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| **Council Working Group on Financial and Human Resources Fifteenth meeting – 11 and 12 January 2022** |  |
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|  | **Document CWG-FHR-15/21-E** |
| **30 December 2021** |
| **English only** |
| Contribution by the United States of America | |
| Possible new approach to financial risk management of construction | |

1. **Introduction**

In order for a consensus to be established to go forward with the new ITU Headquarters building project in 2018, Council created the Risk Register Fund (RRF) so as an extra contingency in managing financial risk to the Member States of the Union. The risk register is part of an overall risk management strategy to identify the potential impact of future programme execution and to develop recommendations for the effective allocation of contingency funding. The contingency represents approximately 8% (CHF 12.6 million) of the CFC budget 1 to 9 and will have to be used in the case of services not provided and/or unexpected expenditures due to hazards and unforeseen work during the demolition and construction periods. MSAG has been commenting on the insufficient funding of the RRF for some time, and the current funding level is only CHF 3.6 million. At the end of 2021 it appears that there will be no additional money moved to the RRF.

1. **Discussion**

The establishment of the RRF was a critical element that enabled the consensus in Council 2018 to proceed with the construction project because it reflected the desire of member states to have a hard limit on their financial exposure for the costs of this project. The establishment of a reserve fund is one technique to manage risk.

Another technique used is to transfer the risk through the use of an insurance policy, similar to what is achieved through health insurance where the financial risks associated with health care are transferred from the individual to the insurer. It is customary in large construction projects for the owner (ITU), as well as the contractor, to transfer risks to manage costs by means of insurance. While this approach may not be customary with Geneva-based UN construction projects, responsible parties for those projects also set aside money in advance of construction design and designed to such funding. It would be useful for ITU to gather more information and consider the use of insurance as a means of transferring risk as an alternative to the RRF. Such an approach could achieve the objective of managing risk and reduce the size required bank accounts – collaterally reducing the exposure to negative interest on ITU accounts.

There is recognition within the Secretariat and MSAG that the RRF is a supplemental contingency to what is included in the project plan. It is for this reason that there is hope that the premium for such an insurance policy could be reasonably small.

1. **Proposal**

The United States propose that CWG-FHR request the ITU Financial Management Group to gather more information about the possible costs and consider the use of insurance as a means of transferring risk as an alternative to the RRF and report to Council 2022.