

**REVIEW OF THE WORKING CAPITAL FUND IN THE  
WORLD METEOROLOGICAL ORGANIZATION (WMO)**

*Prepared by*

***Cihan Terzi***

**Joint Inspection Unit**

**Geneva 2007**



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## CONTENTS

|  | <i>Paragraphs</i> | <i>Page</i> |
|--|-------------------|-------------|
| <b>EXECUTIVE SUMMARY .....</b>   |                   | v           |
| <b>ABBREVIATIONS .....</b>   |                   | viii        |
| <i>Chapter</i>   |                   |             |
| I. INTRODUCTION .....  | 1 - 6             | 1           |
| II. THE PROPOSAL OF THE SECRETARIAT TO INCREASE WCF .....  | 7 - 20            | 2           |
| A. Purpose and current level of WCF in WMO .....   | 7                 | 2           |
| B. Fund structure and off-budget funds and reserves .....  | 8 - 13            | 2           |
| C. Consolidation of off-budget funds and reserves .....  | 14 - 15           | 3           |
| D. The proposal of the secretariat to increase WCF .....   | 16 - 20           | 3           |
| III. THE WORKING CAPITAL FUND IN THE UNITED NATIONS SYSTEM .....   | 21 - 30           | 5           |
| A. The purpose of WCF in the United Nations system .....   | 21 - 26           | 5           |
| B. Average WCF level of the United Nations system organizations .....  | 27 - 30           | 6           |
| IV. EXTERNAL FACTORS AFFECTING THE LEVEL OF WCF IN WMO .....   | 31 - 55           | 7           |
| A. Problems in the collection of contributions: delays, irregular flows and arrears .....                                  | 32 - 49           | 7           |
| B. Unforeseen and extraordinary expenses .....   | 50 - 55           | 10          |
| V. INTERNAL FACTORS AFFECTING THE LEVEL OF WCF IN WMO AND STATISTICAL ANALYSIS OF POSSIBLE CASH SHORTAGES .....            | 56 - 90           | 12          |
| A. Financial management .....  | 57 - 68           | 12          |
| B. Possible impacts of the consolidation, and changes in the financial position of the off-budget funds and reserves ..... | 69 - 78           | 14          |
| C. Authority to borrow .....   | 79                | 16          |
| D. Statistical analysis of historical data on cash shortage probabilities .....  | 80 - 90           | 16          |
| VI. APPROPRIATE LEVEL OF WCF FOR WMO .....   | 91 - 95           | 18          |

**CONTENTS (*continued*)****ANNEXES***Page*

|      |   |    |
|------|---|----|
| I.   | List of off-budget funds and reserves to be consolidated to the regular budget process, and the methodology used for the statistical analysis ..... | 20 |
| II.  | Collection Ratios by Month 2000-2006 .....  | 21 |
| III. | Overview on action to be taken on recommendations .....   | 22 |

## EXECUTIVE SUMMARY

**The objective of this review is to analyze the appropriateness of the level of the Working Capital Fund (WCF) proposed by the Secretariat of the World Meteorological Organization (WMO) for the fifteenth financial period (2008-2011), with a view to providing an opinion to the Fifteenth World Meteorological Congress for its consideration when determining the level of WCF.**

### Main findings and conclusions

WMO maintains its accounts on a fund basis, and although its General Fund was established initially for the purpose of regular budget accounting, subsequently a number of self-balancing sub-accounts and related reserves were established both inside and outside this fund. These sub-accounts and related reserves are known as “off-budget funds and reserves” and kept outside the regular budget approval and appropriation process, and hence outside the control of Members.

Upon the request of the Executive Council, the Secretary-General presented a proposal for consolidating 11 off-budget funds and related reserves with the regular budget appropriation process for the 2008-2011 financial period. In addition, the Secretary-General proposed to increase the WCF of the Organization from CHF 5 million to CHF 10 million during the consolidation process, using the remaining balance of the off-budget funds and reserves.

The Executive Council, at its fifty-eighth session in June 2006, approved the proposed consolidation; recommended in principle an increase in the level of WCF; and requested the Joint Inspection Unit (JIU) to review the proposed level of WCF for the consideration of the Fifteenth Congress of WMO.

The present report, which is prepared based upon the request of the Executive Council, includes an analysis of Organization-specific internal and external factors relevant for the assessment of the level of WCF, such as delays in assessed contributions, the pattern of contribution inflows, the impact of the consolidation, emerging risks, unforeseen and extraordinary expenses, authority to borrow, historical trends and a statistical analysis of cash shortages. In addition, comparative reviews of the WCF to annual budget ratio, and contribution collection ratios, have been undertaken for the United Nations system organizations. A brief summary of the findings and conclusions follows.

On average, the ratio between WCF and annual budget in United Nations system organizations is 8.2 per cent, and the highest ratio is 10.76 per cent. The proposal by the WMO secretariat to increase the level of WCF from the current CHF 5 million to CHF 10 million corresponds to an increase in the ratio from 7.9 per cent to between 14 and 15 per cent, which is much higher than both the average and the highest ratios found in the United Nations system organizations.

On the contribution side, the review shows that WMO has experienced considerable delays, chronic arrears and an irregular pattern in receiving assessed contribution payments. Although there are significant improvements in recent years, there are still chronic arrears, considerable contribution delays and an unpredictable and irregular pattern of payments, which together pose a financial risk to the Organization. For 2000-2001 as of end December, and for 2002-2005 as of end September, the collection

ratio of WMO was lower than most of the other United Nations system organizations. Due to cash shortages in the regular budget, the Organization borrowed significantly from the off-budget funds and reserves in 2000, and the amounts used (on a cumulative basis) were as follows: CHF 4.0 million in September; CHF 10.9 million in October; CHF 17.2 million in November; and CHF 12.4 million in December.

The consolidation of off-budget funds and reserves to the regular budget process would increase the efficiency and effectiveness of resource management for the Organization. However, the discontinuation of the accumulated excess balance of the off-budget funds and reserves; the decline in the cash balance of off-budget funds and reserves, particularly in the building account; and the weak financial position of the technical cooperation fund, would together reduce the financial flexibility of the Organization compared to previous years.

The accumulated excess balance of the off-budget funds and reserves, which has been carried forward over the years, has provided much flexibility to WMO when there have been cash shortages in the regular budget or elsewhere. The Secretariat estimated this balance as CHF 5.3 million for the end of 2007. With consolidation, this free-floating balance will be discontinued, thus the Organization will lose its flexibility to tap into those ready cash reserves.

The building account, which received a generous cash transfer from the sale of the old WMO Headquarters building, has provided a large cash pool to the Organization over the years. Money used to cover the cash deficit in the regular budget in 2000 mostly came from the building account. While its cash balance was CHF 17.3 million in January 2000, it has since declined to a deficit of CHF 1.6 million, on average, in 2006. In parallel with the building account, the total cash balance of the off-budget funds and reserves declined steadily, from an average of CHF 17.5 million in 2000, to CHF 10.4 million in 2005.

The Technical Cooperation Fund has been running at a deficit continuously for many years, and the level of deficit is significant and volatile. Its average cash deficit was CHF 1 million in 2000, CHF 3.2 million in 2004, CHF 2.6 million in 2005 and CHF 2.5 million in 2006. These persistent deficits may pose a considerable risk for the management of the regular budget after consolidation.

There is a notable rise in two contingent liabilities, the liabilities for after-service medical benefits and for accrued annual leave, whereas corresponding resources are declining. This situation, coupled with the zero growth policy in the budget, may increase the financial risk for WMO.

Taking into account all these factors, the Organization's current WCF level, CHF 5 million, can be considered relatively low to bridge possible cash shortages for the upcoming financial period. However, it is the view of the Inspector that, although the Secretariat's proposal to increase WCF to CHF 10 million would substantially reduce the financial risk of WMO, it is not the optimal level for WCF as the Organization does not need and will not use it most of the time.

After analysing all the factors, the Inspector concludes that it would be reasonable for WMO to increase the level of WCF from CHF 5 million to CHF 7.5 million for the financial period 2008-2011, which would correspond to 10.6 or 11.1 per cent of the annual budget, depending on which of the two different budget levels (CHF 282.0 million and CHF 269.9 million) is chosen. This would provide an opportunity for the Organization to be able to manage the rising level of financial risk within available mechanisms. A



statistical analysis, based on historical data, also shows that this level of WCF would reduce the probability of cash deficits to a moderate level.

By improving treasury management, projection, monitoring, financial analysis, risk management and reporting functions, WMO may reduce the financial risk further to a very low level. Any remaining risk could then, as a last resort, be met by the Secretary-General's borrowing authority.

