



Report

on certain financial problems concerning ITU

by

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Joint Inspection Unit

Geneva
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1. In a letter dated 30 June 1970 the Secretary-General of ITU invited the Joint Inspection Unit to study certain financial problems concerning the Union. The letter referred to a decision of the ITU Administrative Council, whose Committee 1 had decided on 4 June 1970 to "request the Joint Inspection Unit to make a study of the ITU Reserve Account and to draw the inspectors' attention to the study already made in this field by the WHO" (cf. document No. 4073 (CA25-93) of 20 July 1970).

2. From the abovementioned letter and the discussion in Committee 1 it emerges that the request was prompted by certain difficulties in the operation of the Reserve Account. It appears that the existing machinery connecting:

The Reserve Account;

The assessment of Members' contributions; and

The cash situation

operates in such a way that there is a very serious danger of a financial crisis developing in ITU in the near future. It is natural that in these circumstances the Secretary-General should explore ways of forestalling such a situation.

3. The problem had already been noted by the Plenipotentiary Conference held at Montreux in 1965. In Resolution No. 11 the Conference referred to the difficulties encountered in obtaining payment of the contributory shares freely chosen by Members, and expressed the view that the method of fixing contributions defined in the 1959 Geneva Convention might give rise to undesirable fluctuations in the total of the contributory shares for defraying Union expenses. The resolution instructed the Secretary-General to study possible amendments to Article 16 of the Convention to improve the method of financing Union expenditure.

II. Previous studies of the problem

4. The General Secretariat of the Union has already made many studies of the various questions involved, and some of these studies have been examined by the Administrative Council. A list of these studies, limited to the past three years, is annexed to this report.

III. Main features of the problem

5. Budget and income

ITU works with a Budget of the Union and two supplementary budgets.

Over the past three years (1969, 1970 and 1971) the order of magnitude of these budgets has been:

The Budget of the Union: 24-27 million Swiss francs;

The supplementary budget for the Technical Co-operation Special Accounts: 3-4 million Swiss francs;

The supplementary publications budget: 3-4 million Swiss francs;
making 30-35 million Swiss francs in all.^{1/}

The income of the two supplementary budgets is made up essentially as follows:
That of the first, of payments by UNDP of "overheads of technical co-operation programmes";

That of the second, of receipts from the sale of publications (at prices calculated to cover production costs).

The income of the Union Budget is made up of the Members' contributions and of those collected from private operating agencies which participate in some working meetings of ITU. The Members' contributions are fixed by the system of free choice of class of contribution (from a scale laid down in article 16, paragraph 4, of the International Telecommunication Convention signed at Montreux in 1965). There are 14 such classes, ranging from the $\frac{1}{2}$ Unit to the 30 Unit class. The amount of the contributory unit rose from 46,200 Swiss francs in 1969 to S.fr. 47,800 in 1970 and S.fr. 55,000 in 1971. In this way the payment of some 475 contributory units (the figure varies slightly from year to year) is shared between the 134 States Members of ITU. The aggregate of these contributions came to approximately S.fr. 22 million

^{1/} In 1972 the Budget of the Union totals 29.7 million Swiss francs and the two supplementary budgets, in round figures, 4.6 million and 3 million Swiss francs respectively, making 37 million Swiss francs in all. There is also a supplementary account for construction amounting to 4-5 million Swiss francs.

in 1969 and S.fr. 22.6 million in 1970. The amount of the contributory unit for private operating agencies was S.fr. 5,000 in 1969 and S.fr. 7,500 in 1970; the total of their contributions rose from S.fr. 747,500 in 1969 to nearly S.fr. 1,136,250 in 1970.^{1/}

6. Arrears in the payment of Members' contributions

The danger of a financial crisis developing in ITU in the near future is due essentially to the fact that some Members do not pay their contributions. An increase in arrears is also in evidence in the publications budget.

