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FINANCE COMMITTEE

Hundred and Forty-eighth Session

Rome, 18 - 22 March 2013

**The Incentive Scheme and Other Measures to Encourage Prompt Payment
of Contributions**

Queries on the substantive content of this document may be addressed to:

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EXECUTIVE SUMMARY

- At its 147th Session in November 2012, the Finance Committee requested the Secretariat to undertake an analysis of the effectiveness and costs of administering the Incentive Scheme and present the results of this analysis to the Spring session of the Committee in 2013, considering a range of options to encourage prompt payment of contributions.
- This document presents an analysis of the impact of the Incentive Scheme on collection rates during the past 12 years together with information on the estimated costs of administering the scheme.
- In order to assist the Committee in its consideration of options to encourage prompt payment of contributions, the document provides information on the measures that are currently in place as well as measures considered in the past but for which decisions on implementation have been deferred. In this respect the Council at its 145th Session has called on the Committee to specifically examine the matter of restoration of voting rights of Member Nations in Arrears and for which further background information is presented in the document.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

The Finance Committee is invited to review the information presented and report to Council on the conclusions of its review.

Draft Advice

- **The Committee noted that based on the analysis presented, the Incentive Scheme appeared to have had a limited impact on the collection rate of Members' contributions.**
- **The Committee further noted that the costs of administering the Incentive Scheme were relatively minor and would not generate realizable savings if the activities were no longer performed.**
- **The Committee noted that the measures currently in place to encourage prompt payment of contributions reflected the past guidance and recommendations of the Finance Committee and Council, and urged the Secretariat to continue these efforts.**

Background

1. In reviewing the Incentive Scheme for Prompt Payment of Contributions at its 147th Session in November 2012, the Finance Committee requested the Secretariat to undertake an analysis of the effectiveness and costs of administering the incentive scheme and present the results of this analysis to the Spring session of the Committee in 2013, considering a range of options to encourage prompt payment of contributions.
2. This document presents an analysis of the impact of the incentive scheme on collection rates during the past 12 years together with information on the estimated costs of administering the scheme.
3. In order to assist the Committee in its consideration of options to encourage prompt payment of contributions, the document provides information on the measures currently in place as well as measures considered in the past but for which decisions on implementation have been deferred. In this respect the Council at its 145th Session has called on the Committee to specifically examine the matter of restoration of voting rights of Member Nations in Arrears and for which further background information is presented in the document.

Impact of the Incentive Scheme on Collection Rates

4. The table below presents an analysis of the collection rate of current Regular Programme assessments over the past 12 years together with comparative information on the number of Members who qualified for a discount under the Incentive Scheme and the total amount of discount applied for each year.

Year	No. of Members qualifying for a Discount	Discount Rate USD %age	Discount Rate EUR %age	Total Discount Applied (USD)**	Collection Rate %age
2001	20	1.70	n/a	107,121	93
2002	38	0.45	n/a	96,327	92
2003	46	0.33	n/a	77,053	89
2004*	35	0	0	0	89
2005*	40	0	0	0	75
2006*	37	0	0	0	88
2007*	53	0	0	0	91
2008*	38	0	0	0	82
2009	50	0.03	0.43	95,822	91
2010	53	0.07	0.10	45,127	93
2011	51	0.04	0.21	96,262	82
2012	47	0.01	0.15	49,536	89

* During the period 2004 - 2008 the discount rate was set by the Finance Committee at 0%.

** In order to present a consolidated total USD amount for discounts applied, discounts in EUR have been converted at the exchange rate effective at the date of application of the discount.

5. Low collection rates in 2005, 2008 and 2011 were attributed to delays in the timing of payments by major contributors. For other years, collections rates were generally consistent and appear to indicate that the Incentive Scheme did not have a significant impact in encouraging prompt payment of assessed contributions.

6. The results of this analysis are consistent with the conclusions of a survey of Member Nations carried out in 2005 to identify those issues that influence the timing of payments or the reasons for non-payment of assessed contributions. This survey indicated that the annual budget cycle at the national level was the main factor which influenced the timing of payments¹.