A brief review of the WMO financial period 2000-2003 showed that there were shortcomings in many aspects of financial management, such as internal control, treasury management, accounting, the management information system, monitoring, financial analysis and reporting mechanisms. During that period, the financial situation and problems were not systematically analysed and vigilantly reported to senior management and Members.

WMO management has embarked on a reform programme since 2004 and has made progress in many areas, including the areas of treasury management and financial analysis functions. Although efforts are still ongoing, the Inspector is of the opinion that the management should strive to maintain up-to-date information, prepare systematic cash forecasting, and improve the financial analysis and reporting functions with more forward-looking analysis and action-oriented recommendations.

A more efficient and effective treasury management function; improved monitoring, financial analysis, risk management and reporting functions; and the optimal use of the new information system, would together help WMO to take prompt action to mitigate financial risk, and speed up the collection of assessed contributions, thus improving its financial situation.

Listed below are the recommendations for consideration by Congress and the Executive Council. Another three recommendations proposed for consideration by the Secretary-General can be found at the end of the report.

### **Recommendations for consideration by Congress**

#### **Recommendation 1**

**Congress should increase the level of WCF from CHF 5.0 million to CHF 7.5 million for the 2008-2011 financial period.**

#### **Recommendation 2**

**Congress should urge Members to pay their assessed contributions in full, on time and without any condition.**

### **Recommendation for consideration by the Executive Council**

#### **Recommendation 3**

**The Executive Council should set up an ad hoc working group composed of representatives of the Organization's Members to analyse and develop proposals for addressing the problem of long-outstanding contributions, to be presented to the sixtieth session of the Executive Council.**

## ABBREVIATIONS

|               |  |
|---------------|--|
| <b>ACC</b>    | Administrative Committee on Coordination (predecessor of CEB)    |
| <b>CCAQ</b>   | Consultative Committee on Administrative Questions               |
| <b>CEB</b>    | Chief Executives Board   |
| <b>FAO</b>    | Food and Agriculture Organization of the United Nations          |
| <b>IAEA</b>   | International Atomic Energy Agency                               |
| <b>ICAO</b>   | International Civil Aviation Organization                        |
| <b>ILO</b>    | International Labour Organization                                |
| <b>IMO</b>    | International Maritime Organization                              |
| <b>ITU</b>    | International Telecommunication Union                            |
| <b>JIU</b>    | Joint Inspection Unit  |
| <b>UNDP</b>   | United Nations Development Programme                             |
| <b>UNESCO</b> | United Nations Educational, Scientific and Cultural Organization |
| <b>UNIDO</b>  | United Nations Industrial Development Organization               |
| <b>UPU</b>    | Universal Postal Union   |
| <b>WCF</b>    | Working capital fund   |
| <b>WHO</b>    | World Health Organization  |
| <b>WIPO</b>   | World Intellectual Property Organization                         |
| <b>WMO</b>    | World Meteorological Organization                                |

## **I. INTRODUCTION**

1. As requested by the Executive Council of the World Meteorological Organization (WMO) at its fifty-eighth session in June 2006 and transmitted by the Secretary-General of WMO to the Joint Inspection Unit (JIU) in August 2006, JIU has conducted a review of the working capital fund (WCF) in WMO.
2. The objective of this review is to analyse the appropriateness of the level of WCF proposed by the WMO Secretariat for the fifteenth financial period (2008-2011), with a view to providing an opinion to the Fifteenth World Meteorological Congress for its consideration when determining the level of WCF.
3. This review covers various external and internal factors in determining the appropriate level of WCF in WMO. In accordance with the internal standards and guidelines of JIU and its internal working procedures, the methodology followed in preparing this report included a preliminary desk review, a review of the levels of WCF in other United Nations system organizations, analysis of relevant WMO financial data and interviews with WMO officials. In addition, a statistical analysis based on historical data has been carried out to find a quantitative indication for the probability of WMO experiencing a cash shortage. Unfortunately, the WMO Secretariat could not provide financial data for the period before 2000 due to problems with the former information system. Comments from the WMO Secretariat on the draft report have been sought and taken into account in finalizing the report.
4. In accordance with article 11.2 of the statute of the Joint Inspection Unit, this report has been finalized after consultation among the Inspectors so as to test its conclusions and recommendations against the collective wisdom of the Unit.
5. To facilitate the handling of the report and the implementation of its recommendations and the monitoring thereof, Annex III contains a table indicating whether the report is submitted to the organizations concerned for action or for information. The table identifies those recommendations relevant for each organization, specifying whether they require a decision by the organization's legislative or governing body or can be acted upon by the organization's executive head.
6. The Inspector wishes to express his appreciation to all who assisted him in the preparation of this report, and particularly to those who participated in the interviews and so willingly shared their knowledge and expertise.

## II. THE PROPOSAL OF THE SECRETARIAT TO INCREASE WCF

### A. Purpose and current level of WCF in WMO

7. The main purpose of WCF in WMO was set by Congress in Resolution 37 of the Fourteenth Congress, “to finance budgetary appropriations pending receipt of contributions” and “to advance such sums as may be necessary to cover unforeseen and extraordinary expenses which cannot be met from current budgetary provisions”. The current level of WCF in WMO is CHF 5 million, and historically the WCF to annual budget ratio has been about 8 per cent, or approximately one month’s annual budget.

### B. Fund structure and off-budget funds and reserves

8. The accounts of WMO are maintained on a fund basis. Separate funds are established for general and specific purposes in accordance with article 9 of the Financial Regulations. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts.<sup>1</sup> The current fund structure of WMO consists of the following major parts:

- General Fund;
- Funds established by WMO Congress and Executive Council;
- Working Capital Fund;
- Funds financed from voluntary contributions.

9. The General Fund of WMO was initially established for the purpose of accounting for expenditure against appropriation authorized by the Executive Council under the regular budget.

10. However, over the years, a number of sub-accounts and related reserves have been added to the WMO fund structure, but are not reflected in the regular budget approval process.<sup>2</sup> These are known as “off-budget funds and reserves”. Some of these off-budget funds are established under the General Fund, while others are established under “Funds established by WMO Congress and Executive Council”.

11. Currently, the General Fund consists of the following sub-accounts:<sup>3</sup>

- “Appropriation account”, which covers the expenditure against appropriation for the regular budget approved by the Executive Council. It is mainly credited with assessed contributions paid by Members, and miscellaneous income;<sup>4</sup>
- “Operating reserves”, comprising a post-retirement benefits reserve and a recruitment and termination benefits reserve;
- “Other accounts”, in which many of the off-budget funds and reserves are included, such as the building account, conference facilities and renting of conference facilities reserve, printing cost reserve account, and rental income fund and new building maintenance reserve.

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<sup>1</sup> GPPB/Doc.2 (28.IX.2005) Annex 1.

<sup>2</sup> GPPB/Doc.2 (28.IX.2005).

<sup>3</sup> EC-LVIII/Rep.5.2 (3), Appendix B.

<sup>4</sup> Ibid.

12. Off-budget funds and reserves that are under the “Funds established by WMO Congress and Executive Council” include the publication fund, technical cooperation fund, trust fund administration cost pool account and staff compensation plan reserve account.

13. The proliferation of off-budget arrangements outside the regular budget and its appropriation process has inevitably led to a gradual erosion of control and oversight by Members over the use of resources available to WMO. Also, the separation of resource administration into a multitude of self-balancing funds has weakened the efficiency and effectiveness of financial administration in WMO, and limited the flexibility of management.<sup>5</sup>

### **C. Consolidation of off-budget funds and reserves**

14. The Executive Council, in Resolution 15 of June 2005 (EC-LVII, Resolution 15, June 2005), requested the Secretary-General to consolidate the budgetary presentation by including off-budget funds and reserves and to propose the necessary budget adjustment in the context of the proposed programme and budget for the fifteenth financial period (2008-2011). With the same resolution, an Ad Hoc Group was established to provide the WMO Secretariat with guidance on budget preparation.

15. The Secretariat presented a proposal for consolidating 11 off-budget funds and reserves (see Annex 1 for the list) with the appropriation process to the Ad Hoc Group, which met in October 2005. Based on the proposal, the Ad Hoc Group recommended,<sup>6</sup> and the Executive Council approved,<sup>7</sup> the consolidation of off-budget funds with the proposed programme and budget for the 2008-2011 financial period. Thus, all off-budget funds and reserves (except operating reserves) in the General Fund and Funds established by WMO Congress and Executive Council will be consolidated at the end of 2007.

