
INTERNATIONAL RENEWABLE ENERGY AGENCY

Third meeting of the Council

Abu Dhabi, 05 – 06 June 2012

The Working Capital Fund of IRENA**Report of the Director-General**

1. The report of the Director-General on the Working Capital Fund of IRENA (A/2/5) was submitted to the Assembly at its second session. The Assembly addressed this report by deciding that the Council review the proposed level of the Working Capital Fund and its financing mechanism and makes its recommendation thereon to the third session of the Assembly.
2. Financial Regulation 9.5 on the Working Capital Fund states that “There shall be established a Working Capital Fund to ensure continuity of operations in the event of short-term liquidity problems pending receipt of assessed contributions. The level of the Working Capital Fund shall be determined by the Assembly based on a projection of financing requirements taking into consideration projected income and expenditure. The source of monies of the Working Capital Fund shall be advances from Members, and those advances, made in accordance with the scale of assessments as determined by the Assembly for the apportionment of the expenses of the Agency, shall be carried to the credit of Members that have made such advances.”
3. In his report on the Implementation of the Work Programme and Budget for 2011 (C/2/2) to the second meeting of the Council, the Director-General informed that some 63% of contributions to the core budget were received in the third quarter, prompting a prudent and judicious vacancy management and a slower implementation of the Work Programme. During the deliberations, delegations expressed concerns about the resulting cash flow challenges and discussed ways to mitigate this situation. Actual results for 2011 confirmed the reported trend. Updated analysis of the actual and the first four months of 2012 shows better contribution receipt rate than in 2011, but still does not clarify receipt trend throughout the year.

4. In the same report, the Director-General estimated utilisation of the 2011 core budget at the rate of 77.61%. The actual 2011 core budget implementation rate was 74.7% and it yielded a cash surplus in the core budget of USD 2.8 million.

5. Through decision A/1/DC/8, the Assembly decided that any core budget cash surplus at the close of financial year 2011 shall be apportioned among Members and contributing Signatories, in proportion to their contributions for 2011, notwithstanding Financial Regulation 4.5 (a)¹. According to Financial Regulation 4.5 (b), the cash surplus will be refunded to Members and contributing Signatories as of 1 January 2013.

6. In addition, as a result of the liquidation of the Preparatory Commission for IRENA, the operating reserves of USD 0.3 million for 2009 and USD 0.8 million for 2010 which have been transferred to IRENA are due as of 1 January 2013 to Members and Signatories who had contributed to them and are apportioned to them as credits against their liabilities.

7. Based on actual financial results of October to December 2011, estimated operational core budget cash requirement for one month of operations is estimated at USD 1.2 million, including USD 0.7 million to cover staff costs.

8. The proposed Work Programme and Budget for 2012 (A/2/1) was considered by the Assembly at its second session. The projected implementation of Work Programme activities and related disbursements of funds were based on the assumption that the payment of assessed contributions will be prompt. Delays in receiving contributions during 2011 forced prudent slowdown of implementation for some Work Programme activities and limited full encumbrance of posts authorized by the Assembly. While large share of contributions in 2012 were received on time, and would allow Work Programme implementation during the first half of the year, short-term liquidity problems pending receipt of assessed contributions may still arise later in the year and in future financial periods.

9. To avoid cash flow difficulties in 2012, the Director-General calls upon Members to pay their assessed contributions promptly and in full.

10. In order to implement Financial Regulation 9.5, the Director-General is of the view that the following steps may be taken:

- a. Based on the experience drawn from the UN system and other international organizations, the level of the Working Capital Fund is proposed to be in the

¹ Financial regulation 4.5 (a): Any cash surplus in the budget at the close of any financial period shall be apportioned among Members in proportion to their mandatory contributions for the financial year to which the surplus relates.

range of 10-15% of the annual core budget, i.e. USD 1.6 million to USD 2.4 million of the proposed budget for 2012.

- b. To ensure the continuity of the momentum in programme implementation through predictable funding and a reliable and stable cash flow, it is proposed that the Assembly determines the Working Capital Fund at the level of USD 1.6 million to be advanced by Members in accordance with the established scale of assessments. According to Financial Regulations 4.5 (b) and 6.6 (b), 2011 core budget cash surplus and Preparatory Commission's 2009 and 2010 operating reserves apportionments due to each Member are proposed to be first credited as advances from Members to the Working Capital Fund and the balance to be applied against their contributions due. These actions should be reflected in the accounts as of 1 January 2013 based on Assembly decision.
- c. As prescribed by Financial Regulation 6.3, States and regional intergovernmental economic integration organisations that become a Member after the beginning of a new financial period shall be assessed their share in the Working Capital Fund based on the IRENA scale of contributions adjusted to account for their membership. Such contributions shall accrue from the beginning of the month following the month in which they become a Member. Existing Members will receive a credit toward the following year's contribution according to the revised assessment proportions.

Recommendations

11. The Director-General recommends that the Assembly establish the Working Capital Fund at a level of USD 1.6 million.

12. Advances to the Working Capital Fund from Members are made in accordance with Financial Regulation 9.5.