The sums due were as follows:

	(Swiss francs)	
	<u>End of 1969</u>	<u>End of 1970</u>
Total	8,524,000	11,334,700
Outstanding contributions from Members (including interest on overdue payments)	6,968,000	8,528,000
Unpaid bills, publications fund	1,478,000	2,379,000

These figures represented in all about 40 per cent of one year's budget.^{2/} However, only the outstanding contributions of Members give real cause for concern, for this is the only area in which substantial arrears have mounted up over several years and are thus liable to become bad debts. Most of the unpaid bills for publications are less than one year in arrears and are paid regularly. It should be added that the amounts of outstanding contributions include the interest on overdue payments, which is calculated at the rate of 3 per cent for the first six months and 6 per cent thereafter.

^{1/} In 1972 the number of units is 479.5. The amount of the contributory unit for Members is S.fr. 58,200, giving a total of S.fr. 27.9 million. The amount of the contributory unit for recognized private operating agencies is S.fr. 10,000, and the total S.fr. 1,760,000. In four years the amount of the contributory unit for Members has increased by 26 per cent, or 6.5 per cent per annum.

^{2/} The percentage calculated varies according to the year and reference base selected. It seems reasonable to compare the total outstanding debts for a given year with the amount of the Union Budget (S.fr. 26 million in 1970) plus the amount of the publications budget (S.fr. 3.6 million in 1970). Thus the figure for 1970 was S.fr. 11.3 million as compared with S.fr. 29.6 million, or 38 per cent.

7. The debtor countries

Certain Latin American countries are responsible for the bulk of the accumulated arrears. The largest debtors are Bolivia (S.fr. 1.2 million, 15 years in arrears), El Salvador (S.fr. 1 million, 10 years in arrears), the Dominican Republic (S.fr. 937,000, 8 years in arrears) and Chile (S.fr. 570,000, 8 years in arrears). These four debtor countries together account for 3.5 million Swiss francs, or more than half the total.

Next come Haiti, Uruguay, Peru, Brazil, Costa Rica, Yemen and Nicaragua, which together account for more than 1.5 million Swiss francs, 5 to 8 years in arrears. The score of other debtor countries on the list owe much smaller sums and are often only one year or two years in arrears.

8. Main reason for the accumulation of arrears by certain countries

One factor in the present situation is undoubtedly the choice of an unduly high class of contribution. Some countries such as Bolivia, the Dominican Republic and El Salvador are in the 3 Unit class, whereas according to their relative wealth they ought probably to have chosen the $\frac{1}{2}$ Unit or 1 Unit class.

The situation is due to the difficulties encountered in applying Article 16, No. 216, of the Montreux Convention, which provides that Members who have failed to make known their decision at least six months before the Convention comes into force shall retain the class of contribution previously notified to the Secretary-General.

The 3 Unit class was the sixth and lowest class provided under the Madrid Convention in 1932, and the abovementioned debtor countries have not asked for a change in their classification since that date.

9. Consequences of the advance payment of certain contributions

These arrears have not hitherto created cash problems for ITU because, in the absence of a working capital fund, the advance payment of contributions by a considerable number of Members, including the several largest, provides in practice a permanent cash reserve which for the moment remains higher than the amount of outstanding debts. Thus 18 countries in high classes of contribution paid their subscriptions for 1970 in 1969, to a total of 262 contributory units, and five countries paid a total of 75 contributory units by June 1970. In 1970 20 countries paid a total of 256 contributory units for 1971. The advance payments amounted, in each of these

two cases, to nearly 75 per cent of the Members' aggregate contributions - the equivalent of a very substantial working capital fund - but it is plain that the margin between outstanding debts (40 per cent) and contributions paid in advance (75 per cent) is shrinking each year.

It should be noted that payment of Members' contributions in advance is a statutory requirement formally laid down in article 21, paragraphs 1 and 2, of the Financial Regulations, which provide as follows:

"The cash funds required to implement the budget shall in principle be drawn from the annual contributions of the Members and Associate Members which, in accordance with Article 16, No. 219, of the Convention, must for this purpose be paid in advance. Contributions provided for in the budget accordingly fall due on 1 January of the corresponding financial year."