### **D. The proposal of the secretariat to increase WCF**

16. In addition to the consolidation, the Secretariat proposed to increase the WMO WCF from CHF 5 million to CHF 10 million, using the balance of off-budget funds and reserves that would become available at the end of 2007. The Secretariat estimated that the balance of the off-budget funds and reserves accounts will be CHF 5.3 million at the end of 2007. It is proposed to utilize up to CHF 5.0 million of this balance to increase WCF to CHF 10.0 million, and add the remaining balance of CHF 0.3 million to the reserve for post-retirement benefits.

17. Regarding the proposal to increase the level of WCF, the Ad Hoc Group recommended that the Executive Council determine the appropriate level on the basis of an external review.<sup>8</sup> A consulting company carried out the external review.<sup>9</sup> The consultant recommended that the appropriate level of WCF should correspond to two months of the annual assessed contribution, resulting in a level between CHF 10.4 million and CHF 10.9 million, depending on the budget level chosen for the financial period 2008-2011. The WMO Secretariat supported the analysis and general conclusions of the consultant with regard to the level of WCF, and in order to introduce a simplified arrangement, maintained its recommendation to establish the level of WCF at CHF 10.0 million.<sup>10</sup>

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<sup>5</sup> Ibid, Appendix A.

<sup>6</sup> EC-LVII/Rep.5.2 (2), Appendix A.

<sup>7</sup> EC-LVIII/Pink 5, Appendix, p. 2.

<sup>8</sup> EC-LVIII/Doc.5.2(2), Appendix A, para 4.

<sup>9</sup> EC-LVIII/Doc.5.2 (4).

<sup>10</sup> EC-LVIII/Rep.5.2 (3), Appendix A, p.6, para 28.

18. Historically, over successive financial periods, Congress has maintained the level of WCF in WMO at around 8 per cent of the annual budget.<sup>11</sup> The proposed level of WCF, CHF 10 million, would correspond to 14.8 per cent of the annual amount of the total regular resources as proposed budget level 1 (CHF 269.9 million) and 14.2 per cent of the annual amount of the total regular resources as proposed budget level 2 (CHF 282.0 million) for the financial period 2008-2011. The Organization has so far never used WCF, but when there has been a cash deficit in the regular budget, the off-budget funds and reserves have been used, in effect, as a WCF.

19. The Executive Council, at its fifty-eighth session in June 2006, recommended in principle to increase the level of the WMO WCF on the basis of the secretariat's report (EC-LVIII/Doc. 5.2(3)), and decided to request JIU to review the proposed arrangement for WCF, and that this review should be considered by the Fifteenth Congress in May 2007 when determining the appropriate level of WCF.<sup>12</sup>

20. On 25 August 2006, the Secretary-General formally transmitted the Executive Council's request to JIU, and it was added to the 2006 JIU programme of work as a priority.

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<sup>11</sup> Appendix F, EC-LVIII/Doc. 5.2(4).

<sup>12</sup> EC-LVIII/PINK 5, Appendix, p.2, para 5.2.5.

### III. THE WORKING CAPITAL FUND IN THE UNITED NATIONS SYSTEM

#### A. The purpose of WCF in the United Nations system

21. The regular budgets of the United Nations, specialized agencies and the International Atomic Energy Agency (IAEA), are financed fully or mostly by assessed contributions from Member States, with the exception of the World Intellectual Property Organization (WIPO).<sup>13</sup> Member States approve budgets and pay their assessed contributions based on an approved methodology. All these organizations, except for the International Telecommunication Union (ITU) and the Universal Postal Union (UPU), have a WCF, used for similar purposes.

22. The United Nations system organizations have a common definition of WCF, and have accumulated experience on the level and use of WCF. In the “Glossary of financial and budgetary terms” (ACC/2000/6, 14 September 2000), WCF is defined as a “fund established by the appropriate legislative organ to finance budgetary appropriations pending receipt of Member's contributions and for such other purposes as may be authorized”.

23. In 1989, JIU prepared a comprehensive report entitled “Budgeting in organizations of the United Nations system” (A/45/130). This report made a comprehensive analysis of many aspects of budgeting and financing in United Nations system organizations, with many comparative tables, including one comparing WCF practices. This table, using 1988 data, compared key elements of WCFs, including the purpose, source of funding, level of WCF and WCF to annual budget ratios, for 13 organizations of the United Nations system.

24. The 1989 report (JIU) explains that originally, in most organizations, the purpose of WCF was solely to finance expenditure of the regular budget, pending receipt of assessed contributions; its scope over the years enlarged and included financing unforeseen and extraordinary expenses or other authorized expenses.

25. Based on a system-wide analysis, the 1989 report (JIU) concluded that, “the WCF should be used mainly to bridge short-term cash flow problems, resulting from late payments of assessed contributions. Bearing in mind other financial provisions for each organization, the WCF should not represent, as a principle, more than one-twelfth of the overall level of the regular budget for one year, or approximately 4 per cent of a biennial budget (in the case of other budgetary periods, to be calculated accordingly)”.<sup>14</sup>

26. Later, the Chief Executives Board (CEB) adopted the format used in the 1989 report (JIU), and periodically compiled reports entitled “Budgeting in organizations of the United Nations system”, which contain similar comparative tables on WCFs. In the most recent CEB report on this subject issued in 2003 (CEB/2003/HLCM/21), WCFs of the same 13 organizations of the United Nations system are compared using 2002 data. This report shows that there have been no material changes in the elements from those in the 1989 report (JIU) of 14 years ago. It also shows that the main purpose of WCFs is still to finance the expenditure of the regular budget pending receipt of assessed contributions, and to finance unforeseen and extraordinary expenses or other authorized expenses.

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<sup>13</sup> WIPO's budget is mostly financed by fees charged for its services.

<sup>14</sup> A/45/130, para 64, page 16.

## B. Average WCF level of the United Nations system organizations

27. With the exception of UPU and ITU, the remaining 11 organizations each have a WCF. According to the 1989 report (JIU), the average WCF level for the 11 United Nations organizations was 8.3 per cent of their annual budgets. The 2003 report (CEB) shows that, 14 years later, the average ratio of WCF to annual budget for the same 11 organizations is 8.2 per cent, and the lowest and highest ratios in the system are 2.95 per cent (WIPO) and 10.76 per cent (for the United Nations Industrial Development Organization (UNIDO)) respectively. The following table illustrates the WCF to annual budget ratios of the United Nations system organizations included in the 1989 and 2003 reports.

**Table 1**

### WCF to annual budget ratios of the United Nations system organizations (as a percentage)

|                   | UN    | ILO  | FAO  | UNESCO | ICAO  | WHO  | WMO                | IMO   | WIPO  | UNIDO | IAEA | Average |
|-------------------|-------|------|------|--------|-------|------|--------------------|-------|-------|-------|------|---------|
| 1989 report (JIU) | 11.30 | 7.44 | 6.91 | 8.56   | 6.85  | 3.20 | 10.23              | 13.65 | 14.60 | 7.34  | 1.46 | 8.32    |
| 2003 report (CEB) | 6.92  | 9.77 | 7.67 | 9.18   | 10.72 | 7.36 | 7.89 <sup>15</sup> | 9.50  | 2.95  | 10.76 | 7.33 | 8.19    |

28. As seen from the table, the level of WCF in United Nations system organizations is, as an average, equivalent to one month or 8 per cent of the annual budget of the organization. Therefore, the Inspector concludes that the recommendation in the 1989 report (JIU), that WCF should not represent more than one-twelfth of the overall level of the regular budget for one year, is still a valid benchmark. Any proposal to significantly increase the ratio should be justified with a detailed analysis of the external and internal factors that may affect the level of WCF chosen for that organization.

29. Although United Nations system organizations have common characteristics, they are different legal entities, and may have organization-specific factors that affect the level of their WCFs. Therefore, in any assessment of the level of WCF in a given organization, the benchmark of 8 per cent of annual budget should be used to complement a detailed analysis of the external and internal factors that may have an impact on the level of WCF. The Inspector provides a detailed analysis of these factors for WMO in parts IV and V of this report.

30. The Inspector would like to point out that resources are scarce; however, needs are increasing. Thus, there is an "opportunity cost" for all money, which calls for an appropriate level of WCF, instead of an excessive or insufficient level of WCF.

<sup>15</sup> In CEB report CEB/2003/HLCM/21, the WCF ratio of WMO is stated as 3.94 per cent. It is corrected according to WMO data to 7.89 per cent.



