



# Governing Body

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Programme, Financial and Administrative Section

PFA

Programme, Financial and Administrative Segment

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## Proposed measures to enhance the financial resilience of the Organization

### ► Introduction

1. Historically, the ILO has had a strong record of assessed-contribution receipts, with a collection rate of 98 per cent over a rolling two-biennium period. This meant that funding and, more importantly, liquidity were available to deliver the regular programme of work. The non-receipt of significant receivables from Member States over the past three years has displaced this liquidity and required the implementation of contingency measures. This paper examines longer-term measures to strengthen the Organization's resilience to liquidity shortfalls arising from the timing of assessed-contribution receipts and to reduce the need for recurrent emergency adjustment. The implementation of the contingency framework for the 2026–27 biennium, as approved by the Governing Body in earlier sessions, and the current regular budget financial position are addressed in documents GB.358/PFA/4 and GB.358/PFA/INF/1.

### ► Working Capital Fund

2. Articles 19–21 of the Financial Regulations establish the Working Capital Fund (WCF) as the Organization's principal mechanism for financing budgetary expenditure pending the receipt of contributions or other income. In exceptional circumstances, and with prior authorization by the Governing Body, the Fund may also provide advances for contingencies and emergencies. One benefit of the WCF is that it may only be used to finance approved Programme and Budget expenditure and therefore no supplementary administration or approvals are required.

3. The use of a working capital fund is common across the United Nations (UN) system to meet operational liquidity needs. There is, however, no accounting standard or norm prescribing a single percentage or number of weeks for a working capital fund to be established. The comparative review conducted by the Office points instead to three complementary measures: the size of the Fund relative to annual income or expenditure; how many weeks of expenditure the Fund could cover; and, most importantly, whether it would be sufficient to cover the largest reasonably foreseeable cash shortfall caused by delayed contributions. These measures answer different questions and should be considered together rather than as alternative targets. The figures in table 1 are therefore indicative and should be interpreted in the context of each organization's funding model.

► **Table 1. Selected working capital fund comparators**

| Organization                                                         | Fund level and approximate coverage                                                                                                                                | ILO-relevant observation                                                                                                                                                                         |
|----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ILO</b>                                                           | CHF35 million nominal; CHF44.516 million approved as arrears are received; about 12 per cent of annual expenditure and 6 weeks of expenditure at the higher level. | The Fund was exhausted at the end of 2025. A ceiling of 25 per cent of annual assessed income has been approved, but the operating target still needs to be calibrated to actual cash-flow risk. |
| <b>UN Secretariat</b>                                                | US\$250 million in 2026; about 7 per cent of the regular budget and 3.9 weeks of expenditure.                                                                      | The largest annual liquidity gap is considered alongside the percentage and weeks measures; a fixed nominal amount alone is not sufficient.                                                      |
| <b>Food and Agriculture Organization of the United Nations (FAO)</b> | US\$25.745 million; about 5 per cent of annualized regular-budget expenditure and 2.6 weeks of expenditure.                                                        | The WCF is distinct from FAO's Special Reserve Account, illustrating the need to separate short-term liquidity from other financial risks.                                                       |
| <b>International Civil Aviation Organization (ICAO)</b>              | US\$8 million; approximately 9.5 per cent of the annual Regular Programme budget and about 4 weeks of expenditure.                                                 | ICAO also has separate authority for limited external borrowing, showing that an internal buffer and a second-line backstop can be governed separately.                                          |
| <b>World Health Organization (WHO)</b>                               | US\$31 million; about 5.4 per cent of the annualized assessed-contribution envelope and 2.8 weeks on that basis.                                                   | The WHO may use the WCF and then internal borrowing against available cash reserves, excluding trust funds.                                                                                      |
| <b>World Intellectual Property Organization (WIPO)</b>               | Working capital funds of CHF6.342 million within a broader reserves framework.                                                                                     | WIPO uses a combined risk-based reserves and working-capital approach rather than treating the WCF as the sole measure of resilience.                                                            |

4. The research conducted by the Office also looked at multilateral development banks and other contribution-funded organizations. The most transferable lesson from the review is the use of forward-looking liquidity floors, stress or survival horizons and staged management

responses. Their thresholds are not directly transferable to the ILO, but their methodology is relevant in that contribution-delay risks are converted into quantified cash-flow scenarios and corrective action is triggered before the primary liquidity buffer is exhausted.

