

**SECRETARIAT OF THE PACIFIC COMMUNITY****FORTY-FIRST MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS**
(Noumea, New Caledonia, 1 – 4 November 2011)*Financial Matters*

**AGENDA ITEM 10.1: STATUS OF ASSESSED CONTRIBUTIONS AND TREATMENT OF
ARREARS**

(Presented by the Secretariat)

SUMMARY

1. In accordance with SPC's financial regulations, this paper updates CRGA on the status of assessed membership contributions.
2. As of 31 August, 18 of SPC's 26 members have yet to settle fully their 2011 contributions. Thirteen members are in arrears; they owe the organisation assessed contributions that were due prior to this financial year.
3. The paper also brings the attention of CRGA to the external auditors' recommendation to review CRGA's policy on the accounting treatment of arrears, discusses this recommendation and makes suggestions to improve the collection of outstanding contributions.

RECOMMENDATIONS

4. CRGA is invited to
 - i. Note the status of assessed contributions;
 - ii. Confirm its current policy that no provision be made in SPC's annual accounts for arrears in assessed contributions;
 - iii. Consider Nauru's request for a write-off of its arrears of 144,299 CFP units up to and including the financial year 2007 and consider whether the issue of write-offs and arrears in general should be studied further in the context of the SPC corporate review and the development of the long-term sustainable financing strategy;
 - iv. Agree that assessed contributions should be paid as soon as invoices are issued and no later than 30 June of the year to which they relate; and
 - v. Note that, from 2012, only one invoice concerning assessed contributions will be sent to the nominated focal point of SPC members.
-

STATUS OF ASSESSED CONTRIBUTIONS AND TREATMENT OF ARREARS

PURPOSE

1. In accordance with SPC's financial regulations, this paper updates CRGA on the status of assessed membership contributions as at 31 August 2011.¹
2. This paper also discusses arrears (assessed contributions that were due prior to the current year), and brings to the attention of CRGA the external auditors' recommendation to review CRGA's policy on the accounting treatment of arrears. It further makes recommendations to improve the collection of outstanding contributions.

BACKGROUND

3. The current policy is that annual assessed contributions are payable within the financial year of the organisation (January to December). Assessed contributions are considered due (or outstanding) from the time the invoice has been issued to a member country or territory.
4. An outstanding assessed contribution is considered to be in arrears when it has not been paid in the year to which it relates.
5. As assessed contributions are considered sovereign debt, SPC's policy is not to make provisions in its annual accounts for arrears. The organisation also does not write off government debts.

STATUS OF ASSESSED CONTRIBUTIONS

6. The table below shows the current status of outstanding assessed contributions.

Table 1 (figures in CFP units)

2011 assessed contributions outstanding	2010 and prior years assessed contributions in arrears	Total
1,576,040	985,046	2,561,086

7. Annex 1 provides details on the status of assessed contributions by SPC members. Assessed contributions are often paid by different ministries. Annexes 2 to 4, therefore, show the status of assessed contributions separately for each pre-RIF agency (pre-RIF SPC, SOPAC and SPBEA).
8. While all but four members made payments this year, a total of 18 members have yet to fully settle their outstanding contributions. Of these, 13 SPC members are in arrears; in addition to not having settled their 2011 contributions, they owe prior-year contributions.
9. In contrast, the assessed contribution of Federated States of Micronesia is in a credit position. FSM has already settled most of its 2012 contribution.

¹ Another update will be tabled at the CRGA meeting.

Table 2: Status of assessed contributions including arrears, by SPC member, as at 31 August 2011, in CFP units

	2011 contribution fully settled?	Prior years' arrears fully paid?	Total outstanding contribution (or credit)
American Samoa	No	No	64,917
Australia	Yes	Yes	-
Cook Islands	Yes	Yes	-
Federated States of Micronesia	Yes (in credit)	Yes	(42,821)
Fiji	No	No	30,136
France	Yes	Yes	-
French Polynesia	No	Yes	15,765
Guam	No	No	158,299
Kiribati	No	No	68,628
Marshall Islands*	No	No	95,454
Nauru	No	No	259,011
New Caledonia	No	Yes	4,205
New Zealand	Yes	Yes	-
Niue	No	No	33,491
Northern Mariana Islands	No	No	297,541
Palau	No	No	142,352
Papua New Guinea	No	No	195,091
Pitcairn Island	Yes	Yes	-
Samoa	Yes	Yes	-
Solomon Islands	No	No	4,890
Tokelau	No	Yes	35,225
Tonga	No	No	27,721
Tuvalu*	No	Yes	22,131
United States of America	No	Yes	992,366
Vanuatu	No	No	156,684
Wallis & Futuna	Yes	Yes	-
Total	Fully settled: 8 Not fully settled: 18	Fully paid: 13 Not fully paid: 13	2,561,086

