



منظمة الأغذية  
والزراعة  
للأمم المتحدة

联合国  
粮食及  
农业组织

Food  
and  
Agriculture  
Organization  
of  
the  
United  
Nations

Organisation  
des  
Nations  
Unies  
pour  
l'alimentation  
et  
l'agriculture

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación



# CONFERENCE

## Item 21

### Twenty-eighth Session

Rome, 20 October - 2 November 1995

### INCENTIVE SCHEME TO ENCOURAGE PROMPT PAYMENT OF CONTRIBUTIONS

1. The Conference at its Twenty-sixth Session in November 1991, noted with approval the proposal to establish a discount scheme to encourage prompt payment of contributions and that the Organization should test the discount scheme on an experimental basis.<sup>1</sup>
2. The rules of the discount scheme are defined as follows:
  - a) A Member Nation could earn a discount if the full amount of its assessment were paid prior to 31 March of the year of assessment.
  - b) The discount earned would be credited to the Member Nations in the year after the payment.
  - c) The discount credited to Member Nations would not exceed the interest earned on Regular Programme funds during that year. Therefore, the scheme would not create a deficit in earnings from investments.
  - d) Member Nations who have arrears outstanding would not qualify for the discount treatment on their remittance until the arrears were settled in full.
3. The Finance Committee at its Eighty-second Session in September 1995 examined the results of the first three-year period of the functioning of the scheme and its impact on the receipt of contributions. The following is an extract of document FC 82/9(B) as debated by the Committee:

<sup>1</sup> C 91/REP para. 338.

"11. The following table gives a comparison of the receipt in full of current year assessments during the first quarter of the year for the three-year period that the discount scheme has been in force compared with the preceding three-year period.

**TABLE 1**  
**Payment in Full of Current Year Assessments at 31 March**

Year	Member Nations		Contributions paid		
	Number	Percentage of total	Amount in US\$	Percentage of total	Discount US\$
1990	21	13.29%	98 285 829	35.26%	N/A
1991	23	14.65%	98 459 579	35.32%	N/A
1992	22	13.75%	108 908 964	34.32%	N/A
1993	29	18.24%	78 846 542	24.85%	654 426
1994	30	17.75%	97 963 700	31.46%	862 081
1995	31	18.34%	97 529 140	31.32%	1 453 184

12. . As can be seen, there has been an increase in the percentage of Member Nations who have paid their assessments in full during the first three months of the year, but this improvement is not reflected in financial terms. In fact, in none of the three years in which the scheme has been in effect does the rate of receipt of current contributions in full equal or exceed that of the three preceding years.

13. This trend would indicate that the scheme is not a contributing factor in the timing of receipts of the larger contributors to the budget and consequently does not have the desired beneficial effects on the cash-flow of the Organization.

14. The cost of the scheme to the Organization (albeit always in line with condition (c) of paragraph 4<sup>2</sup> and without generating a deficit in interest income), is, on the other hand, substantial.

15. The experience of other UN Agencies in the use of discount or incentive schemes is no more encouraging than that of the Organization (the latest CCAQ/FB findings on this matter are given in the Appendix). A review of the CCAQ/FB documentation indicates that in no case has a perceptible increase in receipt performance been noted as a result of an incentive scheme.

16. In the Report of its Eighty-first Session (document ACC/1994/15 para. 30), the CCAQ/FB, in its review of the functioning of incentive and penalty schemes throughout the UN system, considered:

"that the review again confirmed that while the penalty schemes could generally be considered useful, the effectiveness of the incentive schemes remained very doubtful".

17. In the light of the experience of this three-year period of functioning, the Director-General strongly recommends that the Scheme be discontinued since it has not proved effective while it has reduced interest income (and thereby miscellaneous income) significantly, causing assessments to rise accordingly."

<sup>2</sup> This reference in document 82/9(B) is to the rules of the Incentive Scheme as presented in paragraph 2 of this document.



4. In paragraph 3.48 of the Report of its Eighty-second Session, the Finance Committee concluded:

**"The Committee noted that the impact of the Incentive Scheme on the cash-flow of the Organization had not been significant and that the desired results had not been forthcoming. Furthermore, it noted that the cost of the Scheme in terms of reduced miscellaneous income had been considerable. Some Members of the Committee supported the Director-General's recommendation that the Scheme be discontinued in the light of these facts. However, other Members of the Committee considered that the Organization should continue with the Scheme since it was the only tangible way in which a difference in the treatment of those Member Nations that paid their contributions promptly was shown."**

5. The Report of the One Hundred and Ninth Session of the Council in relation to the Report of Eighty-second Session of the Finance Committee on the subject of the Incentive Scheme states:

**"It noted that the results of the Incentive Scheme to encourage prompt payment of contributions had not produced the desired effects and that its cost in terms of reduced miscellaneous income had been considerable. However, since there was not a general consensus in supporting the Director-General's recommendation to discontinue the scheme, the Council considered that it would be appropriate that the Director-General's recommendation be referred to the Conference for consideration and decision."**

6. This paper is, therefore, presented to the Conference as requested by the Council, for decision as to whether the Incentive Scheme should be discontinued in the light of its disappointing performance and lack of any positive effect on the cash-flow of the Organization, in accordance with the recommendation of the Director-General.

