

"(5) The Executive Secretary is authorized to advance: (a) such sums as may be necessary to finance budgetary appropriations pending receipt of contributions; sums so advanced shall be reimbursed as soon as receipts from contributions are available for the purpose; (b) such sums as may be necessary to finance commitments which may be entered into in connexion with unforeseen expenses which arise in connexion with the carrying out of approved programmes provided for in the budget appropriations; such advances shall not exceed a total of US$20,000; (c) such sums as may be necessary to finance commitments relating to extraordinary expenditure as approved by the CONTRACTING PARTIES.
"The Executive Secretary shall make provision in the budget estimates for reimbursing the Working Capital Fund for advances made in connexion with the commitments referred to under (b) and (c) above."

The Resolution in turn was based on a Recommendation by the Budget Working Party to the effect that: "In order to ensure a better administration of the secretariat, the present Cash Reserve, which was set up on a provisional basis on 27 November 1950, should be transformed into a regular Working Capital Fund. The level of the Cash Reserve would be sufficient to build up a Working Capital Fund of $190,000 which is considered by the Working Party to be appropriate for the smooth working of the secretariat."

3. By Resolution of 22 November 1958 the CONTRACTING PARTIES modified paragraph 4 of their original Resolution of 17 November 1956 as follows:

"The Working Capital Fund created by the Resolution of 17 November 1956 shall be of such amount as may be voted from time to time by the CONTRACTING PARTIES. 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 of the year of its accession. The original level of $190,000 set by the CONTRACTING PARTIES in 1956 shall accordingly be increased by the amount of such advances until such time as the CONTRACTING PARTIES may establish a new ceiling."

4. In 1960 the CONTRACTING PARTIES decided to liquidate the Repatriation Grant Fund and to transfer the amount of $25,000 from that Fund to the Working Capital Fund. The CONTRACTING PARTIES further decided that:

"(e) The Working Capital Fund shall henceforward be constituted by:

(i) advances made by contracting parties in accordance with paragraph 4 of the Resolution of 17 November 1956 as modified on 22 November 1958;

(ii) any sums which contracting parties may cause to be paid into it from time to time. The sums paid by contracting parties under (i) above for the purpose of constituting or augmenting the Working Capital Fund shall be carried to the credit of the contracting parties which have paid such sums. The sums mentioned under (ii) above shall be carried to the credit of the organization;

They also decided:

"(f) that the liabilities resulting from repatriation grant entitlements of staff members expected to be separated in a given year shall henceforward be covered by yearly budgetary appropriations;"
"(g) ... the Working Capital Fund if through unforeseen events the liabilities mentioned under (f) above would exceed the yearly appropriations and could not be met by savings on other items."

5. The Working Party noted on this occasion that with the expanding staff and small turnover the organization's total liabilities in regard to repatriation grant entitlement could reach sizeable proportions and in addition that, as a result of the considerable increase in the budget, the potential liabilities under (a) of the Resolution of 17 November 1956, i.e. withdrawals pending payment of contributions, could become of much greater importance. Consequently it would be necessary to keep the matter under review in order to ensure the availability at any time of a Working Capital Fund sufficiently large to cover the various contingencies for which it had been established (paragraph 18, document L/1367 of 17 November 1960).

6. In October 1965 the Committee on Budget, Finance and Administration examined a proposal made by the Director General concerning the advisability of an increase in the level of the Working Capital Fund. This study was initiated by the same Committee in October 1964. The Director General had proposed that the principal of the Fund be raised to US$465,000, i.e. 20 per cent of the proposed budget for 1966. The Committee agreed that in view of the sizeable increase in the organization's budget since the level of the Fund was last revised (1960) and bearing in mind the frequent use which lately had been made of the Fund in order to cover unforeseen and extraordinary expenditure authorized by the CONTRACTING PARTIES, an increase in the principal of the Fund was essential. However, in view of limited national resources the Committee finally proposed a level of US$350,000 which was approved by the CONTRACTING PARTIES in December 1965, effective 1 January 1966.

7. As regards the present procedure for reimbursing the Working Capital Fund for advances made, which is based on the Resolution dated 17 November 1956 (see paragraph 2 above), advances made to finance budgetary appropriations pending receipt of contributions (5(a)) are reimbursed as soon as receipts from contributions are available for the purpose. Advances made under authority 5(b) and (c) are reimbursed through budgetary provision in the next budget year but one following the year when the advance was made. In order to replenish the Working Capital Fund more rapidly after withdrawals have been made under 5(b) and (c), it could be envisaged that the reimbursement of any withdrawals...

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1 As at 1 January 1967 the organization's total liabilities in regard to repatriation grant entitlement amount to approximately US$270,000.
made during the first six months of the year be included in the budget for
the following year instead of the next year but one as is the case under the
current practice.

