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## DRAFT PROPOSAL TO ADDRESS PROBLEMS RELATED TO FINANCIAL LIQUIDITY

### Background

1. At the Fourth Conference of States Parties (CSP4) of the ATT, the Management Committee presented its report (referenced ATT/CSP4/MC/2018/MC/353/Conf.UnpaidContr) setting out recommendations to address the issue of unpaid assessed contributions. After consideration, the Fourth Conference of States Parties decided to mandate the Management Committee to further explore options to address problems related to financial liquidity, including the feasibility of establishing a reserve fund, with a view to putting forward proposals to be considered at the Fifth Conference of States Parties (see paragraph 36.b. of the Final Report, referenced ATT/CSP4/2018/SEC/369/Conf.FinRep.Rev1).

### Current situation and billing practice

2. The financial period of the ATT is a calendar year (1 January – 31 December). The States Parties adopt the budget for the next CSP-cycle (and year) at their annual Conference of States Parties, usually held at the end of August or beginning of September. Subsequently, the ATT Secretariat closes the accounts for the current CSP-cycle and sends invoices for the assessed contributions for the next cycle usually at the end of October. The invoices need to be paid within 90 days after receipt of the invoice from the ATT Secretariat (Financial Rules – Rule 8.a.). Uncommitted funds (savings) realised from the contributions to the previous budget, if there are any, are settled with that same invoice.

3. As it stands today, less than a third of the assessed contributions are paid within 90 days. As there is no 'rule' that the funds for meetings need to be in the 'bank' 3 months in advance, as is the case in the UN system, the ATT Secretariat can organise meetings of the preparatory process as early as the end of January. Although the ATT Secretariat staff is contracted for a period of four years (once renewable), the funds for their salaries do not need to be in the 'bank' in advance in order to issue contracts of a certain period, as is the case in the UN system. Because of these flexibilities, the meetings have so far taken place as scheduled and other payment obligations, such as the salaries of the ATT Secretariat staff, have been fulfilled. However, as the ATT is building a budget deficit of about 15% per annum (see paragraph 5 of the Management Committee's report on unpaid contributions), the risks of problems related to financial liquidity increases. The possible consequences of problems related to financial liquidity were set out in paragraph 9 of the Management Committee's report on unpaid contributions. Therefore, it is advisable to explore options to improve financial liquidity, including the establishment of a reserve fund. The options explored are not mutually exclusive and could all be implemented at the same time, if the CSP decides to adopt them.

## Exploring options

4. The Fourth CSP decided to task the ATT Secretariat and the Management Committee to implement the **administrative measures** to address some of the causes of delayed and non-payment of assessed contributions, as outlined in Table 1 of the Management Committee's report (see paragraph 36.a. of the Final Report). In addition, the ATT Secretariat could use the flexibility in the current Financial Rules to close the accounts at a later stage than the current practice. It could send the invoices, as the Rules stipulate, by 15 October of the previous year (Rule 8.1.a.). Settling of the funds due to final costings and adjustments based on changes in participation can be done with the invoice of the following calendar year (Rule 5.2.b and 8.4).

### A. Add a contingency provision

5. An option to explore to improve liquidity is including a **contingency provision** in the annual budget proposal. As Financial Rule 8.4 stipulates that 'the uncommitted balance of appropriations from previous financial periods shall be rolled-over to the next financial period, thereby reducing the States' contributions for the next financial period', a contingency of 15%, for example, could ensure funds being available right at the start of the financial period, if spending of the previous year remains within the budget. This has been practiced in other multilateral treaties, such as the Nuclear Non-Proliferation Treaty and the Anti-Personnel Mine Ban Convention.

### B. Reserve fund

6. Another option to explore is establishing a **reserve fund**. The Management Committee's report on unpaid contributions for the Fourth CSP suggested the following sources: a) uncommitted funds (assessed contributions) from the previous financial periods, which are not rolled-over to the next financial period to reduce states' contributions; b) a percentage (e.g. 2-5%) could be added to all annual contributions and money received could be deposited in the reserve fund; c) voluntary contributions.

7. The different sources for such fund were discussed at the Fourth CSP, with a number of States Parties indicating that they could not support paying (compulsory) assessed contributions into a reserve fund. A reserve fund sourced with voluntary contributions remained an option to explore, although some reservations were expressed as well. In order to ensure that the fund is used to cover financial liquidity related problems only (and not non-payments), drawdowns from such a fund should be repaid to it from annual assessed contributions of States Parties within 12 months. Also, drawdowns should not exceed the average collection rate over the preceding three years in order to ensure the fund is fully reimbursed.

8. A further question that needs to be answered in this context is whether to establish a reserve fund to cover only for financial liquidity related problems concerning the ATT Secretariat, and not also the budget for the meetings (preparatory process and CSP). As four-year contracts were concluded with the staff of the ATT Secretariat, States Parties have an obligation to pay their salaries. Meetings, however, could be cancelled, if there are insufficient funds available. States Parties could decide on a certain target for the voluntary reserve fund, taking into account the pattern of payments over the preceding three years.

**Recommendations**

9. States Parties should agree to include a contingency provision of 15% for the next financial period in the annual budget.
  
10. States Parties should agree on establishing a reserve fund sourced from voluntary contributions on the basis of the annexed Terms of Reference.

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**Annex: Terms of Reference for the Voluntary Reserve Fund**

- Contributions to the ATT Voluntary Reserve Fund should be strictly voluntary;
- The purpose of the Fund is to provide liquidity to the ATT budget over the course of the calendar year;
- The Fund cannot be used to cover arrears of assessed contributions in any circumstance;
- The Fund can only be used to provide liquidity for costs of the ATT Secretariat.
- Drawdowns from the Fund should be repaid to it from annual assessed contributions of States Parties as soon as contributions are paid, but at least within 12 months. Those drawdowns should not exceed the average collection rate over the preceding three years.
- The target for the Fund is set at the equivalent amount of one annual budget.
- The Head of the ATT Secretariat is responsible for the use of the Fund according to these Terms of References and shall provide a financial report on the use prior to each CSP.