## APPENDIX B



UNITED NATIONS SYSTEM

ACC

**Administrative Committee  
on Co-ordination**ACC/1994/FB/R.22  
13 July 1994

Consultative Committee on  
Administrative Questions  
(Financial and Budgetary Questions)

Eighty-first session  
New York, 29 August - 2 September 1994

Item 5.2 of the provisional agenda

**COLLECTION OF CONTRIBUTIONS:  
INCENTIVE AND PENALTY SCHEMES***Note by the secretariat*

1. In March 1989, CCAQ(FB) decided<sup>1</sup> that a tabular presentation, setting out the characteristics of incentive and penalty schemes designed to encourage prompt payment of organizations' assessed contributions, and experience with such schemes, should be submitted to it each year at its autumn session, starting in 1990.
2. The relevant tables in the attached annex incorporate new material and other changes communicated to the secretariat by the organizations concerned in response to ACC/1994/FB/CM/3 of 20 May 1994. The amendments concern the ILO, FAO, UNESCO, ICAO, WHO and IMO.

<sup>1</sup> ACC/1989/7, para.45.

# ANNEX

## Collection of assessed contributions: Incentive and penalty schemes

### A. Incentive schemes

Organization	Nature of scheme	Conditions of introduction	Main characteristics <sup>a</sup>	Experience						
ILO	Distribution to contributors of a proportion of interest and of currency forward-purchase premium earnings.	Introduced effective 1 January 1989 for experimental period of two years and continued on a permanent basis as from 1 January 1991.	<p>(i) (a) 60 per cent of interest earned on temporarily surplus regular budget funds; <i>plus</i> (b) 50 per cent of net premium earned on forward purchase of US dollar requirements;</p> <p>(ii) Eligibility depends on Member State's being fully paid up at end of each year;</p> <p>(iii) Credits to eligible Member States' assessed contributions are as follows:</p> <table><tr><td>1991 - SFR 1,692,226</td><td>1992 - SFR 1,823,866</td></tr><tr><td>1993 - SFR 8,460,546<sup>b</sup></td><td>1994 - SFR 818,781</td></tr><tr><td>1995 - SFR 1,988,136<sup>c</sup></td><td></td></tr></table> <p>(iv) <i>S-curve</i>.</p>	1991 - SFR 1,692,226	1992 - SFR 1,823,866	1993 - SFR 8,460,546 <sup>b</sup>	1994 - SFR 818,781	1995 - SFR 1,988,136 <sup>c</sup>		Experience to date does not show any perceptible difference in collection performance.
1991 - SFR 1,692,226	1992 - SFR 1,823,866									
1993 - SFR 8,460,546 <sup>b</sup>	1994 - SFR 818,781									
1995 - SFR 1,988,136 <sup>c</sup>										

<sup>a</sup> Where these are presented in paragraphs preceded by small Roman numerals, the paragraphs refer to the following:

**Incentive schemes:** (i) Type of earnings distributed and their order of magnitude;

(ii) Eligibility requirements for receipt of benefits;

(iii) Contributors' first payment record period considered for the calculation of benefits and first period of related benefit distribution;

(iv) Any mechanism (*S-curve* or other) for apportioning benefits earned to date of receipt of payment. The "*S*" curve formula is a weighting system used for the distribution of amounts due under incentive schemes by using incentive points earned on the basis of the timing and amount of payment of current year assessments during the year.

**Penalty schemes:** (i) Rate charged;

(ii) Date from which interest accrues;

(iii) Disposition of interest payments received;

(iv) Treatment of interest due in calculating arrears and determining voting rights;

(v) Any similar arrangements applied for activities not financed by assessed contributions.

<sup>b</sup> Includes distribution of the 1990-1991 net premium of SFR 5,352,166.

<sup>c</sup> Includes distribution of the 1992-93 net premium of SFR 929,070.



