

WIPO



WO/PBC/12/4(b)
ORIGINAL: English
DATE: August 21, 2007

E

WORLD INTELLECTUAL PROPERTY ORGANIZATION
GENEVA

PROGRAM AND BUDGET COMMITTEE

Twelfth Session
Geneva, September 11 to 13, 2007

DOWN PAYMENT FOR THE NEW CONSTRUCTION PROJECT

Document prepared by the Secretariat

1. One of the options submitted to the eleventh (June) session of the Program and Budget Committee (PBC) for possible utilization of available funds from the reserves was the payment of part of the cost of the new construction project. This option had been presented by the Secretariat in paragraphs 16 to 21 of document WO/PBC/11/10, entitled “Options for the Possible Utilization of Available Reserves in the Medium Term”.
2. As this document explained, when, in 2005, the Member States had decided to finance the cost of the new construction project (then estimated at 113.6 million Swiss francs: for an update on this issue, please refer to document WO/PBC/12/7, entitled “Progress Report on the New Construction”) through a bank loan, the level of reserves of the Organization was considerably lower than at the present time. Interest rates were, on the other hand, at one of the lowest points in recent decades. The situation has changed considerably since and, by the time actual construction work begins in early 2008 – all other factors remaining unchanged – the level of reserves is estimated to total approximately 160 million Swiss francs. At the same time, the cost of money (interest rates) has climbed considerably since 2005, and is expected to further increase in the medium term.
3. In view of those elements, the Secretariat had invited the Member States to consider the option of earmarking a tentative amount of 15 millions Swiss francs from the excess of reserves over the target level to pay part of the cost of the new construction, thus reducing proportionately the amount (and cost) of the loan.

4. The Secretariat had furthermore pointed out that, in view of the higher level of the Organization's reserves on the one hand, and the increase of interest rates, on the other, in its opinion the decision to finance the totality of the new construction through a loan was justifiable, in financial terms, only if the rate of return that the Organization is able to obtain from the investment of its own reserves is commensurate with the price paid for borrowing funds from the lending bank.

5. As explained by the Controller at the informal consultations on the proposed new Financial Regulations and Rules (FRR) of the Organization (held on July 20, 2007 under the guidance of the Chair of the PBC), in recent years the policy of the Organization for investing funds standing at the credit of the Organization has been extremely conservative, with most funds placed at the Swiss National Bank, in Swiss francs. The Controller had also explained that the proposed new FRR recognize the prerogative of the Member States to approve the policy to be implemented by the Secretariat for short term and long term investments, and that it was hoped that under such new policy the rates of return from long term investments may be higher than those currently obtained. However, pending the adoption, by the Member States, at earliest in the year 2008, of such revised policy (that, in theory, may lead to higher rates of return), the rates of return generated by those placements would by definition be lower than the interest rates to be paid to any lending bank for borrowing a corresponding amount of money.

6. Upon conclusion of deliberations of the June session of the PBC on this issue, the Chair of the PBC noted that there was considerable support for the proposal of the Secretariat to pay from available reserves part of the cost of the new construction (document WO/PBC/11/17, paragraph 63).

7. Based on this conclusion, as well as on the information contained in paragraph 5 above, the Secretariat is therefore proposing to the PBC, through the present document, to formally recommend to the 2007 session of the Assemblies of WIPO Member States to reduce the amount of the funds to be borrowed by the Organization for the new construction project, by authorizing the utilization of part of the reserves for paying part of the cost of the project.

8. Taking into consideration

- (i) the positive evolution of the level of reserves of the Organization, since the time when the funding of the new construction through a loan was decided upon;
- (ii) the parallel adverse evolution, as of that time, of interest rates; and
- (iii) the fact that, pending the elaboration of a new investment policy (to be submitted to the approval of the Member States in 2008), it is unlikely that the rates of return obtained from placements of funds standing at the credit of the Organization from reserves may be such as to off-set the cost of the proposed loan,

the Secretariat is of the view that it is in the interest of the Organization to limit the amount of funding obtained through the loan to the extent possible.

9. One of the criteria established by the Secretariat for evaluating the offers of the tendering banks is that the bank grants to the Organization the possibility to repay the loan in advance of the original repayment schedule, with no or limited penalties for the Organization. It is clear that, if successfully negotiated with the selected bank, this clause would enable the

Organization to reduce the amount of its debt if and when its financial situation would so permit, in the mid term (and provided of course that the Member States would authorize such advance payment). The attention of the Committee is, however, drawn to the fact that this clause would operate only in future. In other words, it would not reduce from the start the level of debt of the Organization.

10. Another very important factor in this connection is the likely evolution, in the mid term, of interest rates. The attention of the Committee is drawn to the fact that according to most analysts interest rates are expected to grow in the mid term. This means that, if these forecasts are correct, by taking a loan, the Organization exposes itself to the risk of incurring, in the mid term, higher costs than originally estimated. It is also stressed that if, in order to off-set such risk, the Organization will choose to opt for a fixed rate loan, the cost of such loan will be considerably higher than the current cost of a flexible rate loan. (The opposite would be true if analysts concurred in predicting, in the mid term, a decrease of interest rates). Furthermore, lending banks may not be ready to offer fixed rate loans for a period exceeding a limited number of years.

11. In view of these considerations, the Secretariat is furthermore of the view that if, at the closing of accounts for the 2006/07 biennium, the actual surplus made by the Organization were to be higher than estimated in the revised budget for 2006/07^{*}, it would be in WIPO's interest to authorize this incremental surplus (which otherwise would be automatically credited to the reserves) to be utilized to pay part of the cost of the new construction, so as to further reduce, if possible, the level of debt and consequently exposure to financial risk, of the Organization in the mid term.

12. The Program and Budget Committee is invited to recommend to the Assemblies of the WIPO member States to authorize the financing, from the reserves of the Organization, of part of the cost of the construction project, of an amount corresponding to 15 million Swiss francs plus any incremental surplus that the Organization may generate in the 2006/07 biennium on top of the 33 million Swiss francs estimated in the revised budget for 2006/07.

[End of document]

*

It is recalled that the proposed revised budget for the 2006/07 biennium (document WO/PBC/12/2) estimates that the Organization will generate a surplus of 33 million Swiss francs in the 2006/07 financial period.