Budget Item for Unforeseen Expenditure

8. From 1948 through 1956 the GATT budgets included a credit for unforeseen
expenditure varying between US$20,000 and US$36,000. However, in these earlier
years it proved possible, in most cases, to absorb whatever unforeseen
expenditure was incurred on some items of the budget by savings and transfers
between various parts and items of the budget.

9. As from 1957, when the Working Capital Fund was created the item for
unforeseen expenditure was no longer included in the GATT budgets. However,
already in 1959 the Director-General drew the attention of the CONTRACTING PARTIES
to the fact that with the increase of budgets and the more and more frequent
ad hoc decisions CONTRACTING PARTIES were taking after budgets had been adopted,
situations arose whereby the CONTRACTING PARTIES were living beyond their
financial means and thus greatly complicating the financial management of the
secretariat, which traditionally had been operating on a strict economy budget.
The Director-General was of the opinion that, whilst he had the authority to
draw on the Working Capital Fund such sums as may be necessary to finance
commitments which may be entered into in connexion with unforeseen and
extraordinary expenditure, such withdrawals should remain the rare exception
rather than the rule. In any case these amounts advanced from the Working
Capital Fund had to be repaid through increased budgets in the following years.
In view of these considerations the Director-General proposed in 1959 to provide
within the budget for unforeseeable contingencies which might occur during the
financial year.

10. After examination of the Director-General's proposal by the Budget Working
Party, the CONTRACTING PARTIES decided in November 1959 that the Working Capital
Fund at the existing basis was adequate to meet contingencies of the type
envisioned by the Director-General. It was, however, agreed that (a) the
CONTRACTING PARTIES should carefully budget for all activities which could
reasonably be foreseen, (b) the principal of the Working Capital Fund should
not be diminished, (c) the CONTRACTING PARTIES should not during the financial
year, after the budget had been approved, decide upon activities involving
additional financial commitments unless funds were available or made available
to cover such activities, and (d) that the position should be reviewed.

11. In 1966 the matter was raised by some members of the Committee on Budget,
Finance and Administration who suggested, at a meeting on 14 March convened to
examine the financial implications of the expansion of the International Trade
Centre, that, in order to meet future contingencies and to avoid further recourse
to the method of supplementary appropriations and undue withdrawals from the Working Capital Fund, the possibility of including in future budgets an item for unforeseen expenditure be re-examined.

12. Following the above suggestion, the Director-General tentatively included in his budget estimates for 1967 a credit of US$50,000 for unforeseen expenditure pending further consideration by the Committee on Budget, Finance and Administration.

13. In examining the matter in October 1966, most members of the Committee agreed that in order to provide the Director-General with a small amount to meet contingencies which cannot be met by savings or postponed until the adoption of the next budget, a special appropriation of this kind would be useful for minor contingent expenses. However, in view of the financial difficulties experienced by some governments and their inability to meet their 1967 contributions at the level proposed in document L/2664, the Committee agreed that the item for unforeseen expenditure be deleted from the 1967 budget and that the question of the inclusion of such an item in future budgets be considered by the Committee in 1967 together with the rules governing the use of the Working Capital Fund, the level thereof and the procedure for reimbursement.

Cash Position

14. Financial resources normally reach their lowest level at the beginning and the end of the financial year. This is due to the fact that collection of contributions is usually very slow during the first few months of the year and that a number of contracting parties fail to pay their contributions before the end of the year.

15. In 1965 and 1966 serious difficulties were encountered in the liquidity of the overall financial resources of the organization. During this period the Working Capital Fund was almost exhausted and practically no other working cash was at the disposal of the organization.

16. The organization has, however, been able to manage during 1965 and 1966 because some contracting parties were making special efforts in the remittance of their contributions, and because, with the agreement of creditors, the payment of some invoices was delayed until funds were available to the organization.

17. The Annex shows the development of the Working Capital Fund and the use made of the Fund since its creation. It also shows the working cash available at year-ends since 1957.
18. The cash position as at 31 December 1966 shown in the Annex is analyzed as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit cash position before end of December 1966</td>
<td>85,000</td>
</tr>
<tr>
<td>Covered by:</td>
<td></td>
</tr>
<tr>
<td>- Advance 1967 contribution received in December 1966 from one contracting party</td>
<td>100,000</td>
</tr>
<tr>
<td>- Payment of outstanding invoices due in November and December delayed with the agreement of creditors</td>
<td>40,000</td>
</tr>
<tr>
<td>- Contributions received on 27 and 30 December 1966</td>
<td>48,000</td>
</tr>
<tr>
<td>Cash balance as at 31 December 1966</td>
<td>Approximately 103,000</td>
</tr>
</tbody>
</table>

19. It should be noted that without an advance payment of US$100,000 towards the 1967 contribution of one contracting party and the delay in payment of certain outstanding invoices, it would have been necessary to contract an interest-bearing loan to cover the cash deficit.

