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Contribution by the Russian Federation

Development of a method for calculation of in kind contributing

**I Introduction**

WTDC Resolution 17 (Rev. Buenos Aires. 2017) on implementation of regionally approved initiatives at the national, regional, interregional and global levels *resolves* “… 4. that Member States should consider contributing in kind and/or in cash to the budget foreseen for implementation of these initiatives and the realization of other projects foreseen within the framework of these initiatives at the national, regional, interregional and global levels”.

The lack of such a framework impedes the implementation of regional initiatives, especially in developing countries.

Unfortunately, during last years the practice to use contributing in kind had been interrupted. After our request to explain the reasons for that, the BDT Director and the Chief of the Financial Resources Management Department informed that there are no methods to calculate an in kind contribution and it is the reason why this practice has been interrupted.

**II Proposals**

For the complete fulfilment of the requirements of the WTDC-17 Resolution 17, as well as Resolution 135 (Rev. Dubai, 2018) of the Plenipotentiary Conference on ITU's role in the durable and sustainable development of telecommunications/information and communication technologies (ICTs), in providing technical assistance and advice to developing countries[[1]](#footnote-1)1 and in implementing relevant national, regional and interregional projects and Resolution 157 (Rev. Dubai, 2018) of the Plenipotentiary Conference on strengthening of the project execution and project monitoring functions in ITU we ask the Secretariat:

1. To develop general guidelines for the financial and other types of contributions of ITU Member States, Sector member and other partners in regional initiatives, which would be based on the principles and criteria arising from their mandates in the *resolves* section of Resolution 17 (Rev. Buenos Aires. 2017), and contain developed provisions that disclose these principles.

1.2. These provisions should include:

- criteria formulated for the correct classification by MS’s part of project funds as contributions in kind;

- a developed method for calculating MS in-kind contributions to the budget of the projects provided for the implementation of regional initiatives, based on combining, if possible, standard projects with similar content, containing the general structure of the corresponding agreement between ITU, MS and partners, taking into account the national legislation in the country, the provisions of the ITU Financial Regulations & Financial Rules, related IPSAS clauses and other relevant documents to facilitate MS to identify and implement appropriate opportunities.

2. To report to the ITU Council, on an annual basis, information on experience in implementing regional initiatives, including projects with in-kind contributions.

More detailed provisions are contained in the Аnnex А to this contribution.

**Annex А**

**Suggestions for inclusion in the methodology (the guidelines) for assessing contributions for the implementation of regional initiatives of ITU, Member States, Sector Members and other participants in kind (in kind), in the form of recommendations for the content of the sections that help to reduce the difficulties faced by Member States**

1. **Preamble**

The list and action lines of regional initiatives implemented through investment projects are set by World Telecommunication Development Conference (WTDC). Particularly, at WTDC-17 these action lines covered a wide range of applications, from development of digital economy and innovations, enhanced usage of frequency resources, development of broadband access, bridging digital divide, and to human capacity building, while considering requirements of the region.

In Annex 2 «Rules, procedures and financial arrangements for voluntary contributions and trust funds» to Financial Regulations and Financial Rules, section 1 stipulates that these rules, procedures and financial arrangements shall apply to all voluntary contributions as referred to in the relevant provisions of the Convention. They also apply to any funds entrusted to the Union for the execution of specific programmes and projects. It also refers to contributions in kind.

It is known that general requirement to contributions in kind to projects is that those contributions should be consistent with the purposes of a project. However, it should be considered that non-financial form of investments is often more attractive than investments in cash. Such investments in kind are faster disbursed which means reduction of timeframes of putting a project into operation and reduction of costs for its development. These investments are not affected by inflation, specifically, if the investments are not of one-time nature but time-spaced. Moreover, technologies, know-how, patents and other research and development products can be transferred from investor only in kind or as information.

At the same time, the absence of clear and explicit guidelines available in a form of a single document in ITU for referring contributions in kind to projects, *inter alia,* aimed at the implementation of regional initiatives prevents Member States from finding and implementing appropriate required resource opportunities.

This is why the Russian Federation suggests ITU Secretariat to develop relevant guidelines that were mentioned above in the contribution from Russian Federation and consider some proposals that can facilitate the work of Member States, especially, at initial stages of decision-making whether to participate in regional initiatives. Development of the mentioned guidelines can also facilitate building capacity of national experts, particularly, in developing countries, and assist in achieving the ITU goals and SDGs. For this purpose, it may require amendments to Financial Regulations and Financial Rules.

1. **Proposals towards the ITU guidelines on the assessment of contributions in kind**
	1. The guidelines should provide a general definition of contributions in kind and set it in the Financial Regulations and Financial Rules and provide the recognition of these assets in the relevant financial and accounting statements.

In general case in-kind contributions or non-financial investments – are investments to an investment project carried out in a non-monetary form. These may include investments as land, equipment in kind, real and personal property, rights for technology or patents of invention, know-hows of production, works, and services; rights for research and development deliverables, software, work (working hours) of consultants and experts and etc.

There should be criteria, based on which contributions in kind in ITU can be included as project resources. However, the main criterion is consistency of such contributions with the purposes of the project.