* Amounts shown for Marshall Islands and Tuvalu include payments received up to September 2011

LONG-OUTSTANDING ARREARS

10. In their 2010 management letter (refer to CRGA paper 10.2) the external auditors express their concerns to CRGA about the level and age of arrears in general and of five member countries in particular: Guam, Marshall Islands, Nauru, Northern Mariana Islands and Palau. As at 31 December 2010, these countries were in arrears by 830,869 CFP units. Of this amount, a total of 431,351 CFP units related to the financial years 2007 and earlier.
11. The auditors acknowledge the ongoing efforts by the Secretariat to collect outstanding contributions and, in particular, arrears. They believe, however, that SPC's governing body 'has to reconsider its position towards the collection of outstanding country contributions and define the rules that would include the elected accounting treatment of long outstanding debts' because of the 'current unfavourable collection trend'.

12. SPC's accounting treatment of arrears has been the subject of CRGA discussions on a number of occasions. CRGA's policy has generally remained unchanged; arrears are considered sovereign debts, which will eventually be paid by the member concerned.² Arrears are therefore not considered 'doubtful debts', against which a provision needs to be made in the annual accounts. CRGA has also noted the formal commitments of members to paying their assessed contributions.
13. Three out of the five countries identified by the auditors, Guam, Marshall Islands and Nauru, have subsequently made payments in 2011 of 29,725, 36,634 and 29,347 CFP units respectively.
14. Guam's part payment is a result of the commitment made, in 2010, by the Office of the Governor of Guam, which further directed the Secretariat to channel all future invoices directly to it. The Office's procurement officer has since been designated the focal point for processing contribution payments to SPC. Guam has also advised the Secretariat that it plans to establish a permanent allocation within the budget of the Office of the Governor to facilitate timely payment of its dues in the future.
15. The Government of Nauru at CRGA 40 last year requested that its arrears for the period 1996 to 2007 be written off. In discussion with the Secretariat this year, Nauru indicated its commitment to settling its current membership contributions and proposed the settlement of its arrears relating to financial years 2008, 2009 and 2010 over a period of three years. It maintains its request for a write-off of older arrears.
16. In 2010, the Government of the Commonwealth of the Northern Mariana Islands (CNMI) confirmed that it is committed to settling its arrears, but noted that its current financial challenges do not leave it in a position to make payments soon.
17. Similarly, the Secretariat has been discussing the Marshall Islands' arrears with authorities (both in Majuro and in the Embassy of RMI in Suva). As noted above, Marshall Islands has since made a part payment.
18. Palau's Ministry of Foreign Affairs has been communicating with finance ministry counterparts regarding the possibility of payments to be made. It is hoped that an update can be provided at CRGA.
19. Given the commitment of countries and the recent collection of some of the old arrears, the Secretariat recommends that CRGA continue its current policy of not providing in its accounts for 'doubtful debts' related to assessed contributions owed by SPC members.
20. Any write-off of arrears requires CRGA's decision. The Secretariat is therefore submitting Nauru's request for a write-off of its arrears of 144,299 CFP units up to and including the financial year 2007 to CRGA for its consideration.
21. The Secretariat's view is that a write-off of the arrears would have a negative impact on the reserves of the organisation at a financially difficult time. It further notes that, over the years, CRGA has maintained a consistent policy of not writing-off arrears because of concerns that such action may set precedents and also in recognition of the commitment of members to settle their arrears, even in economically difficult times. The Secretariat recommends to CRGA that the issue of arrears, including possible write-offs, be studied in detail in the context of the forthcoming SPC corporate review and the development of the long-term sustainable financing strategy.

² Between the 2003 and 2007 financial years, at the insistence of the auditors, a provision was exceptionally made for the Nauru debt, given the uncertain financial situation of the country at that time.

STRENGTHENING THE COLLECTION OF ASSESSED CONTRIBUTIONS

22. As the tables in this paper demonstrate, the non-payment or late payment of assessed contributions remains a concern for the organisation, with a large number of members not having yet paid their 2011 contributions or their arrears, or both. This impacts negatively on the cash flow of the organisation.
23. On its part, the Secretariat will continue to send regular reminder letters to governments and also pursue the issues in direct dialogue with SPC members.
24. In addition, it recommends that CRGA note that assessed contributions are due when the invoices are issued and agree that assessed contributions are payable before 30 June of the year to which they relate.
25. In 2011, as a transitional arrangement, members' contributions of the three pre-RIF agencies continued to be separately invoiced and sent to the members' respective focal points for payment. The Secretariat proposes that, from 2012, only one invoice be sent to the nominated focal point for each member.

