



TWELFTH ITEM ON THE AGENDA

Reports of the Programme, Financial and Administrative Committee

Report of the Government members of the Committee on allocations matters

1. The Government members of the Programme, Financial and Administrative Committee of the Governing Body met on 14 March 2003 under the chairmanship of Mr. E. Chung, Government Vice-Chairperson of the Programme, Financial and Administrative Committee, who acted as Reporter.

Scale of assessment of contributions to the budget for 2004

(First item on the agenda)

2. The Government members considered a paper¹ proposing a scale of assessments for ILO member States for 2004.
3. The representative of the Government of Argentina, speaking on behalf of the Latin American and Caribbean Group (GRULAC), commented that the Office was following the last United Nations scale of assessment, reflecting United Nations resolution 57(4)b, according to which contributions from Afghanistan and Argentina were to be reduced on a temporary basis. In the United Nations, these reductions had not led to increases for other Members as the amount “lost” had been covered by the admittance to membership of Switzerland and East Timor. However, the ILO scale of assessment did show increases. He recalled that paragraph 7 of United Nations resolution 57(4)b stated that the decision should have no automatic implication for the apportionment of the expenses of the specialized agencies. The Organization faced the challenge of seeking the best way of adhering to the United Nations scale of assessment, given that the reduced contributions for Afghanistan and Argentina were causing increases for other countries, many of which were developing countries or countries with economic problems of their own. The group also requested clarification about the criteria used when developing the ILO scale of

¹ GB.286/PFA/GMA/1.

assessment since, for example, a comparison of columns 1 and 3 of the appendix revealed that some rates of contribution had remained the same whilst others had increased.

4. The representative of the Government of Italy, speaking on behalf of European Union Member States, believed that the scale for 2004 should be based on the latest available United Nations decision. The proposed ILO scale for 2004 was based on the United Nations General Assembly decision of December 2002, but this resolution contained an ad hoc decision for Afghanistan and Argentina for 2003 only. The resolution therefore required amendment so as to continue to base the ILO contributions on the United Nations scale adopted in 2000 for the period 2001-03.
5. The representative of the Government of Canada, on behalf of Canada, Australia and New Zealand (CANZ), supported the comments of the representative of the Government of Italy. He inquired whether the Financial Regulations provided an alternative method of dealing with member States that faced temporary economic difficulties.
6. The representative of the Government of Japan commented that the United Nations scale resulted from extensive negotiations in New York and fairly reflected the economic position of each country. Despite its own economic problems, Japan supported the United Nations scale and the proposed Office resolution.
7. The representative of the Director-General (Mr. Juneja, acting Treasurer and Financial Comptroller) explained that, as with the United Nations, the ILO's scale of assessment had a fixed maximum contribution of 22 per cent for the major contributor and a fixed minimum contribution rate of 0.001 per cent, which applied to 34 ILO member States. The differences between columns 2 and 3 of the appendix related to the different memberships of the ILO and the United Nations. Concerning the differences between columns 1 and 3 of the appendix, he noted that, when applying the United Nations scale to the ILO, several member States sustained an increase in their assessment rates to cover the proposed reductions for Argentina and Afghanistan. In addition, the ILO scale was rounded to three decimal places, which also resulted in small increases for some member States. In response to the question from Canada, he indicated that the ILO's Constitution permitted financial arrangements to be made for member States which had difficulties meeting their assessments, thus retaining their right to vote. This required the approval of the Conference, and there were currently 12 such arrangements in force.
8. The representative of the Government of Brazil appreciated the explanation on rounding but wished to take an example, in order to fully understand it: Peru paid more than Ecuador, and yet column 4 showed no increase in the contribution rate for Peru but an increase for Ecuador. He also explained that GRULAC had looked at the Financial Regulations and would appreciate further details on the scope of article 11(8) which dealt with the Income Adjustment Account. He observed that the balance in this account was some Sw.frs.32.6 million, which would more than cover the proposed reductions in assessments for Argentina and Afghanistan.
9. The representative of the Government of the Dominican Republic commented that the Dominican Republic had recorded a similar increase and requested further clarification.
10. The representative of the Government of Ecuador reiterated the requests for information on rounding.
11. The representative of the Government of Saudi Arabia also inquired about the method of calculating the figures in column 4.