#### IV. EXTERNAL FACTORS AFFECTING THE LEVEL OF WCF IN WMO

31. There are two major types of external financial risks that WCF in WMO is designed to manage, that is, contribution delays, and unforeseen and extraordinary expenditure, which are the same in most United Nations system organizations. The Inspector analyses these two major external factors in the following sections.

##### A. Problems in the collection of contributions: delays, irregular flows and arrears

32. Since the budget and assessed contributions of an organization are decided by all Member States, it is a legal and moral obligation for all Member States to pay their assessed contribution in full, on time and without conditions.

33. The main purpose of WCF is to bridge short-term cash deficits resulting from late payments of assessed contributions. In other words, WCF should only be used to cover a temporary deficit pending receipt of contributions. It is not designed to cover chronic arrears in assessed contributions. If this were the case, the level of WCF would have to be set at an extraordinarily high level, placing an unfair financial burden on those Member States who pay their contributions in full and on time. Increasing the level of WCF is not the solution to this chronic problem, therefore chronic arrears should be considered at the policy level by legislative bodies. Moreover, an extraordinarily high level of WCF may cause complacency in the payment of contributions, which may further compound the problem of delayed payments.

34. According to WMO regulations, assessed contributions are due and payable on 1 January every year, and as of 1 January of the following year, any unpaid balance of contributions is considered to be one year in arrears. When the arrears reach in total the value of two years' contributions, the Member loses its voting right, and in practical terms the arrears become difficult to collect. The Inspector is of the opinion that contribution delays towards the end of the budget year and beginning of the following year should be taken into account in the setting of the level of WCF, because this delay is temporary and any cash shortage resulting from it can be solved by WCF.

35. To speed up the collection of assessed contributions, WMO has adopted various measures, such as the loss of voting rights, non-eligibility for nomination or re-nomination to elected offices and for membership of the Executive Council, and suspension of their free quota of publications. WMO reports indicate that over the years, a considerable number of Members have lost their voting rights; on average, 43 Members lost their voting rights on 1 January of the years between 1992 and 2005.<sup>16</sup> Total arrears of Members deprived of voting rights have reached a significant level, being approximately CHF 12.9 million in 2005.<sup>17</sup>

36. WMO also has a mechanism, similar to other United Nations system organizations, to provide multi-year payment agreements to alleviate the financial burden of Members in arrears due to the extremely difficult financial situation their countries are facing, and to enable them to participate fully in the activities of the Organization.<sup>18</sup> However, the Secretariat reports that a considerable number of payment agreements were in default.<sup>19</sup>

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<sup>16</sup> EC-LVII/Rep.4.1 (3), Appendix, p.3 table 3.

<sup>17</sup> EC-LVII/Doc. 4.1(3), table 6.

<sup>18</sup> EC-LVII/Doc. 4.1(3).

<sup>19</sup> EC-LVII/Doc. 4.1(3).

37. The Inspector notes that, based on the request of the Executive Council, the WMO Secretariat prepared comprehensive proposals in 2006 to facilitate the settlement of long-outstanding contributions, as presented in its report EC-LVIII/Doc. 4.1(2). The Executive Council has recommended three of the proposals to Congress. In the Inspector's opinion, the Members and the Secretariat should continue to pay close attention to this chronic arrears problem. The Executive Council should consider setting up a temporary ad hoc working group composed of the representatives of Members to analyse and develop recommendations for this issue to be considered by the next session of the Executive Council.

38. The Inspector reviewed three United Nations reports, which provide comparative collection ratios of each year's assessed contributions for United Nations organizations, for the period 2000 to 2005.<sup>20</sup> In the reports, data for 2000-2001 was provided as at the end of December; from 2002 it was provided as at the end of September. Table 2 illustrates the information in the reports to compare WMO collection ratios with average collection ratios in the United Nations system organizations for that period, and ranks the collection performance of WMO.

**Table 2**  
**Collection ratio of each year's assessed contributions**

| Collection Period                     | Average collection ratio for United Nations organizations (including WMO) ( <i>per cent</i> ) | WMO collection ratio ( <i>per cent</i> ) | Number of United Nations organizations compared | Collection performance of WMO in rank order |
|---------------------------------------|---|--|---|---|
| 31 December 2000                      | 84.0  | 51.0                                     | 13  | 13th  |
| 31 December 2001                      | 89.7  | 82.0                                     | 13  | 11th  |
| <b>Average (12 months, 2000-2001)</b> | <b>86.9</b>   | <b>66.5</b>                              |   |   |
| 30 September 2002                     | 72.6  | 49.8                                     | 14  | 12th  |
| 30 September 2003                     | 71.9  | 59.8                                     | 14  | 10th  |
| 30 September 2004                     | 70.4  | 44.0                                     | 16  | 15th  |
| 30 September 2005                     | 73.6  | 51.0                                     | 17  | 15th  |
| <b>Average (9 months, 2002-2005)</b>  | <b>72.1</b>   | <b>51.2</b>                              |   |   |

Source: A/57/265, A/59/315 and A/61/203

39. Table 2 indicates that the collection performance of WMO for 2000-2001 as of end December, and for 2002-2005 as of end September, was lower than most of the United Nations system organizations. This low collection performance of WMO, and the big disparity between its collection ratio and the average for the United Nations system, indicates that WMO has experienced significant problems in the collection of assessed contributions.

<sup>20</sup> A/57/265 includes ratios at 30 June and 31 December of 2000 and 2001; A/59/315 and A/61/203 include ratios at 30 June and 30 September of 2002-2003 and 2004-2005 respectively.

40. As at the end of December 2000 and 2001, while other United Nations system organizations collected on average 86.9 per cent of assessed contributions for those years, WMO collected on average only 66.5 per cent. In 2000, WMO collected only 51 per cent of its assessment and had the lowest collection ratio for assessed contributions among the United Nations system organizations. In the first nine months of the years 2002 to 2005, while the United Nations system organizations collected on average 72.1 per cent of their assessments, WMO collected on average 51.2 per cent of its assessment. This shows that the contribution payments were not on time, and were not proportionate within the years.

41. Table 3 shows three types of WMO collection ratios as at the end of each year, these being the collection ratio of each year's assessed contribution; the collection ratio of arrears; and total collection ratios, which represent the full collection performance as at the end of the year for the last six years.

**Table 3**

**WMO collection ratios from 2000 to 2006 (at 31 December)**

| Year (at 31 December)                           | 2000      | 2001      | 2002      | 2003      | 2004      | 2005      | 2006      |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Percentage of assessment collected for the year | 51        | 82        | 70        | 84        | 88        | 89        | 82        |
| Percentage of arrears collected                 | 58        | 79        | 50        | 58        | 44        | 44        | 46        |
| <b>Percentage of total collection</b>           | <b>54</b> | <b>81</b> | <b>65</b> | <b>76</b> | <b>76</b> | <b>78</b> | <b>74</b> |

42. Table 3 shows that WMO experienced very low collection ratios in 2000 and 2002, but has made considerable improvements in the collection ratio of the current year's assessment, particularly from 2002 to 2005. While it was 51 per cent in 2000, and 70 per cent in 2002, it increased steadily from 2002 and reached 89 per cent in 2005, declining slightly to 82 per cent in 2006. However, on the collection ratio of arrears, after a jump in 2001 to 79 per cent, it declined to 58 per cent in 2003 and has stayed at around 44 per cent since 2004. This reflects a chronic arrears problem, which should be specifically addressed. The combined effect of these two developments shows that, although there has been significant progress since 2000 in the collection ratio of the current year's assessment, there has been less progress with the year-end total collection ratio in WMO.

43. The Inspector reviewed in detail the latest status of contribution arrears as of 31 December 2006. WMO has in total CHF 21.1 million in arrears, of which CHF 9.8 million (46.6 per cent) comes from the assessments for the years before 2006, and CHF 11.3 million comes from the 2006 assessments. The total arrears is equal to 32.5 per cent of the annual budget of CHF 65 million. This indicates that contribution delays and arrears are persistent problems which require special attention.

44. The Inspector would like to point out that for any organization, the effective and efficient implementation of the work programme depends not only on the amount of assessed contribution collected, but also on its timeliness. An organization cannot have sound treasury and programme management without the timely, regular and predictable inflow of contributions.

45. A review of the monthly contribution inflows of WMO from 2000 to 2006 reflects that, in general, the payment rates and timing of the contributions are irregular, which would make treasury management challenging and difficult (Annex II shows details of the collection ratios by month). Although some trends have been observed, it is difficult to say they represent reliable and predictable patterns.

