

PLENARY MEETING

**Addendum 1 to
Document 33-E
11 March 2014
Original: Russian**

Russian Federation

PROPOSALS FOR THE WORK OF THE CONFERENCE

REVISION OF INTEREST RATES LEVIED ON PARTICIPANTS IN RESPECT OF OVERDUE CONTRIBUTIONS AND OTHER DUES PAYABLE TO THE ITU BUDGET, AND TRANSFER OF THE RELEVANT PROVISIONS FROM THE ITU CONVENTION TO THE ITU FINANCIAL REGULATIONS AND FINANCIAL RULES

Summary

It is proposed that consideration be given to the possibility of deleting from a treaty-level document adopted by the Plenipotentiary Conference (ITU Constitution, Convention or other document) the provisions relating to procedures for the collection of arrears on overdue payments, and adding appropriate provisions to the text of the ITU Financial Regulations and Financial Rules.

In the case of overdue contributions owed by Member States or Sector Members and other dues payable to the ITU budget, it is proposed that the levying procedure should be simplified by ensuring that the setting of the magnitude of the applicable penalty is linked to the adoption of the strategic financial plan (Decision 5) at the Plenipotentiary Conference (PP).

The ITU Council should be instructed to include in the ITU Financial Regulations and Financial Rules revised provisions relating to procedures for recovering debts.

References

- 1) ITU Constitution, Article 28: Finances of the Union
- 2) ITU Convention, Article 33: Finances
- 3) ITU Financial Regulations and Financial Rules
- 4) Decision 5 (Rev. Guadalajara, 2010)
- 5) Resolution 151 (Rev. Guadalajara, 2010), on the implementation of results-based management in ITU
- 6) Resolution 152, on improvement of management and follow-up of the defrayal of ITU expenses by Sector Members and Associates

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- 7) Resolution 158 (Rev. Guadalajara, 2010), on financial issues for consideration by the Council
- 8) Document CWG-FHR-2/8 (29 January 2013) – Russian Federation contribution to CWG-FHR on "Some issues on the ITU additional financial mechanisms pursuant to Resolution 158 (PP-10)"
- 9) Document C13/61, 24 May 2013, contribution of the Russian Federation on changes to the procedures for dealing with debtors
- 10) Document C13/59, 24 May 2013, contribution from the Russian Federation on reviewing the interest rates levied on participants in respect of overdue contributions and other dues payable to the ITU budget
- 11) Document C13/104, 20 June 2013, Report by the Chairman of the Standing Committee on Administration and Management
- 12) Document C13/11, 13 May 2013, Report by the Secretary-General on arrears and special arrears accounts.

Introduction

All the Union's activities are covered by the ITU budget, which is funded to a large extent from voluntary contributions of Member States, Sector Members and Associates, as well as a number of other sources approved in the ITU Convention and the ITU Financial Regulations. The ability to collect contributions is therefore one of the most important conditions for successful implementation of all activities envisaged in the strategic plan and carried out under the auspices of ITU.

At the same time, the organization faces the rather difficult problem of collecting arrears on overdue payments from the ITU membership, both in relation to the procedures for dealing with debtors and in terms of economic consequences, including the increased volume of debt, the formation of a reserve for debtors equal to the total debt, and the need to write off considerable sums every year. For example, the total of arrears, special arrears accounts and cancelled special arrears accounts in 2012 came to CHF 60.6 million, marking a reduction of 3.5 per cent since 2003 (from CHF 62.8 million). At the same time sums written off for that period (percentages of overdue payments and irrecoverable debts) rose 9.33-fold to CHF 4 785 107.85 in 2013 compared to CHF 512 801.10 in 2003. This suggests that, on the one hand, the procedure for charging penalties for arrears of payments has become symbolic (some debts have existed since 1979), although the sums involved have a detrimental effect on ITU finances.

Given the need to balance the budget without withdrawing funds from the reserve account and to reduce the negative balance, the importance of this problem is not diminishing.

All Member States recognize the need to solve the problem of debt, which creates financial risks and, as a consequence, weakens ITU's financial stability, has an impact on the organization's effective implementation of plans and decisions, entails considerable effort and cost in dealing with debtors, and drains resources from turnover for reserves. The issue also has an organizational and political side, insofar as it can lead to suspension of members' participation in the work of ITU.