RECOMMENDATIONS

26. CRGA is invited to:
 - i. Note the status of assessed contributions;
 - ii. Confirm its current policy that no provision be made in SPC's annual accounts for arrears in assessed contributions;
 - iii. Consider Nauru's request for a write-off of its arrears of 144,299 CFP units up to and including the financial year 2007 and consider whether the issue of write-offs and arrears in general should be studied further in the context of the SPC corporate review and the development of the long-term sustainable financing strategy;
 - iv. Agree that assessed contributions should be paid as soon as invoices are issued and no later than 30 June of the year to which they relate; and
 - v. Note that, from 2012, only one invoice concerning assessed contributions will be sent to the nominated focal point of SPC members.

7 October 2011

Annex 1 - STATUS OF ASSESSED CONTRIBUTIONS: CONSOLIDATED SUMMARY (PRE-RIF SPC, SOPAC AND SPBEA) AS AT 31 AUGUST 2011

In CFP units Arrears (Advances)	Total 2010	Invoice 2011	Receipts 2011	Balance after application of 2011 receipts					
				1997-2007	2008	2009	2010	2011	2011 Total Balance
American Samoa	73,485	31,737	(40,305)			1,443	31,737	31,737	64,917
Australia		3,178,400	(3,178,400)						-
Cook Islands		33,772	(33,772)						-
Federated States of Micronesia	(44,727)	47,502	(45,596)		(11,277)	(13,813)	(19,637)	1,906	(42,821)
Fiji	(1,487)	140,776	(109,153)		69	69	(1,625)	31,623	30,136
France		1,620,920	(1,620,920)						-
French Polynesia		85,219	(69,454)					15,765	15,765
Guam	140,522	47,502	(29,725)		31,558	31,737	47,502	47,502	158,299
Kiribati	59,960	51,230	(42,562)			(2,402)	26,427	44,603	68,628
Marshall Islands	98,316	33,772	(36,634)		14,747	27,145	27,145	26,417	95,454
Nauru	246,506	41,852	(29,347)	144,299	22,131	22,131	35,225	35,225	259,011
New Caledonia		139,686	(135,481)					4,205	4,205
New Zealand		2,044,512	(2,044,512)						-
Niue	11,360	28,758	(6,627)			4,733		28,758	33,491
Northern Mariana Islands	265,804	31,737		170,593	31,737	31,737	31,737	31,737	297,541
Palau	108,580	33,772		27,145	27,145	27,145	27,145	33,772	142,352
Papua New Guinea	125,637	85,219	(15,765)			56,183	69,454	69,454	195,091
Pitcairn Island		22,131	(22,131)						-
Samoa		66,479	(66,479)						-
Solomon Islands	34,382	66,479	(95,971)			3,053	(31,729)	33,566	4,890
Tokelau		35,225						35,225	35,225
Tonga	33,778	66,479	(72,536)				4,152	23,569	27,721
Tuvalu	22,131	41,852	(41,852)					22,131	22,131
United States of America	992,366	1,417,665	(1,417,665)					992,366	992,366
Vanuatu	90,205	66,479		15,765	15,765	15,765	42,910	66,479	156,684
Wallis & Futuna		22,131	(22,131)						-
TOTAL	2,256,818	9,481,286	(9,177,018)	357,802	131,875	204,926	290,443	1,576,040	2,561,086
%				14%	5%	8%	11%	62%	100%