5. The nominal level of the ILO's WCF had been set by the Governing Body in 1993 at CHF35 million. Withdrawals from the WCF would normally be reimbursed during the same financial period as soon as contributions or other income become available or, where this is not possible, from the related arrears received in a later financial period. The WCF was fully exhausted at the end of 2025 to finance the 2024–25 income shortfall.
6. At its 357th Session (June 2026), the Governing Body approved the transfer of half of the 2024–25 net premium, providing for the WCF level to rise to CHF44.516 million as the relevant arrears are received. At this level, the WCF would represent approximately 12 per cent of annual budgeted expenditure, or about six weeks of expenditure.
7. The Governing Body decision also established a new indicative ceiling for the future level of the WCF, at 25 per cent of annual assessed income in Swiss francs. The ceiling sets the maximum level to which the Fund may be built up; it does not, by itself, determine the operating target needed to manage the ILO's actual cash-flow risk. At its 357th Session (June 2026), the Governing Body confirmed that the Office should submit a proposal to the International Labour Conference in 2027 to amend article 20(2) of the Financial Regulations so that interest may be credited directly to the WCF on an annual basis, subject to the approved ceiling. This would provide a gradual means of increasing the WCF without requiring separate approval for each annual increase.
8. Annual interest earnings are not expected to be significant and would accrue only on available WCF balances; given the current full use of the Fund, the interest expected to be credited is minimal for the next few years. To reach the above limit more quickly, the Governing Body may wish to consider additional transfers from any future surpluses arising from payments of arrears when they may become available, in derogation of article 11(9) of the Financial Regulations.
9. The Office will continue to assess the adequacy of the WCF regularly against a baseline cash forecast, the largest reasonably foreseeable intra-year cash gap, delays by major contributors and the number of weeks for which critical expenditure could continue. On that basis, the Office would determine an operating target below or up to the approved ceiling, reflecting the level of liquidity needed under plausible contribution-delay scenarios. The operating target could be accompanied by predetermined escalation points for management action and Governing Body information or approval.

## ► External borrowing

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10. The Director-General may contract loans or advances when the Working Capital Fund is temporarily inadequate pending the receipt of contributions under article 21 of the Financial Regulations, subject to repayment from subsequent contributions or other income and reporting to the Governing Body. The authority is therefore intended to bridge a temporary timing mismatch and not to finance a structural reduction in the Organization's resource base. External borrowing is uncommon across the United Nations system and should be considered only as an exceptional measure of last resort after available internal liquidity arrangements have been exhausted.

11. The financial crisis following the withdrawal of the largest assessed Member State in 1977 illustrates the distinction between a temporary liquidity shortfall and a structural income loss. The withdrawal removed approximately one quarter of the ILO's budget base. The Organization responded through programme and staffing reductions, voluntary contributions and reserve management rather than borrowing, because the lost assessment did not provide a credible and time-bound source from which a loan could be repaid.
12. If external borrowing were to be retained as a practical backstop, the Office would develop an operational methodology that could be activated quickly while preserving legal, financial and governance safeguards. The legal authority in article 21 does not identify or restrict the ILO to a particular class of lender. The Office's review of possible external borrowing sources found that availability and suitability differ materially by institution, as summarized in table 2.

► **Table 2. Potential sources of external liquidity**

| Potential source                                                                                 | Assessment                                                                                               | Principal constraint or next step                                                                                                                                                                |
|--------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>International Monetary Fund (IMF)</b>                                                         | Not available as a lender to the ILO.                                                                    | IMF general resources are made available to IMF member countries through their designated fiscal agencies; the ILO is not an eligible borrower.                                                  |
| <b>World Bank/International Bank for Reconstruction and Development (IBRD) conventional loan</b> | Not a straightforward option for general ILO liquidity.                                                  | The IBRD Articles focus on lending to members, their subdivisions and enterprises in member territories. A direct general-purpose loan to the ILO does not fit the ordinary framework.           |
| <b>World Bank tailored capital-markets structure</b>                                             | Potentially relevant only where there is a defined future revenue stream.                                | The UNICEF precedent front-loaded private fundraising receipts; it was not an unsecured loan for ordinary budget liquidity and would require bespoke approvals and measurable future cash flows. |
| <b>Commercial banks or other financial institutions</b>                                          | Potentially feasible, subject to legal and market review.                                                | Terms may include commitment fees, covenants and governing-law provisions; privileges, immunities, enforceability and counterparty risk would require careful negotiation.                       |
| <b>Member State, central bank or public treasury</b>                                             | Potentially feasible if a Member State is willing to provide a loan or advance.                          | The arrangement would need to be distinct from assessed contributions and designed with due regard to neutrality, terms, precedent and governance.                                               |
| <b>Host-country or public financial institution</b>                                              | Potentially feasible and suitable for advance contingency dialogue, including for Swiss franc liquidity. | There is no entitlement to financing; terms, institutional relationship and governance implications would need to be assessed.                                                                   |