10. The function of the Reserve Account

Article 39 of the Financial Regulations provides for the keeping of a Reserve Account into which shall be paid budgetary credits cancelled at the end of each financial year and certain other credits or transfers.

This is not a cash account maintained by actual payments, but a balance-sheet account to which debts to the Union are credited whether they are actually paid or not.

The Regulations do not appear to make this distinction very clear, because they provide that credits in this Account may be used only to finance "current cash requirements". At the same time, however, they specify that the Administrative Council may by special decision arrange for withdrawals from the Account either to balance the ordinary budget or to place a limit on the Account and to reduce the amount of the contributory shares of Members and Associate Members.

Because of the existence of this possibility, the Administrative Council has in practice maintained the Account at an average level of 3 per cent of the amount of the budget, which is the statutory minimum. At all events, over the years since 1967, the assets in the Account have varied between 1 million and 4 million Swiss francs; but, since at any given time only part of the amount is actually available, it is clear that the existence of such an account would provide only a fragmentary and quite inadequate solution to the Union's cash problems in the event of a financial crisis brought on by an accumulation of arrears greater than the amount of contributions paid in advance.

11. Summary of the problem

The situation can thus be summed up as follows:

- (1) Of the roughly 12 million Swiss francs (about 40 per cent of the budget) outstanding at the end of 1971, approximately 9 million francs represent arrears of Members' contributions, and of these it seems likely that 7-8 million francs will never be paid. This last figure represents some 26-27 per cent of the Union Budget and seems to be growing at the rate of 1 million Swiss francs a year, representing about 3.3 per cent of the budget.
- (2) The advance payment of contributions by a substantial number of Members, including the several largest, represents about 75 per cent of the budget. So far as cash is concerned, the crucial margin is the difference between the total amount of debts outstanding on 31 December (at present 40 per cent of the budget) and the amount of contributions paid in advance (75 per cent). On a reasonable estimate, therefore, the Union has a few years to go before a real financial crisis breaks out, but it could come much sooner if temporary difficulties should cause delays in the settlement of bills for publications or in the advance payment of certain contributions.
- (3) The Reserve Account is at such a nature, and its funds are so meagre, that it could do little to stave off such a crisis.

IV. Solutions considered

12. It is noteworthy that the Secretary-General and the Administrative Council of the Union have faced up to the possibility of a financial crisis so far in advance, considering that the regulations adopted by the Plenipotentiary Conference provide (article 21, paragraph 3, and article 24 of the Financial Regulations) that in a case of this kind the Secretary-General may have recourse to advances from the Swiss Government in accordance with the arrangement entered into between the Union and that Government.^{1/}

It is obvious, however, that the best way to avert a crisis is to take steps to ensure that it cannot occur.

The documents listed in the annex show that the Secretary-General and the Administrative Council have systematically reviewed the possible solutions from various angles and have taken decisions on some of them.

^{1/} It is pointed out that between July and December 1971 ITU was compelled to have recourse to advances from the Swiss Confederation up to a maximum of 3 million Swiss francs.

In order to determine how the Reserve Account - the particular subject of this note - can be fitted into the general picture, it seems necessary to review the studies made and the measures adopted, and to prepare a diagnosis of the nature and causes of the crisis.

13. The various aspects of the problem can be summed up in the following four questions:

- (1) Should the method of assessing contributions be changed?
- (2) Should special legal or financial measures be taken (or strengthened) to ensure regular receipt of contributions?
- (3) What practical means exist for wiping out the existing arrears?
- (4) Should consideration be given to the idea of providing larger cash resources than those at present available and, for example, establishing a genuine working capital fund?

14. Method of assessing contributions

On this point the Administrative Council has decided to propose to the Plenipotentiary Conference:

That the principle of free choice of class of contribution should be maintained and that the existing scale of contributions should be expanded to comprise classes ranging from 1 to 60 units;

That a new $1\frac{1}{2}$ Unit class of contribution should be introduced;

That Member States should be required to announce their choice of class of contribution directly to the Plenipotentiary Conference.