Collection of assessed contributions: Incentive and penalty schemesA. Incentive schemes (cont'd)

Organization	Nature of scheme	Conditions of introduction	Main characteristics	Experience
FAO	(1) Allocation among Member Nations of the interest income element of any cash surplus, on a weighted basis, in accordance with the amount and the timing of payment of contributions during the financial period.	Introduced effective with the 1988-1989 biennium, beginning 1 January 1988, without time limit on applicability.	Applies to all interest earnings forming a part of a cash surplus (does not apply if no cash surplus arises, or to interest income estimated in advance and applied against budgetary appropriations to determine assessed contributions). All Member Nations paying a contribution during the financial period are eligible to share in the allocation, regardless of whether the contribution paid is against arrears or current assessments, and irrespective of the status of outstanding assessments of the Member Nations at the end of the financial period. Detailed measures for the calculation of allocations have not yet been formalized.	In the absence of cash surpluses, Member Nations have had no real incentive under the scheme so far.
	(2) Discount to be credited to Member Nations for payment by 31 March of assessed contributions.	Experimental test to be introduced effective 1 January 1993.	To be applied to assessed contribution of Member Nations which meet the following criteria: <ul style="list-style-type: none"> <li>- Payment of full assessment to 31 March;</li> <li>- No arrears outstanding.</li> </ul> <p>The discount earned is to be credited to Member Nations in the year after payment, and the discount total is not to exceed the interest earned on regular programme investments during that year. The discount rate (per cent) is to be determined by the Director-General in consultation with the FAO Finance Committee.</p>	Experience for 1993 and 1994 has shown little impact on the rate of receipt of contributions.
UNESCO	Distribution to Member States of interest earned on investment of regular programme funds in accordance with timing and amount of contributions paid.	Introduced effective 1 January 1988 for a trial period of four years and continued for a further two biennia commencing 1 January 1992.	Interest on regular programme funds for each year will be distributed on the S-curve points system to Member States that have paid in full their contributions for each year of the financial period. Points are also accumulated on budget surpluses of previous financial periods. The appropriate share of interest is distributed at the end of the first year of the two-year financial period following that in which such interest was brought to account.	Since the introduction of the scheme in 1988-1989 arrears of contributions at the end of each biennium have increased, both in dollar terms and in terms of percentages of amounts assessed. Due to the deterioration in the cash position less than \$1 million became available for distribution under the scheme for 1990-1991 and nothing at all became available during 1992-1993. Thus there has been little or no real incentive under the scheme in recent years.

# Collection of assessed contributions: Incentive and penalty schemes

## A. Incentive schemes (cont'd)

Organization	Nature of scheme	Conditions of introduction	Main characteristics <sup>a</sup>	Experience
ICAO	Distribution of interest earnings.	Introduced effective 1 January 1987 for an indefinite period. First distribution 1 January 1990.	<p>(i) On 1 January 1990, US\$ 670,000 of surplus (representing interest earned on investments in 1987 and 1988) was distributed to Member States. On 1 January 1993, a distribution of US\$ 865,000 was made from interest earned on investments (1989 - \$610,000; 1990 - \$255,000; 1991 - NIL).</p> <p>(ii) Bank interest earned on regular programme funds is distributed:</p> <p>(a) according to points earned through the <i>S-curve</i> formula, to Member States that have paid all or part of their contributions for the three years preceding the Assembly; as well as</p> <p>(b) according to shares of undistributed surpluses accrued from previous years' budgets, to Member States that have paid their contributions <i>in full</i> in the years in which the surpluses were determined. Such distribution is to be made to the extent that the cash surplus available for distribution is greater than or equal to the bank interest earned;</p> <p>(iii) On or before 1 January 1987 for 1987 assessments, and/or 1986 for earlier undistributed surplus.</p> <p>(iv) Cube-root <i>S-curve</i> formula.</p>	<p><b>Period</b>      <b>Percentage of annual contribution received</b></p> <p>1986      1987<sup>a</sup>      1988<sup>a</sup> (pre-Incentive)</p> <p>1st quarter      30.5<sup>a</sup>      31.4<sup>a</sup>      25.8<sup>a</sup> 2nd quarter      43.7      50.9      50.2 3rd quarter      65.0      59.6      61.8 4th quarter      79.4      66.1      86.6</p> <p>1989      1990<sup>a</sup>      1991<sup>a</sup></p> <p>1st quarter      23.9<sup>a</sup>      28.9<sup>a</sup>      23.4<sup>a</sup> 2nd quarter      37.3      48.9      32.3 3rd quarter      64.8      51.8      55.3 4th quarter      73.5      78.5      83.4</p> <p>1992      1993<sup>a</sup>      1994</p> <p>1st quarter      27.9<sup>a</sup>      30.2<sup>a</sup>      28.7<sup>a</sup> 2nd quarter      37.1      45.0 3rd quarter      60.1      53.1 4th quarter      86.3      82.0</p>

<sup>a</sup> Includes credits from the apportionment of surplus.

<sup>a</sup> Includes contributions paid in advance brought forward from the previous year.



