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# FINANCE COMMITTEE

**Hundred and Fifty-fourth Session**

**Rome, 26 - 30 May 2014**

**Review of the Incentive Scheme to encourage Prompt Payment of  
Contributions**

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#### EXECUTIVE SUMMARY

- At its 151<sup>st</sup> Session in November 2013, the Finance Committee proposed to discuss the effectiveness of the Incentive Scheme including its costs at its next regular session in 2014.
- In order to assist the Committee in its review, this document presents an analysis of the impact of the Incentive Scheme on collection rates during the past 12 years, information on the estimated costs of administering the scheme and a summary of the Committee's previous considerations on this matter.

#### 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.

### **Background**

1. At its 151<sup>st</sup> Session in November 2013, in reviewing the discount rate to be used for qualifying contributions in 2013 under the Incentive Scheme to encourage Prompt Payment of Contributions, the Finance Committee was informed that the current processing costs of the Scheme could be higher than the estimated total discount and proposed to discuss the effectiveness of the Incentive Scheme including its costs at its next regular session in 2014.
2. This document presents an analysis of the impact of the incentive scheme on collection rates during the past 12 years, information on the estimated costs of administering the scheme and summarizes the previous considerations of the Committee on this matter.

### **Impact of the Incentive Scheme on Collection Rates**

3. 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.
4. Low collection rates in 2005, 2008, 2011 and 2013 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.

**Table 1**

<b>Year</b>	<b>No. of Members qualifying for a Discount</b>	<b>Discount Rate USD %age</b>	<b>Discount Rate EUR %age</b>	<b>Total Discount Applied (USD)**</b>	<b>Collection Rate %age</b>
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
2013	55	0.01	0.03	10,279	84

\* 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. 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 payments.<sup>1</sup>

<sup>1</sup> FC 115/8 para 12.

## Costs of Administering the Scheme

6. 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 annum.<sup>2</sup> 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

7. 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 2013<sup>3</sup> includes amounts of less than USD 1, this can only be confirmed after completion of the calculation.

## Previous Considerations of the Finance Committee

8. At its 108<sup>th</sup> Session (27 September to 1 October 2004), the Committee reiterated its finding expressed in several past sessions that the incentive scheme had no real impact in encouraging prompt payment by member nations, noting that members which paid their contributions by 31 March of any year were not likely to be influenced by the minor benefit resulting from the scheme. The Committee reviewed and discussed the proposed rates of discount to be credited against 2005 contributions in US dollars and Euro and decided that both rates should be set at zero. This action would emphasize to the membership the Finance Committee's position that the scheme was ineffectual.

9. At its 109<sup>th</sup> Session (9 to 13 May 2005), the Committee noted that the rate of collections had increased despite the zero rate but felt that the analysis did not provide a sufficient basis for concluding whether the incentive scheme had any real impact in encouraging prompt payment by member nations. In order that the effect of the zero discount rate on members' timing of payments could be analysed over an extended period of time, the Committee recommended that the rates of discount to be credited against 2006 contributions in US dollars and Euro remain at zero.

10. Following the period 2004-2008 during which the discount rate had been set at zero, at its 128<sup>th</sup> meeting (27 to 31 July 2009), the Committee, considering the importance of sending a signal to Members regarding the need for early payment of contributions, agreed that positive discount rates should be reinstated to apply for Members who paid their assessed contributions in full by the end of the first quarter 2009.

11. Positive discount rates have been subsequently reconfirmed by the Committee to apply as credits for Members had paid their assessed contributions in full in 2010, 2011, 2012 and 2013.

12. This matter was most recently reviewed by the Committee at its 148<sup>th</sup> Session (18 to 22 March 2013), where following a discussion on the effectiveness and costs of the Incentive Scheme, and considering the importance of sending a strong signal to Members regarding the importance of making timely payment of contributions, the Committee agreed to maintain the Incentive Scheme<sup>4</sup>.

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<sup>2</sup> Calculated based on an assumed effort of 6 FTE days across various staff grades.

<sup>3</sup> FC 147/6, table on page 5.

<sup>4</sup> CL 146/3 para 10a