Annex 2 - STATUS OF ASSESSED CONTRIBUTIONS: PRE-RIF SPC AS AT 31 AUGUST 2011

In CFP units Arrears (Advances)	Total	Invoice	Receipts	Balance after application of 2011 receipts					2011 Total Balance
	2010	2011	2011	1997-2007	2008	2009	2010	2011	
American Samoa	73,485	31,737	(40,305)			1,443	31,737	31,737	64,917
Australia		2,737,985	(2,737,985)						
Cook Islands		27,145	(27,145)						
Federated States of Micronesia	(44,727)	31,737	(45,596)		(11,277)	(13,813)	(19,637)	(13,859)	(58,586)
Fiji	(1,694)	101,442	(85,653)				(1,694)	15,789	14,095
France		1,620,920	(1,620,920)						
French Polynesia		69,454	(69,454)						
Guam	124,757	31,737	(29,725)		31,558	31,737	31,737	31,737	126,769
Kiribati	44,904	27,145	(35,935)				8,969	27,145	36,114
Marshall Islands	98,316	27,145	(29,279)		14,747	27,145	27,145	27,145	96,182
Nauru	233,412	22,131	(22,720)	144,299	22,131	22,131	22,131	22,131	232,823
New Caledonia		123,921	(123,921)						
New Zealand		1,604,097	(1,604,097)						
Niue		22,131						22,131	22,131
Northern Mariana Islands	265,804	31,737		170,593	31,737	31,737	31,737	31,737	297,541
Palau	108,580	27,145		27,145	27,145	27,145	27,145	27,145	135,725
Papua New Guinea	125,637	69,454				56,183	69,454	69,454	195,091
Pitcairn Island		22,131	(22,131)						
Samoa		27,145	(27,145)						
Solomon Islands	(32,555)	27,145					(32,555)	27,145	(5,410)
Tokelau		22,131						22,131	22,131
Tonga	(1,903)	27,145	(25,242)						
Tuvalu	22,131	22,131	(22,131)					22,131	22,131
United States of America	992,366	1,417,665	(1,417,665)					992,366	992,366
Vanuatu	27,145	27,145					27,145	27,145	54,290
Wallis & Futuna		22,131	(22,131)						
TOTAL	2,035,658	8,221,832	(8,009,180)	342,037	116,041	183,708	223,314	1,383,210	2,248,310
%				15%	5%	8%	10%	62%	100%

Annex 3 - STATUS OF ASSESSED CONTRIBUTIONS: SOPAC AS AT 31 AUGUST 2011

In CFP units Arrears (Advances)	Total	Invoice	Receipts	Balance after application of 2011 receipts					2011 Total Balance
	2010	2011	2011	1997-2007	2008	2009	2010	2011	
American Samoa									
Australia		265,834	(265,834)						
Cook Islands		6,627	(6,627)						
Federated States of Micronesia		15,765						15,765	15,765
Fiji		15,765						15,765	15,765
France									
French Polynesia		15,765						15,765	15,765
Guam	15,765	15,765					15,765	15,765	31,530
Kiribati		6,627	(6,627)						
Marshall Islands		6,627	(7,355)					(728)	(728)
Nauru		6,627	(6,627)						
New Caledonia		15,765	(11,560)					4,205	4,205
New Zealand		265,834	(265,834)						
Niue	11,360	6,627	(6,627)			4,733		6,627	11,360
Northern Mariana Islands									
Palau		6,627						6,627	6,627
Papua New Guinea		15,765	(15,765)						
Pitcairn Island									
Samoa		15,765	(15,765)						
Solomon Islands	63,058	15,765	(78,823)						
Tokelau									
Tonga	31,529	15,765	(47,294)						
Tuvalu		6,627	(6,627)						
United States of America									
Vanuatu	63,060	15,765		15,765	15,765	15,765	15,765	15,765	78,825
Wallis & Futuna									
TOTAL	184,772	735,707	(741,365)	15,765	15,765	20,498	31,530	95,556	179,114
%				9%	9%	11%	18%	53%	100%

Annex 4 STATUS OF ASSESSED CONTRIBUTIONS

In CFP units Arrears (Advances)	Total	Invoice	Receipts	Balance after application of 2011 receipts					2011 Total Balance
	2010	2011	2011	1997-2007	2008	2009	2010	2011	
American Samoa									
Australia		174,581	(174,581)						
Cook Islands									
Federated States of Micronesia									
Fiji	207	23,569	(23,500)		69	69	69	69	276
France									
French Polynesia									
Guam									
Kiribati	15,056	17,458				(2,402)	17,458	17,458	32,514
Marshall Islands									
Nauru	13,094	13,094					13,094	13,094	26,188
New Caledonia									
New Zealand		174,581	(174,581)						
Niue									
Northern Mariana Islands									
Palau									
Papua New Guinea									
Pitcairn Island									
Samoa		23,569	(23,569)						
Solomon Islands	3,879	23,569	(17,148)			3,053	826	6,421	10,300
Tokelau		13,094						13,094	13,094
Tonga	4,152	23,569					4,152	23,569	27,721
Tuvalu		13,094	(13,094)						
United States of America									
Vanuatu		23,569						23,569	23,569
Wallis & Futuna									
TOTAL	36,388	523,747	(426,473)		69	720	35,599	97,274	133,662
%				0%	0%	0%	27%	73%	100%