20. As regards the cash position of US$7,000 as at 31 December 1965 shown in the Annex, the situation was identical to that in 1966. Invoices amounting to approximately US$40,000 were not paid until 1966 when funds were available to the organization. In order to avoid further serious difficulties both in January 1966 and January 1967 a special plea to contracting parties for very early payment of contributions was made, and this received a favourable response.

21. Attention is drawn to the ratio of total working cash at year-end to the budget as illustrated by the figures in the Annex, showing a sharp decline from 45 per cent in 1957 to 0.4 per cent in 1965.

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1 As at 31 December 1966 total outstanding commitments amounted to US$107,000.

2 This balance includes US$16,000 remitted by the Government of Uruguay to finance expenditure of the Eighth Session of the Committee on Trade and Development at Punta del Este.
Comparison with other International Organizations

22. A rapid comparison has been made with different international organizations. It is quite evident that the cash situation in those organizations is much more favourable than in the GATT at any given time. This is due to the fact that the GATT has, apart from the Working Capital Fund, no additional cash available, whereas other organizations dispose of funds, such as Tax Equalization Funds, Repatriation Grant Funds, Provident Funds, Trust Funds, Special Accounts, Publications Funds, Reserved Surpluses, etc. Cash balances available to the organizations examined at the end of 1965 varied between 25 and 65 per cent of the same year's gross budget of the respective organizations, against 0.4 per cent at the GATT. However, it should be noted that these figures are intended as a rough guide, it being understood that an exact comparison cannot be made without taking into consideration the different financial and budgetary practices of each organization, as determined by their respective financial rules and regulations.

Recommendations of the Ad Hoc Committee of Experts to Examine the Finances of the United Nations and the Specialized Agencies

23. The Ad Hoc Committee of Experts to Examine the Finances of the United Nations and the Specialized Agencies, established by the United Nations General Assembly resolution 2049(XX) of 13 December 1965, made the following recommendations in connexion with the procedure for meeting contingencies and with working capital fund practices:

"Supplementary estimates

"39. The heads of the organizations should calculate the budget estimates and control obligations in such a way as to ensure that appropriations are not exceeded.

"40. Unavoidable increases in expenditure in certain sectors should, as far as possible, be financed in the first instance by savings in other sectors. This applies in particular to increases due to rises in prices (including in this term salaries and wages) which should so far as possible be absorbed by reassessment of priorities, redeployment of resources, and, where necessary, by adjustments within the budget.

"41. In order to provide the heads of the organizations with a small amount of funds to meet contingencies which may arise and which cannot be met by savings or postponed until the adoption of the next budget, a
special appropriation line might, where necessary, be included in the budget for these minor contingent expenses.

42. Drawings on the working capital fund to finance supplementary expenses without prior appropriation should, as a general rule, be discontinued as from the time when the organizations adopt the procedures suggested above.

43. Drawings on the working capital fund without prior appropriation should be made only in clearly exceptional cases involving emergencies within the limits laid down by legislative bodies, and to the extent that they cannot be financed out of the measures mentioned in paragraphs 40 and 41 above.

44. When drawings on the working capital fund without appropriation have been made, the heads of the organizations should report at the first opportunity to the competent organs vested with financial responsibility and submit the appropriate requests for supplementary appropriations to their organization's legislative body.

45. Adherence to the above procedure should ensure that recourse to supplementary appropriations would be kept to a minimum.

46. In every case the heads of the organizations should include as part of their annual financial reports the requisite explanation of the supplementary expenses incurred and the financing procedure used to meet them.

Working capital funds

47. Working capital funds should not be used to finance supplementary expenses without prior appropriation, except in clearly exceptional cases (see paragraphs 43 and 44 above). The essential purpose of such funds is to make it possible to finance expenditures pending the collection of contributions.

48. The practice whereby some organizations credit all or part of their miscellaneous income to their working capital fund should be discontinued; miscellaneous income should be paid into the general fund.

49. The level of the working capital fund should be determined by reference not merely to the total budget but also to the expected timing of the inflow and outflow of total funds at the disposal of the organization.
"50. Consequently, any requests for an increase in an organization's working capital fund should be accompanied by a statement of liquid funds, showing inflows and outflows on a monthly basis during set periods in preceding years and a forecast for the coming year. Explanatory comments should be provided specifying the main factors which might jeopardize the organization's liquidity and the time of year when they most usually occur. The competent organs would thus be in a better position to approve the most appropriate level for each organization's working capital fund.

"51. The States members of the various organizations should pay their contributions as promptly as possible, so as not to create additional difficulties for the organizations in respect of liquidity."

