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OPTIONS FOR THE POSSIBLE UTILIZATION OF AVAILABLE RESERVES IN THE MEDIUM TERM

Document prepared by the Secretariat

I. INTRODUCTION

The purpose of this document is to follow up on the Outline of the Director General for the Proposed Program and Budget for 2008/09, dated November 27, 2006 (document WO/PBC/IM/3/06/3), as concerns possible options for the utilization, in the medium term, of available reserves in excess of the target level established by the Member States. The document also follows up on the preliminary presentations made by the Secretariat at the informal consultations on the financial aspects of the Proposed Program and Budget for 2008/09 that was convened in April 2007.

II. TARGET LEVEL FOR RESERVES

1. The target level of the reserves of the Organization (and the Unions) was established by the 2000 Assemblies of the Member States of WIPO (document A/35/15, paragraph 151(b)). The target levels for reserves and working capital funds (hereinafter referred to as “reserves”) were established as a percentage of estimated biennial expenditures as follows: (i) contribution-financed Unions – 50%; (ii) PCT Union – 15%; (iii) Madrid Union – 25%; and (iv) Hague Union – 15%. This gave an overall average target level of 18% of biennial expenditure.

2. This decision was based on the appreciation, at that time, of the risks of the Organization, and of the Unions, taking into account the fact that most of the income of the Organization is market driven.

3. In this respect, it is also recalled that in his Report on the Auditing of the Accounts of the World Intellectual Property Organization (WIPO) for the 2004-2005 Biennium, the External Auditor recommended to increase this (average) target level to 25% of biennial expenditure.

III. ESTIMATED AMOUNT OF RESERVES IN EXCESS OF THE TARGET LEVEL

4. At this point in time it is estimated that, if Member States continue to be satisfied with the target level for reserves established in the year 2000 and if the current schedule of fees for the PCT system remains unchanged, the reserves of the Organization are going to be, in the medium term, in excess of this target level. This is illustrated in Chart 1 below.

Chart 1. Estimated Level of Reserves in the Medium Term
(in millions of Swiss francs)

	2006/07 Revised Budget	2008/09 Proposed Budget	2010/11 Preliminary Estimate
INCOME	595.1	646.8	678.6
EXPENDITURE	562.1	630.2	678.6
RESULT (Surplus/(Deficit))	33.0	16.6	0.0
RESERVES OPENING BALANCE	127.0	159.9	176.5
TOTAL RESERVES*	159.9	176.5	176.5
RESERVES AS % OF EXPENDITURE	28.4%	28.0%	26.0%
TARGET LEVEL FOR RESERVES			
<i>as per current reserve policy</i>	104.4	117.4	126.5
<i>if target level - 25% of biennial expenditure</i>	140.5	157.6	169.7
AVAILABLE FROM RESERVES			
<i>as per current reserve policy</i>	55.5	59.0	50.1
<i>if target level - 25% of biennial expenditure</i>	19.4	18.9	6.9

* at end 2007, 2009 and 2011, respectively

5. As Chart 1 shows— all other parameters remaining unchanged – it is currently estimated that by the end of the 2006/07 biennium the reserves of the Organization will total 159.9 million Swiss francs. As this Chart also shows, this amount corresponds to 28.4% of the corresponding biennial expenditure.

6. It is to be stressed that the 159.9 million Swiss francs figure includes the surplus of the Madrid Union for the 2006/07 biennium (currently estimated at 8.9 million Swiss francs). The Madrid Union Assembly, at its September 2007 session, will have to decide whether to distribute wholly, or partly, this surplus to the Member States of the Madrid Union, or whether to allocate it (wholly or partly) to investments of the Madrid system (please see under (c) below).

7. As Chart 1 also shows, at the end of the 2006/07 biennium the reserves of the Organization would therefore be 55.5 million Swiss francs in excess of the established target level. Considering that in the 2008/09 biennium they would increase by an incremental amount of 16.6 million Swiss francs, by the end of the 2008/09 biennium they would total 176.4 million Swiss francs. In such a scenario, 59.0 million Swiss francs (or 3.5 million

Swiss francs more than at the end of 2007) would be available in excess of the target level established by the Member States.