13. A capped committed standby facility, potentially revolving during its commitment period, could be negotiated in advance and drawn only after defined WCF and liquidity thresholds had been reached. It would be repaid from any delayed contributions from Member States or other approved sources, it cannot be counted as a substitute for internally held liquidity and would not be used to maintain a minimum WCF level or relied upon to increase spending authority. Its value to the Office would need to be weighed against pricing, commitment fees and the likelihood and scale of use. No proposal to establish or negotiate such a facility is being submitted for approval at this stage; the analysis is intended to clarify the conditions under which external borrowing could serve as an exceptional backstop if required in the future.

## ► Revolving mechanisms

14. The term “revolving fund” is not standardized across the UN system. From the Office’s analysis, a genuinely revolving mechanism has three elements: an initial pool of capital or advance authority; a defined activity for which the capital is deployed; and a credible and traceable replenishment stream, such as repayment by sales or licensing proceeds, fundraising returns, user charges or captured cost savings, which permits the same capital to be used again. This requires additional governance, administration and review given the thematic use of such funds.
15. This definition distinguishes a revolving mechanism from a reserve that may be restored from general income and from the WCF, which is normally replenished when the original assessed contribution or other income is received. It also helps distinguish mechanisms that provide programme flexibility but do not generate a repayment stream. Existing ILO instruments are summarized in table 3.

► **Table 3. Existing ILO mechanisms relevant to revolving finance**

| Instrument                             | Character and use                                                                                                                                               | Replenishment and relevance                                                                                                                                                                                                                                                                                                        |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Publications Revolving Fund</b>     | Finances publication production, promotion, marketing and related activities under separate Governing Body-approved rules.                                      | A genuine revolving fund: up to 100 per cent of publication sales income, royalties and related fees may be returned to the Fund, confirming that the ILO framework can accommodate a purpose-specific mechanism.                                                                                                                  |
| <b>Working Capital Fund</b>            | Finances regular-budget expenditure pending receipt of contributions or other income and, exceptionally, authorized contingencies and emergencies.              | Reusable but not a revenue-generating revolving fund. Replenishment normally reflects receipt of the original receivable or another source specified in the Financial Regulations.                                                                                                                                                 |
| <b>Building and Accommodation Fund</b> | Provides funding for specific purposes related to the costs of construction, alterations, repairs and renewals; use is subject to Governing Body authorization. | The fund receives income from rentals of office space and from a specific budget approved under Part IV (Institutional investments and extraordinary items) of the budget. This amounts to US\$8.2 million in 2026–27, following an earlier Governing Body resolution to provision the fund for the ILO’s future renovation needs. |

| Instrument                                  | Character and use                                                                                                                                       | Replenishment and relevance                                                                                                                                                                 |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Regular Budget Supplementary Account</b> | Provides flexible support to Programme and Budget outcomes and emerging or underfunded priorities from voluntary, fully unearmarked core contributions. | Not revolving: expenditure is not repaid and there is no internal replenishment stream. It can nevertheless add programme flexibility while resources are available and their terms permit. |
| <b>Regular Budget Technical Cooperation</b> | Provides core, catalytic and ad hoc technical-cooperation resources through the approved regular budget.                                                | Not a separate revolving fund and has no repayment stream.                                                                                                                                  |

16. The UN-system review identified two broad categories of mechanisms. The first provides temporary bridge or advance financing against signed donor agreements, firm pledges or sufficiently robust funding forecasts. The second finances an investment expected to generate future income, repayments or measurable savings. These models involve different risks and should not be treated as interchangeable.