Costs of Administering the Scheme

7. The main costs of administering the Scheme relate to the resource effort associated with calculating the amount of discount to be applied for each qualifying Member, incorporation of these amounts in the annual assessments issued to Members, and related accounting actions. The costing of this effort is estimated at USD 7,500 per annum². Since this effort is fragmented across many people, there would be limited tangible savings were it not to be performed and the benefits would be in terms of productivity improvements as staff time would be released for other activities.

8. It is noted that the cost of calculating discounts does not vary with the value of the discount to be applied. While the amount due to an individual Member can at times be very low (e.g. the list of Members eligible for discount at 31 December 2012³ includes amounts of less than USD 1), this can only be confirmed after completion of the calculation.

Measures Currently in Place to Encourage Prompt Payment of Contributions

9. The measures currently in place to encourage timely payment of contributions and arrears are listed below:

- a) A Circular State Letter is sent to all Member Nations each December in accordance with Financial Regulation 5.4 informing of their obligation to the Budget for the following calendar year and of arrears of contributions outstanding;
- b) Statements of contributions outstanding are sent by the Finance Division to Member Nations on a quarterly basis;
- c) Specific action is taken to notify those Council Members who are considered to have resigned their seat due to non-payment of contributions in accordance with General Rule XXII.7 of the General Rules of the Organization (GRO), to encourage them to regularize their positions well before the Council session;
- d) Similarly, specific action is taken at the highest level to ensure that those Member Nations with potential voting rights problems are notified well in advance of the Conference session and have ample time to regularize their contributions position or clarify the reasons for the non-payment of assessed contributions;
- e) The Finance Division writes directly to each FAO Representative office of Member Nations with outstanding amounts on a quarterly basis, with the request for follow-up with local authorities to ensure payment is made;
- f) Country briefs are provided to the Director-General on an ongoing basis to assist him in his high level talks with Heads of State and Ministries where he stresses the importance of timely payment of contributions;
- g) Letters are sent periodically by the Assistant Director-General, CS to Ministries reminding of their country's obligations to pay outstanding contributions and providing explanations of the Organization's rules and regulations regarding loss of voting rights;
- h) Ongoing contacts with Permanent Representations and Representatives to FAO;

¹ FC 115/8 para 12

² Calculated based on an assumed effort of 8 FTE days across various staff grades.

³ FC 147/4, table on page 5

- i) Month-end arrears reports are regularly posted and available to all Permanent Representatives on the Permanent Representatives' Website;
 - j) Several reports on Regular Programme contributions by country are posted on FAO's public website. Further changes to the FAO public website are being developed to make information on the status of the contributions more accessible and visible to the clients (structure, new graphic presentation, payment highlights);
 - k) Expressing appreciation for receipt of timely payments when attending official meetings with Member Nations representatives and Governing Bodies;
 - l) The Incentive Scheme to Encourage Prompt Payment of Contributions whereby Member Nations receive a discount if the full assessment is paid prior to 31 March of the contribution year;
 - m) Loss of voting rights in the Conference under Article III-4 of the Constitution (for Members with arrears equal to or in excess of the contributions due for the two preceding calendar years);
 - n) Ineligibility for election to the Council under Rule XXII-5 of the General Rules of the Organization (for Members with arrears equal to or in excess of the contributions due for the two preceding calendar years);
 - o) Loss of seat in the Council under Rule XXII-7 of the General Rules of the Organization (for Members with arrears equal to or in excess of the contributions due for the two preceding calendar years); and
 - p) To facilitate the payment of contributions by those Member Nations with limited availability of convertible currency, the Conference approved a derogation from Financial Regulation 5.6 to allow the Director-General to accept contributions in non-freely convertible local currencies under certain conditions (Resolution 14/2007).
10. The Committee most recently reviewed existing and alternative measures at its 143rd Session in May 2012. At that session, the Committee:
- proposed that even greater visibility be given to the status of contributions and arrears by making such information more accessible on the FAO public website, drawing it to the attention of Members attending major FAO meetings and making positive and public appreciation of Members paying contributions on a timely basis;
 - conveyed its willingness to join efforts with the Secretariat in approaching Members with outstanding contributions to encourage settlement or seek repayment plans;
 - confirmed that existing regulations regarding loss of voting rights in case of non-payment of assessments for more than two years should be vigorously applied; and
 - recommended that further efforts to encourage payment of arrears should emphasise the moral obligation of Members to pay their contributions rather than punitive consequences for late or non-payment."⁴
11. The Secretariat is implementing these recommendations on an ongoing basis both at Headquarters and in FAO offices worldwide, reminding Member Nations of their financial obligations and emphasizing the importance to the Organization of timely payment of assessed contributions