IV. POSSIBLE OPTIONS FOR DEALING WITH THE EXCESS OF RESERVES OVER THE TARGET LEVEL

8. The Outline of the Director General had presented five options for dealing with the possible excess of the reserves of the Organization in the medium term. These were as follow.

- higher level of expenditure in the Program and Budget for the 2008/09 and 2010/11 biennia, respectively (to support, for instance, the expansion of certain programmatic areas of work of the Organization);
- specific investments (to upgrade, for instance, the IT infrastructure and/or the physical and information security of the Organization);
- the repayment, in advance of the original repayment schedule, of part of the loan for the financing of the new construction project;
- the reconsideration, in consultation with Member States, of the level of PCT fees; and
- a balanced combination of the four of the above options.

9. Since the time of submitting the Outline of the Director General to the consideration of the Member States, a number of new developments have occurred. Based on these developments, the Secretariat is now in a position to further elaborate on the above options and to provide preliminary cost estimates for the same, as follows.

(a) Possible Expansion of Certain Programmatic Areas of the Organization

10. At the informal consultations on the financial aspects of the Proposed Program and Budget for 2008/09 that was convened by the Secretariat in April 2007, some delegations suggested the utilization of part of the available reserves for activities related to the implementation of the Development Agenda. At the present stage, however, it is not possible to estimate the financial impact of this option.

(b) Enterprise Resource Planning (ERP) Project

11. As elaborated in document WO/PBC/11/11, it is proposed that the Organization embark on the development of an enterprise resource planning (ERP) project in the next two biennia. This project is required, in particular: (i) to support the implementation of the new Financial Regulations and Rules of the Organization; (ii) to support the implementation of the Human Resource Strategy that was submitted in its preliminary form to the WIPO Assemblies in 2006; (iii) to support the transition to IPSAS; and (iv) to support the introduction of revised and streamlined processes and procedures in various administrative areas of the Organization, thus enabling efficiency gains. As outlined in document WO/PBC/11/11, the estimated cost of this project (one time investment) is 20.4 million Swiss francs. The project is expected to be deployed over the 2008/09 and 2010/11 biennia.

(c) Establishment of a New IT Platform for the Madrid System

12. The current IT platform of the Madrid system (MAPS) was established in 1995. It was the result of a major upgrading of the pre-existing IT platform (SEMIRA) dating back to 1988. The International Bureau has identified the need to proceed again to a major upgrading of the Madrid system IT platform, for two main reasons. First, the software and database management system should be more user-oriented so as to allow satisfactory and secure electronic communication of registration data between the International Bureau and the offices of contracting parties as well as with applicants and holders of international registrations and their representatives. Second, the new IT platform should incorporate features that allow for a more efficient administration of the Madrid system by the International Bureau, including an enhanced electronic document management system.

13. The Secretariat has commissioned a feasibility study to estimate the resources required for the establishment of a new IT platform for the Madrid system. Based on the outcome of this study, more precise figures will be submitted to the next session of the Program and Budget Committee (PBC) and to the Madrid Union Assemblies in September 2007. The current preliminary cost estimate for the establishment of a new IT platform for the Madrid system is 15.0 million Swiss francs.

(d) Upgrade of the Security Standards of the Organization (Security Change Project)

14. As elaborated in documents WO/PBC/11/6 and WO/PBC/12/12, it is proposed to make an investment of 9.3 million Swiss francs to upgrade the security standards of the existing premises of the Organization in order to bring them into line with the United Nations Headquarters Minimum Operating Security Standards (UN-H-MOSS) (Security Change Project). As outlined in document WO/PBC/11/12, it is proposed that this security investment be made from funds available from the reserves. This Security Change Project is expected to be implemented in the 2008/09 and 2010/11 biennia and would cover the existing premises of the Organization.

15. In this respect, it is to be noted that the integration of these new security standards into the project of the new construction will also have an impact on the overall cost of the new construction. However, such cost would not need to be drawn from the reserves because it would be covered by the loan that will finance the new construction project.