► **Table 4. Representative UN-system revolving and advance-financing models**

| Representative model                                                                    | Funding and replenishment                                                                                                                    | Potential design lesson for the ILO                                                                                                                                                                    |
|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Bridge financing against a firm receivable (UNFPA Humanitarian Response Reserve)</b> | Pre-finances activities pending receipt of funding committed under signed donor agreements; repayment restores the reserve.                  | Suitable only where repayment is linked to a specific, time-bound receivable, with clear eligibility, authorization and repayment monitoring.                                                          |
| <b>Resource-mobilization investment (UNICEF Dynamo Revolving Fund)</b>                  | Makes up-front investments in private-sector fundraising; participating offices repay advances over an agreed period, replenishing the pool. | Potentially relevant where incremental flexible income can be attributed and returned to the pool; conceptually closer to programme support income and cost recovery than to regular-budget liquidity. |
| <b>Savings-investment mechanism (UNHCR Green Financing Facility)</b>                    | Finances up-front efficiency investments and recycles repayments or verified energy savings into further projects.                           | Feasible only where savings can be measured and ring-fenced and are sufficient to cover repayment and administrative costs.                                                                            |

17. A broad new revolving fund should not be created to pay salaries and other regular-budget costs while assessed contributions are delayed. Such a fund would duplicate the purpose of articles 19–21 in the Financial Regulations. When a delayed assessment is eventually paid, the ILO is receiving the amount already due to it; the payment is not a new return generated by the activity financed. The more transparent approach is to capitalize and manage the WCF adequately and retain borrowing as a potential final backstop.
18. A narrower resource-mobilization revolving pilot could be considered only if the Office identified investments not adequately supported through existing programme support income and cost-recovery arrangements. In the past, resource-mobilization strategies considered special funds for rapid programme development and fundraising activities, however immediate financing was found within existing Regular Budget and RBTC resources

rather than through a standing repayable fund. Any new pilot would therefore require a demonstrable gap, an attribution methodology and a rule returning a defined share of incremental flexible income to the pool until the advance was repaid. It should be noted that an additional fund would also entail additional administration and costs for the Office.

19. A savings-investment revolving facility could finance projects in areas such as AI, energy, premises or technology where verifiable future savings could be captured and returned to the facility. Its feasibility would depend on the scale of investment opportunities, the ability to measure and ring-fence savings and whether the expected benefits justified the governance and administrative costs.
20. Another alternative approach to that of a revolving fund mechanism would be to use the model already used by the Building and Accommodation Fund (BAF). This could be funded either by an exceptional levy on Member States, long-term regular-budget funding under Part IV of the budget, an appeal for initial voluntary endowments to the fund or all of the above. This would form an ILO resilience fund and would be seen as a long-term asset of the Office. The fund would grow from allowing all income generated from the assets to be reinvested into the fund and from additional sources such as any future surpluses after provisioning the WCF to its required level. Such a fund would follow the principles of the BAF, in that it would require a Governing Body decision to release and use the funds for specific purposes such as a global economic crisis, future pandemic or multilateral uncertainty.
21. Based on its review, the Office considers that a general-purpose internal revolving fund for the purpose of meeting regular-budget expenditure pending receipt of assessed contributions would duplicate the role of the WCF and would therefore not provide additional regular-budget liquidity resilience. By contrast, the establishment of a savings investment fund and/or an ILO resilience fund could provide an additional layer of financial resilience. Further analysis could also be undertaken on narrowly targeted resource-mobilization or savings-investment models, provided that a defined replenishment stream and additional value over existing arrangements can be demonstrated.