It has also been recommended that steps should be taken to obtain directly from all Members an official communication stating the class of contribution chosen.

Decisions have also been taken concerning the contributions of recognized private operating agencies, etc., but these arrangements have little bearing on the problem studied here. The recommendations for statement of the choice of class of contribution, in particular, deal directly with part of the problem: their evident purpose is to avoid, for the future, the repetition of events which have led several Members to remain in a class of contribution too high for their financial circumstances and, as a result of this, to withhold payment.

15. Legal and financial measures to ensure regular receipt of contributions

A number of possible solutions have been suggested to the Council, involving the adoption of:

Legal measures, modelled on the provisions in force in other organizations, in relation to any Members in arrears with their contributions;

Financial measures, which might take the form of:

Increasing the rate of interest on overdue payments from 3 per cent for the first six months and 6 per cent thereafter to 4 per cent for the first three months and 8 per cent thereafter;

Automatically assigning the lowest class of contribution to any Member which fails to make known its choice;

Treating as income, for the purpose of calculating the contributory unit, only contributions regularly received from Members.

No decision has yet been taken on these proposals.

The adoption of legal provisions similar to those in force in most other organizations is of course conceivable but seems hardly likely to facilitate settlement of the existing arrears or to go far towards preventing others from being incurred. On the other hand the financial measures proposed seem to provide a much more direct way of dealing with the existing problems.

The Secretary-General's proposals for raising the rates of interest seem reasonable and useful. In my view, however, the automatic assignment of the lowest class of contribution to Members which fail to make known their choice should be preceded by steps to ensure that all other possibilities of choice are exhausted first.

The third proposal, concerning the contributions to be treated as effective income, also seems to me to require some qualification. In my opinion it would be sufficient to exclude from income, for the purpose of calculating the contributory shares, contributions which have been outstanding for more than two years. Experience shows that a very high proportion of contributions outstanding for one year are ultimately paid.

16. Practical means of wiping out the existing arrears

Negotiations have been opened with Bolivia and Yemen concerning the payment of their arrears. These two countries are asking to be assessed from 1971 onwards at half a contributory unit. Bolivia is further seeking to be excused payment of all its arrears. I do not know whether similar negotiations have been started with other

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debtor countries heavily in arrears, but it seems clear that negotiations of this type, to clear up long-standing debts (if necessary by cancelling them) and to arrive at a realistic classification of the countries concerned, are essential in order to bring the existing situation to an end.

17. Problems of cash resources, the Reserve Account and a working capital fund

So far only internal studies have been made of the accounting problems; the possible relationship between the ITU Reserve Account and the existing cash problems has been described to the Council only very briefly, in document No. 3986.

We have, however, been able to consult an internal Secretariat study which suggests among other things:

The establishment of a genuine working capital fund, or

Division of the Reserve Account into two: one containing cash surpluses,

for which the ceiling could be maintained at the present level of 3 per cent of the Union Budget, and the other containing accounting surpluses, with a ceiling fixed at the level of the amount of outstanding contributions and interest thereon.

(This note also refers to the possibility, referred to above, of calculating the amount of the contributory unit solely according to the contributions actually paid.)

18. Decisions to be taken concerning the Reserve Account

The present situation raises two questions:

(1) A de facto situation exists owing to the accumulation of arrears by certain countries. Is it or is it not possible to wipe the slate clean and induce these countries to pay regular contributions?

(2) Ought steps to be taken to avoid the recurrence of a similar situation in the future and to protect the Union against the possible consequences of the financial crisis which might arise under such circumstances?

These two questions are related but distinct.

(1) The first seems fairly easy to dispose of.

