
DRAFT PROPOSAL TO ADDRESS PROBLEMS RELATED TO FINANCIAL LIQUIDITY

Background

1. At the Fourth Conference of States Parties (CSP) of the Arms Trade Treaty (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, at least half of the assessed contributions are paid within 90 days, enabling the ATT Secretariat to organise meetings of the preparatory process as early as the end of January. 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. 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. Therefore, as it stands today, the ATT does not have an acute problem related to financial liquidity/cash flow. 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 address problems related to financial liquidity, including the establishment of a reserve fund.

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). Therefore, there is no need to further explore options with regard to administrative measures.

A. Temporary financial liquidity buffer

5. One of the options to explore is allowing a so-called 'temporary financial liquidity buffer' to be created by closing accounts later than the current practice. Rule 5.2.b. of the Financial Rules stipulates that the ATT Secretariat 'shall produce final costings on the basis of the actual CSP costs and actual number of states which participated within 3 months of the CSP being held. Consequent adjustments shall be made at the end of each calendar year with any debits or credits due to states to be taken into account in the contributions to be made for the following calendar year'. This rule could be modified to give the Secretariat more time to do the final costings and to not directly settle it with the following calendar year, but the year after. If there are savings or uncommitted funds at the end of the CSP-cycle, they could be used as a financial liquidity buffer in the meantime, and only until the following calendar year when the credits are due to be returned.

B. Add contingency as 'rolling buffer'

6. Another option to explore is including a contingency in the annual budget proposal to improve financial liquidity. In order to ensure funds being available right at the start of the financial period, the annual budget could include a contingency of 15% for the next financial period. This contingency is 'given back' each year but also budgeted again. It is a so-called 'rolling' buffer.

C. Reserve fund

7. 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.

8. The source under a) and b) do not seem to be realistic options for recommendations, as a number of States Parties indicated during the Fourth CSP and its preparatory process that they could not pay assessed contributions into (a static) reserve fund. A reserve fund sourced with voluntary contributions is still an option to explore. 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.

9. 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

[To be filled in after discussions at the First Preparatory Meeting of CSP5]