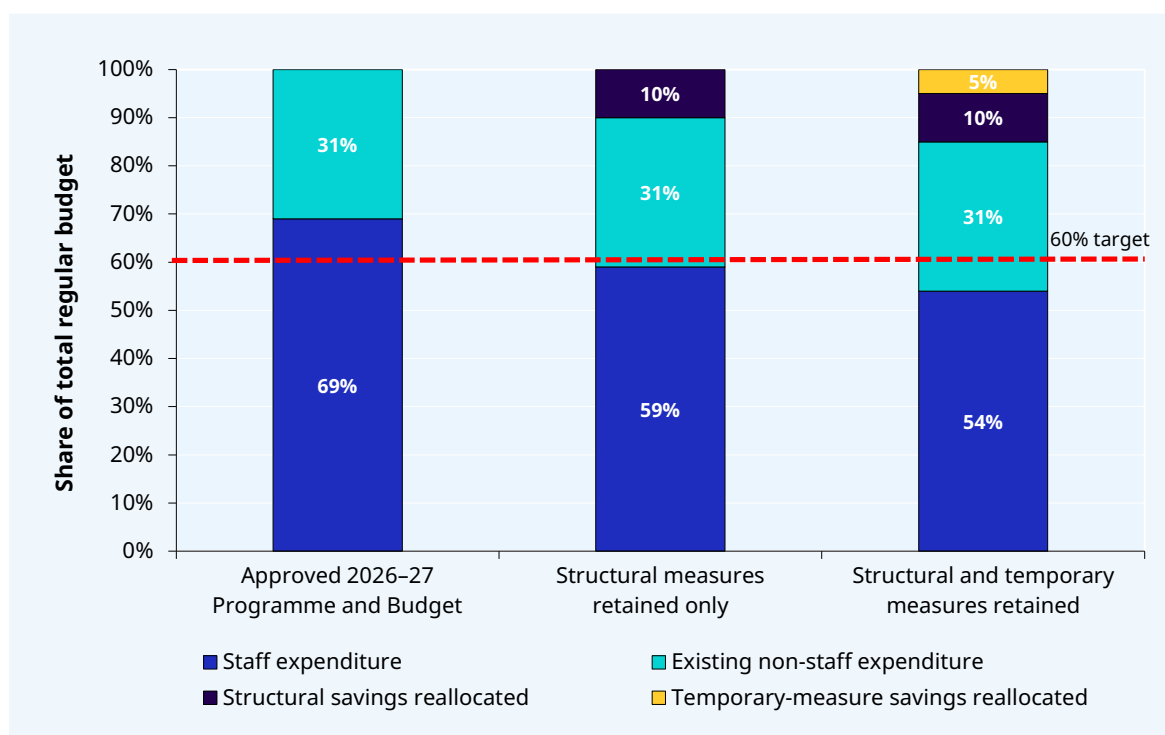
## ► Budget flexibility

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22. Financial resilience also depends on the capacity to adjust expenditure in response to liquidity constraints while safeguarding the ILO's constitutional mandate, critical technical capacity and minimum operating requirements. Future Programme and Budget proposals should therefore consider the balance between fixed and adjustable commitments more explicitly and identify the resources that must be protected for more effective delivery. In this context, non-staff expenditure should not automatically be treated as adjustable: some non-staff costs are essential in developing technical capacity or are contractually committed and must also be protected.
23. Workforce and vacancy planning are central, as staff costs are the largest fixed component of the regular budget, and staffing decisions have long-term operational effects given their nature. The current structural changes implemented with the contingency measures during 2026–27 and those anticipated for the ILO reform process, will be reflected in the Programme and Budget proposals for 2028–29. These will provide an opportunity to establish a more financially sustainable balance between recurring staff commitments and the non-staff resources required for delivery, for example increases in Regular Budget Technical Cooperation resources.

24. The illustrative 60 per cent staff cost reference point indicated in figure 1 provides a base for further analysis. If the current projected impact of the temporary savings measures in 2026–27 is retained, the shift in the balance of resource allocation would exceed this preliminary target. It must be noted that these reductions to meet financial constraints have curtailed the ability of the Office in some areas to deliver on its expected programme of work.

► **Figure 1. Illustrative impact of retaining structural and temporary staffing measures: Savings reallocated to non-staff programme expenditure within a constant US\$930.5 million envelope**



25. A more flexible budget structure would not completely remove the need for contingency measures in any future exceptional liquidity crisis. It would, however, allow temporary liquidity pressures to be managed through a planned sequence of proportionate actions, with clearer protection of the Organization's core functions and less reliance on urgent across-the-board adjustment. The current analysis indicates that reducing the share of expenditure locked into recurring fixed commitments, while preserving critical capabilities and minimum operating requirements, would strengthen this flexibility. It is clear that a higher share of the overall budget for adjustable expenditure would increase the scope for managing significant contribution delays without the need for immediate structural staffing measures; the extent to which a particular shortfall could be absorbed would depend on the timing and duration of the shortfall, the available level of the WCF and on the amount of non-staff expenditure that could be deferred or reduced without undermining programmatic delivery.

## ► Payment incentives

26. One of the main causes of liquidity issues concerns the timely receipt of assessed contributions during the financial year to which they are related. Assessed contributions become due on the first day of each financial period and their timely receipt is a first line of financial resilience. The

Financial Regulations currently provide for an incentive for early payment through the Incentive Fund. These incentives are covered by Article 11 of the Financial Regulations, which is funded from income related to assessed contributions. In the first part, 60 per cent of any interest earned on temporarily surplus regular-budget funds is set aside to the Fund. Secondly, one half of any net premium earned for a financial period is also set aside in the Incentive Fund.