When PP-10 adopted Resolution 152 (Rev. Guadalajara, 2010), revising the resolution adopted at PP-06, it introduced some quite stringent conditions relating to the procedures for the payment of contributions, the charging of penalties and the exclusion of Sector Members or Associates. Furthermore, the Council supported the Secretary-General's initiative to implement the practice of dealing with debtors in a flexible manner. However, despite the possibility of a more customized

approach to billing and collection of contributions, the specific penalty rates (3 per cent and 6 per cent) established in the ITU Convention complicate the process of dealing with debtors and do not seem justified or reasonable, as they were put forward back in 1998 and fail to take into account the rapidly changing and complex economic situation over a budgetary period.

The question of arrears owed by ITU Members has been discussed on a number of occasions at meetings of the Council Working Group on Financial and Human Resources, including in 2012 and 2013, and at meetings of the Council in 2012 and 2013, at which the Russian Federation submitted contributions in the reference documents 8, 9 and 10 cited above, setting out possible ways of improving the procedural and substantive aspects of dealing with debtors.

At the Council of 2013, the General Secretariat was invited to consider the proposals put forward by the Russian Federation and to use them in preparations for PP-14 (see paragraph 11 above).

Proposals

Considering the importance of the issue of recovering arrears of payments owed by Member States, Sector Members and Associates, for strengthening the financial stability of ITU, the following measures are proposed:

- 1) Deletion from a treaty-level document adopted by the Plenipotentiary Conference (ITU Constitution, Convention or other such document) of the provisions relating to specific values of interest rates to be charged on arrears (CV 474, Article 33) and the description of the procedure for their recovery (as set out in Annex 1 to this document).
- 2) Adoption of a Decision on the procedure for recovery of debts, a draft of which is contained in Annex 2 to this document.
- 3) Should this approach be endorsed, the ITU Council should be instructed to make the appropriate amendments concerning the procedures for recovering debts in the ITU Financial Regulations and Financial Rules.

ANNEX 1

Introduction of amendments to CV 474, Article 33¹

**CONVENTION OF
THE INTERNATIONAL
TELECOMMUNICATION UNION**

CHAPTER IV

Other Provisions

ARTICLE 33

Finances

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**474
PP-98**

3 The amounts due shall bear interest ~~from the beginning of the fourth month of each financial year of the Union at 3% (three per cent) per annum during the following three months, and at 6% (six per cent) per annum from the beginning of the seventh month~~ in accordance with the procedure established by the Council and reflected in the Financial Rules and Financial Regulations of ITU.

¹ Or other treaty-level document containing the provisions in question.

ANNEX 2

ADD RUS/33A1/2

DRAFT NEW DECISION [RUS-1]

Procedure for fixing the magnitude of penalties applied to Members in respect of overdue contributions and other dues payable to the ITU budget

The Plenipotentiary Conference of the International Telecommunication Union (Busan, 2014),

considering

that the ability to collect contributions is one of the most important conditions for successful implementation of all the events and activities planned and carried out under the auspices of ITU,

considering further

- a) that the strategic plans and objectives established for the Union and its Sectors for the period 2016-2019 require considerable financial resources and presuppose enhanced efficiency in their use;
- b) that the budget, administration, and strategic and financial planning of the Union are based on results-based management, while dealing with debtors entails much effort and expense;
- c) that the Council, pursuant to Decision 5, is required each year to review budget revenues and expenditure;
- d) that the procedure for determining arrears is rather complex and has not been reviewed for more than 15 years,

noting

- a) that all Member States recognize the necessity of solving the problem of debt, as it creates financial risks and consequently reduces ITU's financial stability, affects the efficient implementation by the Union of plans and decisions, and drains resources from turnover for reserves;
- b) that the issue has an organizational and political side, insofar as it can lead to suspension of members' participation in the work of ITU,

decides

1 that when adopting biennial budgets the Council may allow the General Secretariat to calculate the penalty for overdue payments during the year on the basis of the formula:

$$\text{Penalty} = \text{amount in arrears} * \text{Number of days debt remains outstanding} * 1/365 * X/100$$

whereby the total amount due for the whole period during which the arrears remain outstanding shall be determined as the sum of the annual arrears during the period, taking into account any variation in the annual interest rate X;

2 that the magnitude of the annual interest rate X shall be set by the ITU Council at the session when it adopts the ITU budget for the biennium;

3 that for the period 2016-2017 the magnitude of the interest rate X to be charged on overdue payments shall be 3 per cent per annum over the whole budgetary period, taking into account market conditions, data on the refinancing rate in banks in the Swiss Confederation, and such other factors as delegates to PP-14 may consider relevant in this case;

4 to instruct the ITU Council in accordance with Nos. 63 and 73 of Article 4 of the ITU Convention to make the appropriate amendments to the text of the ITU Financial Regulations and Financial Rules.