It is ultimately a matter of opening negotiations with the nine countries (Bolivia, Chile, Costa Rica, Dominican Republic, El Salvador, Haiti, Peru, Uruguay and Yemen) whose arrears cover periods ranging on average from 5 to 10 years, of securing from some of these countries a more realistic choice of class of contribution, and of concluding with all of them an agreement on the payment of arrears. If the worst came to the worst and it was necessary to cancel all arrears outstanding for more than two years, the total charge to be borne by the Members as a whole would be about 6-7 million Swiss

francs. This would mean increasing the contributory unit by about 13,000 Swiss francs if it was proposed to wipe out the arrears in a single year, but it is perfectly conceivable that the burden might be spread over several years. Nevertheless it would seem fair that the debtor Members should agree to pay at least a part of their arrears on the basis of such new class of contribution as they may have chosen.

Once this operation was completed, the Union's finances would be on a sound footing.

(2) The question then arises whether it is necessary to take steps to prevent the recurrence of this kind of situation in the future. It would appear that this problem could be solved by adopting the measures proposed concerning the automatic assignment, subject to certain conditions, of the lowest class of contribution to countries which had failed to make their choice known and the adoption of a new method of calculating the contributory unit solely on the basis of contributions actually paid (or not more than two years in arrears). This being the case, is it necessary in addition to provide for the establishment of a genuine working capital fund or to change the existing Reserve Account system?

This seems to me a needless precaution.

As we have seen, the Union already has an arrangement - the advance payment of contributions - which is equivalent to a very substantial working capital fund. The proposed increase in the rate of interest on overdue payments should normally induce most countries to pay their contributions more regularly by the end of the first quarter of the current year. In these circumstances it is likely that the present proportion of 75 per cent of contributions paid in advance will be maintained, and it may even increase.

If, in addition, the problem of the existing arrears was settled by the negotiations just recommended, the cash situation of the Union would probably become extremely favourable. Furthermore most of the transactions recorded in the Reserve Account would represent sums actually paid in. I conclude, therefore, that there is no overriding need to alter the existing regulations concerning this Account.

Maurice Bertrand

ANNEX

List of documents concerning the financial problems
of the Union in 1969, 1970 and 1971

1969

- (a) A note No.3836 (CA 24-4) of 12 February 1969, report by the Secretary-General on the finances of the Union, prepared pursuant to resolution No. 11 of the Plenipotentiary Conference, Montreux, 1965. This 47-page document summarizes a much longer report prepared by consultants.
- (b) Document No.3898 (CA 24-66) of 6 May 1969 contains the comments of the USSR delegation on the finances of the Union.
- (c) Documents (a) and (b) were discussed by Committee 1 of the Administrative Council on 19 and 20 May 1969: documents Nos. 3943 (CA 24-111) of 4 July 1969 and 3951 (REV) (CA 24-119) of 15 July 1969.
- (d) A note No.3986 of 31 October 1969 on the Reserve Account of the ITU, which gave rise to a discussion in Committee 1 on 4 June 1970 (document No.4073 of 20 July 1970).
- (e) The Financial Operating Report for 1969.

1970

- (a) A note No.4009 (CA 25-59) of 13 April 1970, report by the Secretary-General on the contributions by recognized private operating agencies.
- (b) Document No.4013 (CA 25-33) of 19 March 1970, report by the Secretary-General on the finances of the Union.
- (c) Document No.4060 (CA 25-80) of 28 May 1970, comments by the USSR delegation on document No.4013.
- (d) The aforementioned document No.4073 of 20 July 1970.
- (e) Document No.4079 (CA 25-99) of 17 July 1970, summary record of the meeting of Committee 1 on the finances of the Union (discussion of documents Nos. 4013 and 4060).
- (f) A note by the Finance Department dated 8 October 1970 on the structure of the Reserve Account of ITU (internal note).
- (g) The Financial Operating Report for 1970.

1971

- (a) A note of 12 March 1971, document No. 4151, report by the Secretary-General on the finances of the Union (a document of 24 pages including annexes).

(b) Document No. 4181 (CA 26-58) of 19 April 1971, note by the Secretary-General concerning contributions payable by Bolivia and Yemen.

(c) Two documents, Nos. 4199 (CA 26-76) and 4212 (CA 26-89) of 17 and 25 May 1971: summary records of two meetings of Committee 1 of the Administrative Council, held on 6 and 13 May 1971 to discuss document No. 4151.