Other Measures to Encourage Timely Payment of Contributions

12. The Governing Bodies have considered a number of other measures during past discussions but for which implementation has been deferred, with some Members cautioning that the application of these measures would mainly impact developing countries in difficulty. These proposals included:
- a) Extension of the restriction under General Rules of the Organization (GRO) XXII-5 & XXII-7 to include loss of seat in the Finance and Programme Committees, and in Council Committees;

⁴ CL 144/12 para 11

- b) That the sanctions provided under Article III.4 (loss of voting rights) and GRO XXII-5 and XXII-7 (Council election or seat) should be amended so that only one year of arrears (instead of two) would result in the sanctions;
- c) Interest should be charged on late payments or external borrowing costs should be borne by countries with outstanding contributions;
- d) Member Nations in arrears of more than the total of contributions due for the two preceding calendar years should be required to submit an instalment plan to the Finance Committee for review, and subsequent approval by the Conference, while Member Nations in arrears for amounts less than that should be required to provide written explanation on the reason for such arrears to the Finance Committee for review;
- e) Existing regulations on loss of voting rights should be rigorously applied;
- f) TCP assistance and recruitment of nationals should not be available for countries in arrears; and
- g) A set of guidelines should be developed setting out conditions for accepting voluntary contributions from Member Nations in arrears.

Restoration of Voting Rights of Members in Arrears

13. At its 95th Session in October 2012, the Committee on Constitutional and Legal Matters (CCLM) examined document CCLM 95/14, "Legal aspects of the treatment of arrears (restoration by the Conference of the voting rights of Member Nations in arrears)". This document described the main provisions of the Basic Texts on sanctions applicable to Member Nations in arrears and also reviewed the practice of the General Committee in recommending to the Conference restoration of voting rights, as well as the practice of approval of Instalment Plans for the settlement of arrears.

14. The CCLM noted that the Conference, at its 33rd Session in November 2005, when considering the issue of restoration of voting rights had recommended that the normal course of action in respect of Member Nations in arrears, in addition to the provisions of Article III paragraph 4 of the Constitution, should consist in actively encouraging them to submit an Instalment Plan for the settlement of such arrears as a condition for the restoration of their voting rights. The Conference also recommended that consideration be given in the future that requests for restoration of voting rights be referred to the Director-General for submission to the Autumn Session of the Finance Committee in Conference years, which would submit its views to the Conference, through the Council for consideration by the General Committee (proposal referred to in para 12d above).

15. Noting that these particular recommendations had never been implemented, the CCLM recommended that the Finance Committee should examine again this recommendation, which would need to be adjusted to take into account the new calendar of sessions of the Conference and other Governing Bodies. The CCLM expressed its readiness to examine the legal aspects of the matter, including whether it would be appropriate to reflect in the Basic Texts of the Organization the requirement that requests for restoration of voting rights or approval of Instalment Plans be submitted to the Organization in a timely manner, in accordance with the guidance of the Conference.

16. At its 145th Session in December 2012, the Council took note of the CCLM discussions on this subject and "called upon the Finance Committee to examine the matter, taking into account the guidance provided by the Conference at its 33rd Session in November 2005"⁵.

⁵ CL145/REP para 39f