* 1. When possible, the guidelines should highlight relatively typical investment projects carried out in ITU, *inter alia*, those under the implementation of regional initiatives, and provide a provisional list of non-financial investments that can be implemented as contributions in kind.
	2. The main problem is a monetary value of contributions in kind. Naturally, to evaluate such investments to a project they, if required by national legislation in the field of project management and investment, should undergo an expertise and get a monetary value required both for determining the investor's share in an investment project, and for technical and economic calculation of efficiency of the investment project and its business plan.
	3. A dedicated evaluation team consisting of independent experts, for example, under the Russian legislation carries out such evaluation, or an independent expert organization granted with international assessor certificate. Further recording and assessment of efficiency of non-financial investments shall be determined with consideration of monetary value of these investments by the experts. ITU should have a transparent procedure for such in-kind contribution assessment, while considering requirements of relevant IPSAS provisions, recommendations of ITU External Auditor, and the UN best practices, to be coordinated with Member States.
	4. Monetary evaluation of contributions in kind should also take into account the risks, because demonstrating the usefulness of non-financial investment using purely economic methods is not always feasible. Expert evaluations may become inaccurate or even erroneous, while being expensive on top of that. In-kind contributions allow quite often for all parties concerned to agree with the project investor on a provisional amount of investment, which is acceptable for all parties and shows sufficient estimated efficiency to decide upon the feasibility of the investment project. It would be desirable that this aspect would be reflected in the ITU methodology/guidelines. In that regard, requirements of transparency, expediency and clarity of used evaluation tools should be observed.
	5. Perhaps, it will be useful to refer to UN best practices, in particular, UNDP developments on in kind contributions; independent advisors which may develop such guidelines on the basis of current approaches, for example, PwH company has developed such document for the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). This document contains step-by-step guidance for estimation of contributions in kind on the basis of the fair value methodology[[2]](#footnote-2)/. This methodology refers in investments to the asset price agreed by transaction parties, provided that both parties are aware and participate freely in the transaction, and fair value estimate is implemented for specific asset or commitment taking into account the situation in the national market.
	6. The guidelines shall include the step-by-step process of interaction between members of ITU and the Secretariat to determine the value terms of in-kind contributions taking into account national and other relevant legislation in the field.
	7. The guidelines shall include a typical form of an agreement between participants of the project involving in-kind contributions. Basically, this form of agreement exists in ITU, includes the sections below, but it is also desirable to have explanations (examples) for filling in these sections:

I. Project general data

- Project participants.

- Total investment volume and composition in different forms.

- General characteristic of the project and its purposes.

- Dates, signatures.

II. Background and the context of the project

- General introduction.

- Problem definitions.

- Justification.

- Linkage to BDT programs/activities.

III. Strategy

- Overall objective of the project (to assist Member States).

- Strategical goals of the project and expected results.

- Performance and outcomes indicators.

- Activities and functions of each of the project participant.

IV. Financial aspects of the project. Contributions from each of the project participants (not only forms and types, but also monetary evaluation of investment should be listed)

V. Risk management

VI. Project management, roles and responsibilities

VII. Project sustainability/reliability (stability) (the possibility of long-term use of the results by the beneficiary country)

VIII. Monitoring of the project implementation

IX. Budget of the project and relationship to the ITU finances

Х. Work plan/roadmap of the project, implementation and description of how to control and adjust it.

In addition, in agreement document, in our view, there should be included a section containing the legal justification for the project as well as references to the relevant acts of national and international legislations, according to which projects are implemented. For example, in the Russian Federation at state level alone there are seven Federal Laws to regulate the investment activities of parties, mostly:

1. Federal Law No 39-FZ of February 25, 1999 «On Investment Activity in the Russian Federation Pursued in the Form of Capital Investments».

2. Federal Law No 69-FZ of April 01, 2020 «On the Protection and Encouragement of Capital Investments in the Russian Federation».

3. Federal Law No 160-FZ of July 09, 1999 (amended May 31, 2018) «On Foreign Investment in the Russian Federation». This Federal Law is aimed at raising and effectively using foreign in-kind and financial resources, advanced machinery and technology, managerial experiences in the economy of the Russian Federation, at providing a stable environment for the activities of foreign investors and at making sure the legal treatment of foreign investments complies with the provisions of international law and international practices of investment cooperation. The present Federal Law shall govern relations connected with state guarantees of the rights of foreign investors when they invest into actual projects in the territory of the Russian Federation.

In Section VI. Project management, roles and responsibilities, should be clearly established the responsibility for non-implementation or partial implementation of the project, including non-compliance with the deadlines.

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1. 1 These include the least developed countries, small island developing states, landlocked developing countries and countries with economies in transition. [↑](#footnote-ref-1)
2. Although, PricewaterhouseCoopers did not undertake in-depth analysis to determine the overall compliance with the IPSAS standards. This step-by-step guidance is an independent expert opinion of PricewaterhouseCoopers and does not necessarily reflect the official policy or position of the United Nations or its agencies. [↑](#footnote-ref-2)