46. In some years there is a high concentration of inflows towards the end of the year, which may indicate a risk of cash shortages within the year. For instance, in 2004 and 2005 respectively, 49 and 40 per cent of total collections were received in the last quarter of the year. Moreover, in the same years, 42 and 28 per cent respectively of total collections were received in the last month of the year.

47. Irregular and unpredictable contribution inflows may hamper the Organization in carrying out its activities effectively and efficiently. It may also force management to keep available resources liquid or in very short-term instruments with less investment return.

48. In the Inspector's opinion, WMO management should analyse historical data trends, and proactively pursue obtaining concrete information on the date and amount of contributions payments from Members, particularly from major contributors, to be able to prepare reliable cash projections and contingency plans in case of cash shortages.

49. In conclusion, although there is progress in contribution collections, WMO still has considerable problems, such as significant payment delays, chronic arrears, and irregular and unpredictable contribution inflows. These problems pose a risk for the Organization, and require joint and responsible efforts to overcome them from both Members and management, in addition to considering increasing the level of WCF.

### **B. Unforeseen and extraordinary expenses**

50. The Inspector also reviewed the possibility that WCF could be used to counter the risks of unforeseen and extraordinary expenses, including inflation and exchange rate fluctuations. The WMO Secretariat informed the Inspector that it had not encountered any significant extraordinary and unforeseen expenditure in the past, and it does not have separate reserves for inflation and exchange rate fluctuations.

51. Concerning inflation, official inflation statistics for the Canton of Geneva are used for historical price level increases. The Consultative Committee on Administrative Questions (CCAQ) projections are used to project forward to the end of the budget period. A flexibility clause exists for mandatory staff cost increases that may exceed the full budget estimates; however, unbudgeted cost increases are usually absorbed according to the wishes of the Executive Council and Congress.<sup>21</sup> Historically, inflation fluctuations have not created budgetary problems for WMO.

52. On the exchange rate risk, WMO applies the official United Nations exchange rate in effect on the date of budget preparation. It is updated to reflect the official United Nations rate in effect at the time the budget is adopted. Exchange rate changes are absorbed within the budget expenditure.<sup>22</sup> During 2000 to 2005, approximately 93.8 per cent of contributions and 90 per cent of expenditure of the regular budget was incurred in Swiss francs.

53. Considering the methodologies, currency structure and historical trends, inflation and exchange rate fluctuation pose a relatively low risk in the management of the regular budget for the Organization. However, the secretariat should closely monitor any risk escalation in these areas to be able to take prompt remedial action.

54. The Inspector also reviewed the possible impact of two major contingent liabilities in WMO, i.e., the liabilities for after-service medical benefits and for accrued annual leave of staff. The estimated liability for after-service medical benefits increased from CHF 15.9 million in 2003,<sup>23</sup> to CHF 20.4 million in 2005,<sup>24</sup> indicating a 28 per cent jump. However, the corresponding reserve, that is the reserve for post retirement benefits, declined from CHF 1.7 million in 2004 to CHF 1.5 million

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<sup>21</sup> CEB/2003/HLCM/21 table 15.

<sup>22</sup> CEB/2003/HLCM/21 table 16.

<sup>23</sup> EC-LVII/Rep.4.1 (2), Rev, Appendix F, p.21 and para 16.

<sup>24</sup> EC-LVIII/Rep. 4.1(1), Appendix F, p.19, para 16.

in 2005.<sup>25</sup> The liability for accrued annual leave of staff increased by 11 per cent from CHF 3.8 million in 2004 to CHF 4.2 million in 2005, whereas a partially corresponding reserve, the recruitment and termination benefits reserve, declined from CHF 0.8 million to CHF 0.3 million in the same period.

55. Considering the zero growth budget policy, the rising gap between the contingent liabilities and the corresponding reserves may pose an additional risk to the Organization. Although the purpose of WCF is not to address these kinds of long-term liabilities, it is probable that a cash shortage may be caused by any underestimation of these risks.

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<sup>25</sup> EC-LVIII/Rep. 4.1(1), Appendix F, p.19, para 20.

## **V. INTERNAL FACTORS AFFECTING THE LEVEL OF WCF IN WMO AND STATISTICAL ANALYSIS OF POSSIBLE CASH SHORTAGES**

56. The Inspector reviewed the following internal factors, which should be considered when deciding the level of WCF in WMO:

- The efficiency and effectiveness of financial management in WMO, especially treasury management, cash forecasting, financial analysis, monitoring, reporting and contribution follow-up mechanism;
- Consolidation and changes in the fund and reserve structure;
- Authority to borrow.

### **A. Financial management**

57. Effective and efficient financial management must provide relevant and timely information for decision-making and mitigate financial risks by continuously monitoring, forecasting and reporting about the financial situation of the organization. The Inspector made a limited review of treasury management, financial analysis and reporting functions in WMO in the context of the WCF review.

58. The financial management of WMO was unfortunately not effective and efficient in the past, in particular from 2000 to 2004. In this period, the external and internal auditor reports, and a JIU management letter, indicated that there were problems in many aspects of financial management, such as internal control, treasury management, inaccurate accounting, late closure of accounts, inadequate monitoring and unliquidated obligations. Also, the Organization did not have an adequate management information system that was able to produce sufficient, timely, reliable and relevant financial information. For the 2002-2003 biennium accounts, the External Auditor provided a qualified opinion.

59. Due to these shortcomings, WMO management was not able to take prompt preventive and corrective actions on cash shortages and report to the Members thereon. As a result, although the Organization had to use a substantial amount of money from off-budget funds and reserves during the last four months of 2000 to cover the cash deficit in the regular budget, the management could not inform the Members either before or after the use of these off-budget funds and reserves.

60. Since 2004, WMO has embarked on major reform efforts and made considerable progress, including in the areas of treasury management and financial analysis functions. The treasury function has been improved and some cash management modules have been added to the new information system. Monthly and quarterly internal reports have been produced on the status of contributions, year-end cash inflow estimations and budget performance; a management review has been added to the annual financial report for the Executive Council. However, the internal reports are not comprehensive and do not include, on a rolling basis, cash inflow and outflow projections and their detailed analysis.

61. Although efforts are still ongoing, there are areas in which a speedy improvement could considerably help the Organization to mitigate risks and efficiently manage programmes and resources. There is still no fully-fledged cash forecasting mechanism, and proper financial analysis and reporting functions. Internal monthly and quarterly reports need forward-looking analyses and action-oriented recommendations. The internal auditor's report indicates that there were backlogs in the recording of expenditures and bank transactions into the new information system in April and May of 2006, and the cash forecasting functionality was not in use. This situation may hamper the ability of WMO to produce up-to-date information necessary for a sound decision-making process.

62. The Inspector is of the opinion that the treasury management and financial analysis functions in WMO should be strengthened. A sound treasury management should be able to project and monitor cash inflows, outflows, and the resulting cash balance, over interim periods within a time span, so as to assess cash needs, identify possible cash shortages, and utilize excess cash. Information and communication systems should be used extensively to produce timely, relevant, and reliable information to reflect the latest financial situation and allow efficient programme and resource planning, reliable projections and analysis.

63. To this end, it is the Inspector's opinion that the Secretary-General should assign the financial analysis function to a specific unit, and strengthen the cash projection function in order to be able to produce detailed and reliable cash inflow and outflow projections. At the beginning of the year, cash inflows and outflows should be projected monthly to the end of the year and adjusted on a rolling basis and included in the monthly and quarterly internal reports. The monthly reports should include, *inter alia*, projection of cash inflows, actual results, latest cash position and a brief analysis. Quarterly reports may in addition include a variance analysis compared with previous projections; cash shortages incurred and any concomitant effect on activities; adjusted forecasts for the coming months; arising risks and their implications for resource and programme management; and action-orientated recommendations.

64. Reliable cash projections are essential for the efficient use of resources. For this purpose, historical data should be analyzed for cash inflow and outflow trends; all departments should provide their detailed activity/expenditure plans for cash outflow planning; and WMO management should keep in close contact with Members and act proactively to obtain concrete information on the expected timing of payments, particularly of large contributions. Reliable projections, close monitoring and analysis would mitigate financial risks and enable WMO to operate and use its resources more effectively and efficiently.

65. Members, as key stakeholders of WMO, need high quality, relevant and timely information about the financial situation of WMO. Currently the secretariat reports once a year to the Executive Council on contribution issues and financial matters, and sends letters three times a year to those Members in arrears. In general, the reports include the past year's financial and contribution statistics, and the letters indicate the amount of arrears owed. A thorough assessment of the financial situation, projections, anticipated cash shortages and a risk assessment should be added to the reports and letters in order to sensitize Members to take appropriate measures.