27. The ILO's income budget is assessed in Swiss francs, but some of its expenditure is in United States dollars. A portion of the Swiss franc assessments is therefore converted into United States dollars to meet dollar-denominated expenses for the biennium. This is done at the rate of exchange approved by the International Labour Conference when the budget is adopted, through a forward purchase contract involving the sale of Swiss francs for United States dollars. The differential between the forward purchase contracts and the actual exchange rates between the Swiss franc and the United States dollar is the net premium earned across the biennium.
28. Any net premium generated under the Swiss franc assessment system is currently divided equally: one half is distributed to Member States through the Incentive Fund on the basis of eligibility and incentive points reflecting the dates and amounts of payments of assessed contributions, while the other half is apportioned among Member States according to their proportionate share of assessed contributions. For the latter half, the credit is deferred until the Member State has paid the relevant contributions in full; the value of the credit does not vary according to the timing of payment.
29. Since its introduction for the 1990–91 biennium, the Swiss franc assessment system has generated more than CHF200 million in net premiums, including CHF19.032 million for 2024–25. It is proposed that, for future biennia, the full net premium should be distributed through the Incentive Fund. In practical terms, this would direct the full benefit of the net premium towards Member States that meet the Incentive Fund eligibility conditions, strengthening the reward for timely payment. This would preserve the principle that the premium is accrued and returned to Member States which funded that period, replacing the general pro rata distribution under article 11(7), with an allocation based entirely on the incentive-points system. This proposal would increase the credits available to Member States that pay their assessed contributions in full within the qualifying period. Member States that do not meet the Incentive Fund eligibility conditions would no longer retain the deferred pro rata credit currently provided under article 11(7). The proposed reform would therefore strengthen the link between the timing of contribution payments and the benefit received.
30. The proposed reform would require amendment of article 11(5) which establishes the current equal division, together with consequential amendments to article 11(6) and (7), for approval by the International Labour Conference. Subject to the Governing Body's guidance, the Office would prepare the necessary amendments and any transitional provisions for consideration at a future session and subsequent submission to the Conference.

## ► Conclusions, governance and monitoring

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31. Liquidity pressures, contribution-related risks, reserve adequacy and the balance between fixed and adjustable commitments are monitored as interrelated enterprise-level risks by the Financial Management Department under the Treasurer and Financial Comptroller. The analysis set out in this paper suggests that a layered financial resilience framework rather than a single new instrument would serve best in the context of the ILO. The Working Capital Fund

should remain the primary regular-budget liquidity buffer, supported by routine cash management, forward-looking cash-flow forecasting and pre-agreed escalation measures. External borrowing should remain an exceptional last-resort backstop with a credible and time-bound repayment source. Revolving mechanisms should be considered only for narrowly defined activities that generate a demonstrable replenishment stream, while any broader resilience fund should have a clearly defined purpose, funding source, governance structure and conditions for use. Greater flexibility in future Programme and Budget structures should strengthen the Organization's capacity to adjust without undermining core functions.

32. Taken together with a revised incentive scheme, these measures would provide a more predictable and proportionate response to temporary liquidity pressures and reduce reliance on recurrent emergency adjustment. They would not, however, act as a substitute for structural adjustment where income is permanently reduced or where approved mandates and available resources are persistently misaligned. Financial resilience therefore depends primarily on maintaining an adequately capitalized WCF, preserving budget flexibility and applying clear governance and monitoring arrangements before emergency measures become necessary. A potential future resilience fund could further strengthen the ILO's financial framework, subject to certain conditions.

## ► Draft decision

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### 33. The Governing Body:

- (a) **took note of the analysis of the Working Capital Fund, external borrowing, revolving mechanisms, budget flexibility and payment incentives set out in document GB.358/PFA/3;**
- (b) **confirmed that the Working Capital Fund should remain the Organization's primary regular-budget liquidity buffer and requested the Office to assess and report on its adequacy using the percentage of annual assessed income or expenditure, weeks of expenditure covered and the maximum cumulative cash gap under prudent contribution-delay scenarios;**
- (c) **requested the Office to take account of the analysis in preparing the Programme and Budget proposals for 2028–29, including the balance between fixed and adjustable commitments, workforce and vacancy planning, minimum operating requirements, the role of the Regular Budget Supplementary Account and other flexible resources, and the protection of critical capabilities under delayed contribution scenarios;**
- (d) **requested the Office to prepare proposals for the creation of a resilience fund for consideration at its 359th Session (March 2027);**
- (e) **requested the Office to prepare, for consideration at its 359th Session (March 2027) and subsequent submission to the 115th Session (2027) of the International Labour Conference, amendments to article 11(5), together with consequential amendments to article 11(6) and (7) of the Financial Regulations and Financial Rules and any necessary transitional provisions, so that the full net premium in future biennia would be distributed through the Incentive Fund on the basis of the incentive-points system.**