- 12.** The representative of the Director-General, in explaining how the rounding of assessments could slightly increase the assessments of some member States while leaving some others unchanged, drew attention to column 4 of the appendix. This showed that assessment rates were provided in percentage terms to three decimal places throughout, with the exception of four States, namely Japan, Italy, Spain and Sweden whose rates were shown to five decimal places. He emphasized, that the calculations of all member States were actually carried out to five decimal places in the first instance. A member State could therefore have a calculated current contribution rate of 0.02440 per cent, which would be rounded down to 0.024 per cent. A small increase amongst member States, for example, to compensate for the reduced assessments for Argentina and Afghanistan, could augment the proposed calculated contribution rate from 0.02440 per cent to 0.02460 per cent. The rounding of the proposed assessments to three decimal places would thus result in a revised assessment figure of 0.025 per cent. The slight rounding up would arise whenever the calculated fourth significant digit under the proposed scale became more than 0.0005. In other cases, the rounding effect would have no impact on the assessment rate of a particular member State. For example, if the proposed rate changed from 0.03410 per cent to 0.03440 per cent, the assessment rate would be rounded down and remain at 0.034 per cent. These adjustments were purely arithmetical.
- 13.** The representative of the Government of Argentina, speaking on behalf of GRULAC, felt that the latest United Nations scale of assessment arising from resolution 57(4)b would penalize countries, other than Argentina and Afghanistan, that were suffering from economic difficulties. He therefore had an alternative proposal which would entail financing the estimated contribution deficit of US\$400,000, this being the estimated impact in 2004 of reducing contributions from Afghanistan and Argentina. He suggested that the deficit could be financed by a loan from the Working Capital Fund, under article 19(b) of the Financial Regulations, since this article referred to exceptional circumstances and permitted advances to meet contingencies and emergencies. Article 21.2(b) allowed for the use of temporary surpluses to repay such loans and where surpluses were insufficient, any balances due could be added to contributions payable by Members in the second year of the next financial period. The second year would be 2007, by which time the United Nations General Assembly would have adopted a new formula for contributions which would equitably reflect the amounts to repay to the account. The burden of reduced contributions from Afghanistan and Argentina would therefore be shared more fairly.
- 14.** The representative of the Government of Italy, speaking on behalf of EU Member States, acknowledged that the proposal from the representative of the Government of Argentina took account of some of his concerns, but stated that he would appreciate time to consider its feasibility.
- 15.** The representative of the Government of the Russian Federation wished to clarify whether the GRULAC proposal meant using the Working Capital Fund to finance the deficit.
- 16.** The representative of the Director-General explained that article 19 of the Financial Regulations stated that the Working Capital Fund was established for two purposes: firstly, to finance budgetary expenditure pending receipt of contributions. He confirmed that given uncertainties in the timing of receipt of contributions, the Fund was frequently used as a source of financing, even up to the full balance of the Fund; and secondly, in exceptional circumstances, to provide advances to meet expenditure incurred in respect of contingencies and emergencies previously approved by the Governing Body. It was unclear whether planned shortfalls in contributions could be considered a contingency or an emergency. This second possible use also raised the question of repayment. Use of a temporary surplus to fund the deficit under article 21(2)b would be speculative as it was not certain that such a surplus would exist in the future. Alternatively, if the 2004 contributions deficit of approximately US\$400,000 was to be treated as an advance to be

reimbursed in the second year of the following biennium on the basis of the then prevailing scale, it would indeed imply additional assessments on all member States in 2007. Whether it was acceptable to defer funding of 2004-05 programmes until 2007, albeit only US\$400,000, was essentially for member States to decide.

17. The representative of the Government of Brazil wished to point out that article 21.2(b) referred to temporary surpluses being used “to reduce the amount of outstanding loans or advances”. Two biennia would have elapsed by 2007 and only if there were insufficient surpluses by then would the loan have to be repaid in whole or in part. Referring back to document GB.286/PFA/1/1, this showed the interest earned on the Working Capital Fund and the Income Adjustment Account. A small fraction of this interest earned would be sufficient to clear the deficit. He wondered what the procedure was for withdrawing money from these accounts.
18. The Legal Counsel (Mr. Picard), having considered the various proposals, confirmed that, under article 21 of the Financial Regulations, it was for the Governing Body to decide on additional expenditure for contingencies and emergencies, which may require an advance from the Working Capital Fund. According to article 21.2(b) of the said regulation, temporary surpluses could be used to repay the loan, but there was no way of knowing that there would be a surplus so this was essentially a hypothetical decision. The situation had not arisen before and, from a legal point of view, he was not convinced that the Working Capital Fund could be used to partially cover a reduction in assessments.
19. The representative of the Director-General explained that the Income Adjustment Account benefited from a proportion of the overall interest earned on regular programme contributions, interest earned on the Working Capital Fund and any transfers or other items approved by the Conference. Its primary purpose was to provide protection against any losses that could become payable under the Swiss franc assessment system. Such a situation could arise if there were, for example, substantial variations during the budget implementation cycle between the actual and budget Swiss franc-dollar rate of exchange, as was the case during the present biennium.
20. The representative of the Government of the Russian Federation asked whether there was a precedent for extending the use of the current ILO scale of assessments for a further year.
21. The representative of the Director-General explained that the Organization did not apply an old scale for a future year if a new United Nations scale had been more recently adopted.
22. The representatives of the Governments of Italy and Germany asked for clarification of the proposals and their limitations to be submitted in writing during the 91st Session of the International Labour Conference in June 2003.
23. The representative of the Government of Mexico wished to support the comments made by the representative of the Government of Norway during the meeting of the Programme, Financial and Administrative Committee. He, too, did not understand the impact of exchange rates on the amount of the budget expenditure agreed in March which was then converted into Swiss francs at the time of the Conference.
24. The representative of the Director-General confirmed that a paper would be prepared during the June 2003 Conference to assist members with their decision on the 2004 scale of assessments. Regarding the question raised by the Government of Mexico, he explained that the Organization had an established practice of proposing a draft budget at the budget exchange rate prevailing during the current biennium (for the Programme and Budget 2004-05, \$1 = 1.77 Swiss francs, being the approved rate for 2002-03). The rate of

exchange to apply for the next biennium was to be agreed during the Conference in June 2003, and would be based on market rates prevailing at the time. The 2004-05 expenditure budget and the assessments would be restated at that approved exchange rate and presented in a revised resolution. He referred to the informal paper provided to the Government representatives of Norway and Mexico which described the relationship between exchange rates and the amount of the dollar budget expenditure and corresponding Swiss franc assessments.

25. The Chairperson recognized the lack of consensus, and noted that some States had requested additional time to consider the proposals, while others had sought clarification of the legal aspects. He proposed an alternative resolution.
26. *The Government members of the Programme, Financial and Administrative Committee recommend to the Governing Body that the adoption of the scale of assessments for 2004 be deferred to the 91st Session of the International Labour Conference, and that they meet by delegation from the Governing Body to prepare a draft scale of assessments for 2004 during the Conference, taking into account any relevant developments which may take place, and to submit it directly to the Finance Committee of Government Representatives at the Conference.*

Geneva, 24 March 2003.

(Signed) E. Chung,
Reporter.

Point for decision: Paragraph 26.