66. To improve the quality and frequency of information provided to Members, the Secretary-General should report to them twice a year, in May and October, about the financial situation of the Organization. These reports should include, *inter alia*: assessments issued; contributions received; unpaid contributions; age of the arrears; breakdown of arrears by Member; cash position; projections for the rest of the year; assessment of cash shortages and possible impacts; follow-up action on contribution delays; an assessment of the possible risks and implications for treasury and programme management; and possible measures to mitigate those risks. The report should also include a comparative analysis of the information with previous periods and years, and an assessment of the previous projections and results.

67. The letters to Members in arrears should include the latest assessment of the financial situation. Thus, the reports and letters would serve their purpose better by sensitizing Members with detailed information.

68. The Inspector is of the view that these combined efforts, to improve the analytical functions within WMO financial management, and provide more frequent and in-depth reporting to Members, will help the Organization to collect more contributions on time.

**B. Possible impacts of the consolidation, and changes in the financial position of the off-budget funds and reserves**

69. Cash from the off-budget funds and reserves of the General Fund have been managed together with the appropriation account cash in the same bank account (this is known as cash pooling). Off-budget funds and reserves have usually had a significant level of cash balances. The secretariat stated that when there was a cash shortage in the regular budget, instead of using WCF, cash balances of the off-budget funds and reserves were used to cover the deficit. The JIU calculation of WMO data shows that during the period from 2000 to 2005, the Organization had incurred monthly cash deficits 11 times and resorted to off budget funds and reserves to cover deficit. Particularly in 2000, WMO borrowed significantly from the off-budget funds and reserves, and the amounts used (on a cumulative basis) were as follows: CHF 4.0 million in September; CHF 10.9 million in October; CHF 17.2 million in November; and CHF 12.4 million in December of 2000.

70. The scope of the present report does not include an audit or detailed review of the off-budget funds and reserves, their use and related transactions. However, it is observed that the management has had a great deal of flexibility in using the off-budget funds and reserves for various purposes, while at the same time there has been no clear policy framework, procedures or reporting mechanisms dealing with the use of these funds and reserves. This situation has allowed the use of substantial amounts of off-budget funds and reserves to cover regular budget cash shortages, without any procedure and reporting, instead of using WCF. The absence of clear policies and procedures may pose a considerable risk for internal control, accountability and the efficient use of resources. Since the Executive Council decided to include off-budget funds and reserves into the regular budget process from the end of 2007, thus bringing them under the oversight of Members, the Inspector refrains from making any recommendation on this issue. However, WMO management should develop policies, procedures and reporting mechanisms for the remaining reserves.

71. With the proposed consolidation of off-budget funds and reserves into the regular budget approval process, all activities and cash flows in the off-budget funds and reserves will continue, but will be included in the appropriation process. The secretariat estimated both the revenue and expenditure of the consolidated off-budget funds and reserves for the 2008-2011 period as CHF 20 million, which is budget neutral. A brief review of the cash balances of the off-budget funds and reserves, and the implication of the consolidation, indicate that the following major risk factors may have an impact on the financial risk level of WMO with respect to previous periods: the discontinuation of the excess cash balance of the off-budget funds and reserves with consolidation; the notable decline in the total cash balance of the off-budget funds and reserves, in particular the building account; and the increasing deficit in the Technical Cooperation Fund.

72. Over many years, the excess balances (a kind of “surplus”) of off-budget funds and reserves have been carried forward and were available for the Organization to use for any cash shortage; in effect, they were used as a WCF. The Secretariat has estimated that the ending cash balance of the off-budget funds and reserves will be CHF 5.3 million at the end of 2007. With consolidation, this free-floating balance will be discontinued, and therefore the financial flexibility of the Organization will decline with respect to previous periods.



73. The building account fund was established by the Thirteenth Congress, and credited with the remaining balance of the proceeds of the sale of the old WMO headquarters building, to cover the expenditure for the new WMO Headquarters building.<sup>26</sup> The initial large cash balance in this account had constituted the major element of the total cash balance of all the off-budget funds and reserves for many years, but since 2002 it has declined substantially.

74. In 2000, the average cash balance in the building account was CHF 14.7 million, and constituted 82.9 per cent of the total cash balance of the off-budget funds and reserves under the General Fund. The level of the balance in the following years was as follows: CHF 14.1 million in 2001; CHF 7.4 million in 2002; CHF 5.4 million in 2003; CHF 4.5 million in 2004, and CHF 4.3 million in 2005. Eventually, in 2006, the building account had an average deficit of CHF 1.6 million.

75. In practice, the building account was not only used for the repayment of the loan for the new building and as support for the maintenance of the building, but was also used for other purposes, such as an additional financing source in the appropriation process. In 2000, the huge cash reserve of the building account was the most important resource used to cover the cash deficit in the regular budget. The depletion of the big cash reserve in the building account means there is now much less available cash to resort to in case of a cash shortage, and consequently less flexibility for the Organization with respect to previous years.

76. In parallel to the decline in the building account, the total cash balance of the off-budget funds and reserves has decreased over the years. The average total cash balance of the off-budget funds and reserves under the General Fund is as follows: CHF 17.5 million in 2000; CHF 17.1 million in 2001; CHF 13.1 million in 2002; CHF 10.9 million in 2003; CHF 8.4 million in 2004; and CHF 10.4 million in 2005. Although some other accounts compensated partially for the substantial decline in the building account, the overall cash balance has notably decreased since 2002, indicating a decrease in flexibility for the Organization in recent years.

77. Among the off-budget funds and reserves that are subject to consolidation, the technical cooperation fund needs special attention due to its continuous and significant cash deficits. The technical cooperation fund receives support cost revenue from the implementation of United Nations Development Programme (UNDP) projects and technical cooperation trust fund projects. Its average cash deficit during the last seven years is as follows: CHF 1.0 million in 2000; CHF 2.9 million in 2001; CHF 1.0 million in 2002; CHF 2 million in 2003; CHF 3.2 million in 2004; CHF 2.6 million in 2005, and CHF 2.5 million in 2006. The increasing and volatile deficit in this area may pose a significant risk in the management of the regular budget. It is apparent that efficient and effective management and oversight are required to mitigate these risks.

78. In conclusion, the removal of the accumulated excess cash balance of the off-budget funds and reserves at consolidation, the significant decline in the cash balance of the off-budget funds and reserves, in particular the building account, and the weak financial position of the technical cooperation support activities, will reduce the financial flexibility of WMO with respect to previous years. The huge cash reserve of the building account and excess cash balance of the off-budget funds and reserves were serving, in effect, as a WCF. In fact, WMO used a substantial amount from the off-budget funds and reserves in 2000 to cover regular budget cash deficits. The Organization now has much less available cash than before. The remaining excess cash reserve will be removed at the end of 2007 during consolidation, which will further reduce financial flexibility.

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<sup>26</sup> EC-LVIII/Rep. 5.2(3), Appendix A, para 10, page 3.

### **C. Authority to borrow**

79. Regarding the authority to borrow, the Inspector notes that the Secretary-General of WMO, as a last resort, has both internal and also external borrowing authority to cover cash shortages. The Secretary-General has been authorized by Congress to borrow internally from the Voluntary Fund and the Publications Fund,<sup>27</sup> and in addition, is authorized to borrow externally, after consultation with the Executive Council or the President of WMO acting on its behalf, from governments or banks on a short-term basis, until receipt of contributions (Resolution 31 (Cg-XIII)).

### **D. Statistical analysis of historical data on cash shortage probabilities**

80. The Inspector has conducted a statistical analysis of data from 2000 to 2005 on the monthly cash balances of the regular budget (appropriation account), and the off-budget funds and reserves to be consolidated, in order to obtain some quantitative indicators of the probability that WMO may need to use WCF in the future. Though history may not repeat itself, it can give some clues and patterns to decision makers.

81. The following two scenarios have been considered during the statistical analysis:

- Scenario 1: Stand-alone appropriation (regular budget) account. Suppose the appropriation account had been stand-alone in the past, and would continue to be stand-alone in the future. This scenario will indicate the probability that the appropriation account has a deficit, and thus that WMO has to resort to the available WCF to cover the deficit;
- Scenario 2: Consolidated accounts without the building account. As explained previously, the building account is different from the other off-budget accounts, as it originated from a one-time large cash inflow that served like a cash surplus, and has much less recurring revenue and expenditure than other accounts. Therefore, in this scenario, it is assumed that all off-budget funds and reserves except the building account had already been consolidated with the appropriation account during the period 2000 to 2005. This scenario will indicate the probability that the balance of consolidated accounts without the building account has a deficit, which means that the Organization has to resort to WCF or to the building account to cover the deficit.

