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28 October 2014

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## Tenth Meeting of the Consultative Committee of the ITC Trust Fund

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### AGENDA ITEM 6

### ANNEX II

#### Revisions of the “General conditions for the implementation of the ITC Trust Fund (ITF)”

##### Background Note by the ITC Secretariat on the Operating Reserve

1. The ITC Trust Fund (TF) Operating Reserve is maintained in order to cover shortfalls, delays in payments of pledged contributions and to meet the final expenditures of the trust funds including any liquidating liabilities. According to the administrative instruction ST/AI/284 (“General Trust Funds”) pertaining to the management of trust funds and administrative instruction ST/AI/285 on “Technical Cooperation Trust Funds”; an Operating Reserve should be established at 15% of the annual estimated expenditure.
2. The report of the Board of Auditors – A/61/5 (Vol III) for the Biennium ended 31 December 2005 recommended that ITC review the level of its Trust Fund Operating Reserve with a view to meeting its actual operational needs, subject to the issuance of new instructions on the management of trust funds by the UN. The ITC Trust Funds (TF) Operating Reserve at 31 December 2005 amounted to USD 1,087,816 - 4.9% of the annual TF expenditure.
3. The External Auditors, in their audit reports: 1) A/63/5 (Vol III) and 2) A/65/5 (Vol III) on the ITC financial statements for the biennium ended 31 December 2007 and 2009 respectively, again recommended that ITC should continue its efforts to increase the level of the Operating Reserve until the prescribed level is reached as per Administrative instruction ST/AI/284.
4. ITC has contacted its donors to seek their agreement to incrementally increase the TF Operating Reserve to 15% by:
  - a) crediting the Operating Reserve with the yearly exchange gain from currency fluctuations on investment accounts, and, should there be any exchange loss, the amount of this loss will be a first charge to the interest earned;
  - b) retaining the yearly interest earned upon confirmation from the TF donors;
  - c) making a lump sum contribution to the Operating Reserve.
5. As at 31 December 2007, the TF Operating Reserve was USD 1,890,649 – 6.4% of the annual expenditure and at 31 December 2009, it was USD 2,888,694 – 9.7% of the annual TF expenditure. For the year ended 31 December 2011, ITC’s TF expenditure amounted to USD 42.7 million and the level of the ITC TF Operating Reserve represented USD 4,260,682 - 10.0% of the annual TF expenditure. As at 31 December 2013, the TF Operating Reserve was USD 5,361,000.



6. The Board of Auditors - in its report A/67/5 (Vol III) dated 26 July 2012 on the ITC financial statements for the biennium ended 31 December 2011 – notes in para. 16 that “ITC has ample total technical cooperation reserves” and recommends that ITC review the Operating Reserve’s requirements, including whether the 15% ceiling for the reserve balance is required. The Board also requested that ITC assess the sufficiency of the reserve, and that a proposal (to revise the level of the reserve) be submitted to the United Nations.

7. Since 2005, the ITC Technical Cooperation expenditures have increased from USD 22.1 million to USD 42.7 million in 2011 – 93% increase in delivery. It should be noted that most of the ITC trust funds’ projects are only operational upon receipt of the contributions. However, there are cases where a signed agreement exists but the funds have not yet reached ITC accounts. In such instances ITC would then use the Operating Reserve to temporarily finance the project to ensure timely implementation of project activities and expenditures.

8. In addition, some of ITC projects are on a multi-year cycle with the donor’s agreement specifying that the contributions will be paid in instalments. The Operating Reserve is therefore used to bridge the gap until the receipt of these contributions.

9. The total amounts temporarily borrowed from the Operating Reserve during the years 2010 and 2011 were USD 3.6 million and USD 5.9 million respectively. These amounts were required during different periods throughout the year and the lowest net balances remaining in the Operating Reserve were USD 1.6 million in 2010 and USD 2.0 million in 2011. The amounts borrowed were being continuously repaid during the course of the year. ITC monitors the net cash balances of each donor. It has been noted that in most cases the individual donor’s cash balances were sufficient until the receipt of the contributions; since cash payments of the projects expenses were made over a period of time.

10. A delivery target figure for technical cooperation activities of USD 41 million gross, equivalent to USD 36.2 million net, has been set for 2012 in the ITC operational plan. The statutory required level of the operating reserve (15%) will amount to USD 5.43 million approx.

11. Based on the above, the Controller of the United Nations approved, on 2 July 2013, the fixed rate of Operating Reserve for ITC trust funds at the amount of USD 6 million. ITC is to closely monitor the utilization of the Operating Reserve to ensure its adequacy in view of changing circumstances, operations and risks, as well as to comply with the Controller’s request.

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