Conclusion

24. The Director-General reiterates his opinion that the Working Capital Fund should be used primarily to finance budgetary appropriations pending receipt of contributions. Withdrawals to finance commitments which may be entered into in connexion with unforeseen and extraordinary expenditure should be made on rare occasions only. It remains the Director-General's view that such expenditure should normally be financed through a special appropriation line to be included in the budget.

25. It will be appreciated that the determination of the appropriate level of the Working Capital Fund is a matter of judgment and based to a large extent on past experience. It seems to the Director-General that in order to avoid in future financial difficulties as experienced in 1965 and 1966 the level of the Working Capital Fund should be increased and a target figure of 20 per cent of the budget could be set. In reaching this conclusion, the Director-General has also borne in mind that the Working Capital Fund is the only additional working cash available to the organization.

26. If, in addition, the CONTRACTING PARTIES agree to include in future budgets a provision for unforeseen expenditure, it might be possible to increase the level of the Working Capital Fund to a target figure without additional assessments on contracting parties. In fact, a formula could be adopted whereby at the end of each year any portion of the appropriation for unforeseen expenditure not used during the financial year should be credited to the Working Capital Fund, up to the maximum of the set target figure. Also, and until the target level is reached, any year-end surpluses could be transferred to the Working Capital Fund.
<table>
<thead>
<tr>
<th>Year end</th>
<th>Nominal level of WCF US$</th>
<th>% of same year's budget</th>
<th>Outstanding assessments US$</th>
<th>Withdrawal made from WCF Outstanding at year end US$</th>
<th>Repaid before year end US$</th>
<th>Other 1 resources US$</th>
<th>Long-term 2 investments US$</th>
<th>Approximate overall working cash at year end US$</th>
<th>% of same year's budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>190,000</td>
<td>42</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>211,000</td>
<td>199,000</td>
<td>202,000</td>
<td>45</td>
</tr>
<tr>
<td>1958</td>
<td>192,510</td>
<td>38</td>
<td>-</td>
<td>31,950</td>
<td>-</td>
<td>118,000</td>
<td>179,000</td>
<td>100,000</td>
<td>20</td>
</tr>
<tr>
<td>1959</td>
<td>199,925</td>
<td>35</td>
<td>2,965</td>
<td>8,375</td>
<td>50,000</td>
<td>101,000</td>
<td>179,000</td>
<td>111,000</td>
<td>19</td>
</tr>
<tr>
<td>1960</td>
<td>208,455</td>
<td>31</td>
<td>5,766</td>
<td>33,375</td>
<td>40,000</td>
<td>127,000</td>
<td>169,000</td>
<td>127,000</td>
<td>19</td>
</tr>
<tr>
<td>1961</td>
<td>235,795</td>
<td>23</td>
<td>4,616</td>
<td>-</td>
<td>-</td>
<td>178,000</td>
<td>165,000</td>
<td>244,000</td>
<td>24</td>
</tr>
<tr>
<td>1962</td>
<td>239,378</td>
<td>20</td>
<td>5,859</td>
<td>-</td>
<td>-</td>
<td>164,000</td>
<td>165,000</td>
<td>233,000</td>
<td>20</td>
</tr>
<tr>
<td>1963</td>
<td>253,854</td>
<td>21</td>
<td>9,576</td>
<td>-</td>
<td>-</td>
<td>221,000</td>
<td>163,000</td>
<td>302,000</td>
<td>25</td>
</tr>
<tr>
<td>1964</td>
<td>263,769</td>
<td>19</td>
<td>4,658</td>
<td>48,151</td>
<td>-</td>
<td>99,000</td>
<td>130,000</td>
<td>180,000</td>
<td>13</td>
</tr>
<tr>
<td>1965</td>
<td>267,019</td>
<td>15</td>
<td>3,250</td>
<td>237,909</td>
<td>100,000</td>
<td>111,000</td>
<td>130,000</td>
<td>7,000</td>
<td>0.4</td>
</tr>
<tr>
<td>1966</td>
<td>353,509</td>
<td>15</td>
<td>11,910</td>
<td>315,564</td>
<td>-</td>
<td>204,000</td>
<td>127,000</td>
<td>103,000</td>
<td>4</td>
</tr>
</tbody>
</table>

1 Under this heading all funds of the General Fund hold in cash, banks and investments in addition to the amounts available from the Working Capital Fund are listed as at the end of each year.

2 At 31 December 1966 the market value of the long-term investments is estimated at US$112,300 (purchase value US$127,000). The main part of these investments consists of securities taken over from the former ICITO Staff Benefit Fund. These securities are realized if and when market conditions permit.

3 See paragraphs 18, 19 and 20 of the note.