82. In both scenarios, the Inspector considered the following probabilities: a deficit of more than zero; a deficit of more than CHF 5 million; a deficit of more than CHF 7.5 million and a deficit of more than CHF 10 million. The probability of a deficit of more than CHF 5 million would indicate to what extent the current level of WCF, i.e., CHF 5 million, is insufficient.

83. The monthly cash balance data of WMO for six years (2000 to 2005), i.e., 72 months, was used in this calculation. The level of WCF for WMO is decided for every financial period, that is, every four years or 48 months; therefore, each probability calculated is translated into the number of occurrences (in units of a month) that a corresponding cash deficit may occur within a 48-month period.

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<sup>27</sup> The Publication fund will be consolidated to the regular budget process at the end of 2007.

84. The results of the statistical analysis of the two scenarios is shown below:

**Table 5**

**Probability and the number of occurrences (in units of a month) that the Organization may have a deficit, under the two scenarios**

|            | Deficit > 0               |  | Deficit > CHF 5 million   |  | Deficit > CHF 7.5 million |  | Deficit > CHF 10 million  |  |
|------------|---------------------------|--|---------------------------|--|---------------------------|--|---------------------------|--|
|            | Probability<br>(per cent) | Number of<br>occurrences<br>(in units of a<br>month) | Probability<br>(per cent) | Number of<br>occurrences<br>(in units of a<br>month) | Probability<br>(per cent) | Number of<br>occurrences<br>(in units of a<br>month) | Probability<br>(per cent) | Number of<br>occurrences<br>(in units of a<br>month) |
| Scenario 1 | 13.6                      | 6.5  | 5.7                       | 2.7  | 3.4                       | 1.6  | 1.9                       | 0.9  |
| Scenario 2 | 9.2                       | 4.4  | 3.8                       | 1.8  | 2.3                       | 1.1  | 1.4                       | 0.7  |

85. The probability of experiencing a deficit of more than zero in scenario 1 is 13.6 per cent, indicating that within a 4-year period a cash deficit may occur 6.5 times (in units of a month). Scenario 2 shows that if all off-budget funds and reserves except the building account were already consolidated, there would be a 9.2 per cent (4.4 months) probability that the consolidated account would have a deficit.

86. Scenario 2 gives an approximation of the impact of the consolidation of off-budget funds and reserves, as it excludes the significant non-recurrent income/balance in the building account, which is out of the context of the normal operation of WMO. The Inspector is aware that the cash balances of the rest of the off-budget funds and reserves may also carry some non-recurring incomes and accumulative cash balances which have been carried forward, but it is difficult to identify and separate them from the total cash balances. The secretariat estimates a CHF 5.3 million cash balance from the off-budget funds and reserves, which will be removed at the end of 2007. These factors may reduce the reliability of the calculation.

87. In order to understand the possible impact of a cash deficit on WMO, it is also important to know the flexibility of the expenditure structure. In WMO, around 60 per cent of expenditure is on salary payments, which reflects a rigid expenditure structure: the Organization must pay salaries in full and on time, every month. On average, the monthly regular budget expenditure of WMO is around CHF 5.4 million, and of this, approximately CHF 3.2 million is on salary payments. In the case of a considerable cash shortage, WMO does not have much flexibility to postpone expenditure, so it cannot afford to have cash shortages above the level of WCF several months in a financial period.

88. The probability of having a deficit of more than the current level of WCF (CHF 5 million) is 5.7 per cent (2.7 months) in scenario 1, and 3.8 per cent (1.8 months) in scenario 2. This can be considered risky for WMO. It may reflect that there is a considerable risk to the Organization that the current level of WCF is not sufficient to cover possible cash shortages.

89. The table also shows the probability of the deficit being more than CHF 10 million; in scenario 1 it is 1.9 per cent (0.9 months), and in scenario 2 it is 1.4 per cent (0.7 months). These low probabilities indicate that, although this level of WCF would reduce the probability of a deficit to a very low level, WMO would not need and would not use it most of the time.

90. The probability of having a deficit of more than CHF 7.5 million, in scenario 1, is 3.4 per cent or 1.6 months, and in scenario 2 it is 2.3 per cent or 1.1 months. This means that if WMO has a WCF level of CHF 7.5 million, it would reduce the number of months in deficit (after use of WCF) to 1.6 or 1.1 months in 4 years, allowing the Organization to manage the risk within available mechanisms.

## VI. APPROPRIATE LEVEL OF WCF FOR WMO

91. The Inspector would like to point out that there is no magic formula to calculate precisely the appropriate level of WCF for any organization. In the present report, relevant factors have been put together and analysed in order to reach an objective and independent opinion. The factors reviewed in the report show that WMO has experienced considerable delays and irregularity in receiving assessed contribution payments; and its collection ratios have been in general lower than most of the other United Nations system organizations. Its financial flexibility is declining compared to previous years, due to the discontinuation of the excess balance of off-budget funds and reserves; the decline in the cash balance of the off-budget funds and reserves, in particular of the building account; increasing deficits in the technical cooperation fund, and rising contingent liabilities.

92. The average WCF to annual budget ratio in United Nations system organizations is 8.2 per cent; and the highest and lowest ratios in the system are 10.76 and 2.95 per cent respectively. The WMO Secretariat's proposal to increase WCF from CHF 5 million to CHF 10 million would correspond to a WCF ratio of around 14 to 15 per cent, which is much higher than both the average and the highest ratio in the United Nations system. Although the secretariat's proposal would reduce the level of financial risk substantially, it is not an optimal level, as WMO does not need, and would not use, most of it for most of the time.

93. The Inspector concludes that it would be appropriate to increase the level of WCF in WMO from CHF 5 million to CHF 7.5 million. Setting the WMO WCF at this level, CHF 7.5 million, would then correspond to 11.1 per cent of the annual amount of proposed budget level 1 (CHF 269.9 million), and 10.6 per cent of the annual amount of proposed budget level 2 (CHF 282.0 million) for the 2008-2011 financial period.

94. Although a WCF level of CHF 7.5 million would not reduce the cash shortage risk to zero, it would reduce it to a manageable level, one that the Organization could easily handle within available mechanisms. As explained in the report, by improving treasury management, projection, monitoring, financial analysis, risk management and reporting functions, WMO management may reduce the financial risk further to a very low level. Any remaining risk could then, as a last resort, be met by the Secretary-General's borrowing authority.

95. Based on the analysis in the present report, six recommendations are proposed below. It is the Inspector's opinion that the Recommendations should be seen as a package and implemented as such to increase their total impact on the Organization. Recommendations 1, 2, 3 and 6 are expected to enhance the management effectiveness of WMO by improving its financial position and mitigating potential financial risk, through increasing the level of WCF and improving the collection of assessed contributions. Recommendations 4 and 5 are expected to improve management control by strengthening the treasury and financial analysis functions of WMO.

### **Recommendation 1**

**Congress should increase the level of WCF from CHF 5.0 million to CHF 7.5 million for the 2008-2011 financial period (paragraphs 91 - 94).**

### **Recommendation 2**

**Congress should urge Members to pay their assessed contributions in full, on time and without any condition (paragraphs 32 - 49).**

**Recommendation 3**

The Executive Council should set up an ad hoc working group composed of representatives of the Organization's Members to analyze and develop proposals for addressing the problem of long-outstanding contributions, to be presented to the sixtieth session of the Executive Council (paragraphs 32 - 49).

**Recommendation 4**

The Secretary-General should strengthen the cash forecasting function and ensure that the Organization's financial information records are kept up-to-date (paragraphs 57 - 68).

**Recommendation 5**

The Secretary-General should:

- (a) Strengthen the financial analysis and risk management capacity of the Organization to continuously monitor and assess the financial situation, make projections, identify, evaluate and follow-up risks and prepare possible scenarios. To this end the Secretary-General should assign the financial analysis function to a specific unit; and
- (b) Ensure periodic internal management reports include, inter alia, a detailed analysis of the financial situation; monthly cash projections and actual results; cash shortages and concomitant effects on activities; new projections; and action-oriented recommendations for anticipated problems (paragraphs 57 - 68).

**Recommendation 6**

The Secretary-General should:

- (a) Report twice a year, in May and October, to Members about the financial situation of the Organization and, in addition to contribution statistics, the reports should include, inter alia, follow-up action on contribution delays; the latest cash position; an analysis of previous projections with actual results; cash shortages and their impact on the Organization; cash flow projections indicating cash needs and potential cash shortages; an overall assessment of the risks and implications for treasury and programme management and possible measures; and
- (b) Include the latest financial assessment of the Organization in the letters sent separately to Members in arrears (paragraphs 57 - 68).