(e) Partial Upfront Payment of the Loan for Financing the New Construction

16. When, in 2005, the Member States decided to finance the cost of the new construction project (then estimated at 113.6 million Swiss francs) 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.

17. A more precise estimate of the actual cost of the construction will be available only after the conclusion of the contract with the selected general contractor. On the other hand, a more precise estimate of the actual cost of the bank loan (e.g., the total yearly amount to be paid by the Organization in the future to service the loan and its progressive amortization), will be possible only upon conclusion of the tender for the lending bank.

18. Pending the availability of this information, the Member States are invited to consider the option of earmarking an amount from the excess of reserves over the target level to pay part of the cost of the new construction upfront, thus reducing proportionately the amount (and cost) of the loan. An alternative way of looking at this option would be to at least reserve the possibility, for the Organization, subject to available funds in excess of the target level for reserves, of repaying part of the loan in advance of the original schedule, provided this does not generate penalties.

19. In view of the higher level of the Organization's reserves on the one hand, and the increase of interest rates, on the other, the Secretariat is in fact of the view that the full loan option is 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.

20. This question leads to the issue of the policy for the investments of funds standing to the credit of the Organization. The Secretariat is elaborating a revised strategy for the investment of the funds of the Organization, to be submitted, in the 2008/09 biennium, for consideration by the Member States. The strategy will be part of a comprehensive WIPO corporate financial plan, also under elaboration. One of the objectives of this revision is to ensure that the interest paid by the Organization for the loan for the new construction is commensurate with the average rate of return that the Organization obtains from the funds that it invests.

21. As shown in Chart 2 below, Member States are invited to consider the earmarking of a tentative amount of 15 million Swiss francs as a possible upfront payment for the cost of the new construction. The remaining amount would be financed through the loan.

(f) Reduction of the Level of PCT Fees

22. As indicated in the Outline of the Director General, another possible way of dealing with the expected excess of reserves over the established target level would be to erode partially the reserves by reducing the biennial income of the Organization through a reduction in the current level of PCT fees.

23. Through its communication of May 23, 2007, the Government of the United States of America officially requested the International Bureau to present a Draft Program and Budget for the 2008/09 biennium reflecting a 15% reduction, as of January 1, 2008, of the PCT international filing fee, and of the PCT handling fee, and explained that this request was being made because the Government of the United States will propose to the September 2007 session of the PCT Union Assembly to approve a 15% reduction, as of January 1, 2008, of the PCT international filing fee, and of the PCT handling fee.

24. At present, it is estimated that the impact of a 15% reduction of the PCT international filing fee and handling fee as of January 1, 2008, on the estimated income of the Organization in the 2008/09 biennium would be a loss of income of 68.6 million Swiss francs. All other parameters remaining unchanged, this would mean that the implementation of the Proposed Program and Budget for 2008/09 as presented by the Director General in document WO/PBC/11/6, would generate a deficit of 52.1 million Swiss francs, thus bringing the reserves of the Organization, by the end of the 2008/09 biennium, to 107.1 million Swiss francs, or 17.1% of biennial expenditure. In such a situation, and unless the member States are ready to go below the target level for reserves, there would obviously be no resources to

finance the ERP project, the establishment of a new IT platform for the Madrid system, the Security Change Project, and the partial upfront payment of the loan for the new construction.

25. Chart 2 below recapitulates the estimated cost of options (b), (c), (d) and (e) above. (At this stage, it is not possible to quantify the cost of option (a)). As Chart 2 shows, the overall estimated cost of these options is 59.7 million Swiss francs. In view of the estimated time frame of these projects, it is currently estimated that these funds would be drawn from the reserves in the 2008/09 and 2010/11 biennia.

Chart 2. Preliminary Costing of Options (b), (c), (d) and (e)

Options	Preliminary Cost Estimate (in millions of Swiss francs)
(b) ERP project	20.4
(c) New IT platform for the Madrid system	15.0
(d) Security upgrade in respect of the existing premises of the Organization	9.3
(e) Partial upfront payment of the loan for the new construction	15.0
Total:	59.7

26. *The Program and Budget Committee is invited to express its views and make its recommendations in respect of the content of this document.*

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