## **Annex I**

### **LIST OF OFF-BUDGET FUNDS AND RESERVES TO BE CONSOLIDATED TO THE REGULAR BUDGET PROCESS, AND THE METHODOLOGY USED FOR THE STATISTICAL ANALYSIS**

The 11 off-budget funds and reserves to be consolidated into the regular budget process in the next financial period are as follows:

In the General Fund: Building Account, Conference Facilities Reserve, Conference Facilities Fund, Printing Cost Reserve, New Building Maintenance Reserve and Rental Income Fund, and Interest income and miscellaneous income.

In Funds established by WMO Congress and Executive Council: Publications Fund, Staff Compensation Plan Reserve, Technical Cooperation Fund, and Trust Fund Administrative Costs Pool Account.

#### **The methodology used in the statistical analysis is as follows:**

It is observed that the monthly balances of both the appropriation account (scenario 1), and the consolidated account (without building account) (scenario 2), follow a normal distribution pattern.

The statistical analysis of the 72 monthly balance data available for both the appropriation account and the consolidated account (without building account) produces the mean and standard deviation for each of the accounts. With these two important statistical parameters, a normal distribution table is used to find the corresponding probabilities that the appropriation account and the consolidated account (without building account) could have a deficit of more than zero; more than CHF 5 million; more than CHF 7.5 million; and more than CHF 10 million, respectively.

## Annex II

### COLLECTION RATIOS BY MONTH 2000-2006

| <b>2000</b>             | <b>January</b> | <b>February</b> | <b>March</b> | <b>April</b> | <b>May</b> | <b>June</b> | <b>July</b> | <b>August</b> | <b>September</b> | <b>October</b> | <b>November</b> | <b>December</b> |
|-------------------------|----------------|-----------------|--------------|--------------|------------|-------------|-------------|---------------|------------------|----------------|-----------------|-----------------|
| % Arrears collected     | 29             | 41              | 41           | 42           | 46         | 46          | 46          | 53            | 53               | 53             | 54              | 58              |
| % Assessments collected | 17             | 25              | 32           | 33           | 37         | 37          | 37          | 42            | 43               | 44             | 44              | 51              |
| % Total collected       | 22             | 31              | 35           | 36           | 40         | 40          | 41          | 46            | 46               | 48             | 48              | 54              |
| <b>2001</b>             | <b>January</b> | <b>February</b> | <b>March</b> | <b>April</b> | <b>May</b> | <b>June</b> | <b>July</b> | <b>August</b> | <b>September</b> | <b>October</b> | <b>November</b> | <b>December</b> |
| % Arrears collected     | 44             | 59              | 60           | 65           | 67         | 67          | 68          | 70            | 70               | 70             | 78              | 79              |
| % Assessments collected | 16             | 18              | 21           | 28           | 35         | 35          | 39          | 58            | 63               | 65             | 78              | 82              |
| % Total collected       | 28             | 36              | 38           | 44           | 49         | 49          | 51          | 63            | 66               | 67             | 78              | 81              |
| <b>2002</b>             | <b>January</b> | <b>February</b> | <b>March</b> | <b>April</b> | <b>May</b> | <b>June</b> | <b>July</b> | <b>August</b> | <b>September</b> | <b>October</b> | <b>November</b> | <b>December</b> |
| % Arrears collected     | 10             | 15              | 17           | 17           | 19         | 19          | 19          | 21            | 22               | 24             | 42              | 50              |
| % Assessments collected | 17             | 20              | 31           | 31           | 44         | 44          | 44          | 49            | 50               | 50             | 69              | 70              |
| % Total collected       | 16             | 19              | 27           | 27           | 38         | 38          | 38          | 42            | 43               | 43             | 62              | 65              |
| <b>2003</b>             | <b>January</b> | <b>February</b> | <b>March</b> | <b>April</b> | <b>May</b> | <b>June</b> | <b>July</b> | <b>August</b> | <b>September</b> | <b>October</b> | <b>November</b> | <b>December</b> |
| % Arrears collected     | 2              | 10              | 42           | 43           | 45         | 45          | 46          | 53            | 54               | 56             | 56              | 58              |
| % Assessments collected | 17             | 20              | 30           | 37           | 57         | 58          | 58          | 60            | 60               | 68             | 83              | 84              |
| % Total collected       | 12             | 17              | 34           | 39           | 53         | 54          | 54          | 58            | 58               | 64             | 74              | 76              |
| <b>2004</b>             | <b>January</b> | <b>February</b> | <b>March</b> | <b>April</b> | <b>May</b> | <b>June</b> | <b>July</b> | <b>August</b> | <b>September</b> | <b>October</b> | <b>November</b> | <b>December</b> |
| % Arrears collected     | 11             | 13              | 17           | 17           | 17         | 22          | 22          | 25            | 25               | 29             | 39              | 44              |
| % Assessments collected | 10             | 19              | 22           | 30           | 31         | 38          | 39          | 41            | 44               | 45             | 46              | 88              |
| % Total collected       | 10             | 17              | 20           | 27           | 27         | 34          | 35          | 36            | 39               | 41             | 44              | 76              |
| <b>2005</b>             | <b>January</b> | <b>February</b> | <b>March</b> | <b>April</b> | <b>May</b> | <b>June</b> | <b>July</b> | <b>August</b> | <b>September</b> | <b>October</b> | <b>November</b> | <b>December</b> |
| % Arrears collected     | 3              | 6               | 7            | 7            | 9          | 20          | 21          | 23            | 32               | 32             | 43              | 44              |
| % Assessments collected | 19             | 20              | 27           | 41           | 43         | 46          | 47          | 47            | 51               | 51             | 60              | 89              |
| % Total collected       | 15             | 16              | 22           | 33           | 35         | 40          | 40          | 41            | 47               | 47             | 56              | 78              |
| <b>2006</b>             | <b>January</b> | <b>February</b> | <b>March</b> | <b>April</b> | <b>May</b> | <b>June</b> | <b>July</b> | <b>August</b> | <b>September</b> | <b>October</b> | <b>November</b> | <b>December</b> |
| % Arrears collected     | 2              | 2               | 3            | 4            | 7          | 12          | 27          | 28            | 35               | 35             | 41              | 46              |
| % Assessments collected | 20             | 20              | 29           | 38           | 40         | 42          | 42          | 42            | 65               | 65             | 65              | 82              |
| % Total collected       | 16             | 16              | 23           | 31           | 33         | 35          | 39          | 39            | 58               | 58             | 60              | 74              |

### Annex III

#### OVERVIEW ON ACTION TO BE TAKEN BY PARTICIPATING ORGANIZATIONS ON JIU RECOMMENDATIONS JIU/REP/2007/3

|                  |                 | United Nations and its Funds and Programmes |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     | Specialized Agencies and IAEA       |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |
|------------------|-----------------|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
|                  |                 | United Nations*                             | UNCTAD                              | UNODC                               | UNEP                                | UN-HABITAT                          | UNHCR                               | UNRWA                               | UNDP                                | UNFPA                               | UNICEF                              | WFP                                 | OTHERS                              | ILO                                 | FAO                                 | UNESCO                              | ICAO                                | WHO                                 | UPU                                 | ITU                                 | WMO                                 | IMO                                 | WIPO                                | UNIDO                               | UNWTO                               | IAEA                                |
| Report           | For action      | <input type="checkbox"/>                    | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            |
|                  | For information | <input checked="" type="checkbox"/>         | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Recommendation 1 |                 |   |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     | L                                   |                                     |                                     |                                     |                                     |                                     |
| Recommendation 2 |                 |   |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     | L                                   |                                     |                                     |                                     |                                     |                                     |
| Recommendation 3 |                 |   |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     | L                                   |                                     |                                     |                                     |                                     |                                     |
| Recommendation 4 |                 |   |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     | E                                   |                                     |                                     |                                     |                                     |                                     |
| Recommendation 5 |                 |   |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     | E                                   |                                     |                                     |                                     |                                     |                                     |
| Recommendation 6 |                 |   |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     |                                     | E                                   |                                     |                                     |                                     |                                     |                                     |

**Legend:**

**L:** Recommendation for decision by legislative organ

**E:** Recommendation for action by executive head

**Blank:** Recommendation does not require action by this organization

\* Covers all entities listed in ST/SGB/2002/11 other than UNCTAD, UNODC, UNEP, UN-HABITAT, UNHCR, and UNRWA.