# Collection of assessed contributions: Incentive and penalty schemes

## A. Incentive schemes (cont'd)

Organization	Nature of scheme	Conditions of introduction	Main characteristics <sup>a</sup>	Experience																			
WIO	Distribution of interest earnings to contributors.	Introduced with effect from contribution payment record for 1989, for distribution as from the budget for 1992-1993.	<p>(i) Interest income is the only distributable item and has been applied as follows:</p> <table><thead><tr><th>Interest earning period and payment record</th><th>Financial period in which distributed</th><th>Amount distributed (US\$)</th></tr></thead><tbody><tr><td>1989-1990</td><td>1992-1993</td><td>24 929 000</td></tr><tr><td>1991-1992</td><td>1994-1995</td><td>12 741 000</td></tr></tbody></table> <p>(ii) All current year contribution payments are eligible without regard to whether or not the contributor is fully paid-up at year-end;</p> <p>(iii) First payment record, 1989. First distribution period, 1992-1993;</p> <p>(iv) S-curve method.</p>	Interest earning period and payment record	Financial period in which distributed	Amount distributed (US\$)	1989-1990	1992-1993	24 929 000	1991-1992	1994-1995	12 741 000	<p>Although there was a discernible improvement in the timing of payment of contributions by Members in 1990 and 1991 as compared with 1989, a subsequent deterioration due primarily to developments in Eastern Europe makes an assessment difficult. The percentage increase in the number of incentive points earned by all Members in real terms since inception (using 1989 as a base and after adjustment for the level of 1989 contributions) is as follows:</p> <table><thead><tr><th></th><th>Percentage increase over 1989</th></tr></thead><tbody><tr><td>1990</td><td>20.00%</td></tr><tr><td>1991</td><td>33.28%</td></tr><tr><td>1992</td><td>23.82%</td></tr><tr><td>1993</td><td>15.07%</td></tr></tbody></table>		Percentage increase over 1989	1990	20.00%	1991	33.28%	1992	23.82%	1993	15.07%
Interest earning period and payment record	Financial period in which distributed	Amount distributed (US\$)																					
1989-1990	1992-1993	24 929 000																					
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1990	20.00%																						
1991	33.28%																						
1992	23.82%																						
1993	15.07%																						
UPU	Clearing up of accounts of all kinds in arrears.	Resolution C 61 of the 1989 Washington Universal Postal Congress	Negotiation of special agreements with countries with substantial arrears, bearing in mind the latter's economic situation and the Union's interests. These agreements should result in debt rescheduling agreements between the countries concerned and the International Bureau. The debts of countries which have concluded such an agreement are transferred to a special account on which no interest is payable for the reimbursement period.	At 8 August 1993, four countries had asked to benefit from this procedure.																			
WMO	Distribution of interest to contributors.	Introduced effective 1 January 1988 for an experimental period of four years, and extended by Eleventh Congress in May 1991 for a further period of four years from 1992-1995.	<p>Incentive scheme will apply to that part of the cash surplus for the financial period (four years) which represents interest credited to the General Fund, other than interest earned on the Working Capital Fund.</p> <p>Points are calculated by S-curve formula taking account of any current year's contribution paid, and the date of payment. Note: Full payment for current year is not a condition for earning points.</p> <p>Improvements to the existing scheme will be studied by the Executive Council. If no distribution is made during the tenth financial period (1988-1991), incentive points awarded during this period will be carried forward and used to apportion distributable interest when an eventual cash surplus is realized.</p>	There is no positive evidence that scheme has had any effect on the promptness of payment of contributions.																			



## Collection of assessed contributions; Incentive and penalty schemes

### A. Incentive schemes (cont'd)

Organization	Nature of scheme	Conditions of introduction	Main characteristics	Experience																								
IMO	Distribution of interest earnings to Member States for the payment of current year's contributions.	The scheme was introduced with effect from 1 January 1988. The incentive points gained in 1988 and 1989 will be accumulated with those gained in 1990, and the first allocation under the incentive scheme will be based on the ratio of Member States' incentive points in the period 1988-1990 to all incentive gained in the period 1988-1990; the amount to be allocated will be interest earnings on contributions received in 1990. Therefore the first year of distribution will be 1992 in accordance with the penultimate paragraph under "Main characteristics".	<p>Incentive points are awarded in accordance with the formula which relates the date of payment towards current year's contribution to the number of incentive points. Points are awarded per 1,000 pounds of current year's contributions paid.</p> <p>The formula used to award the points is: Points = <math>5 \times 3 (125 - 250 \times \text{day} - 360)</math>.</p> <p>At the end of each year, the ratio of each Member State's points to the total points awarded to all Members is calculated.</p> <p>The interest earnings on contributions received in the year for which incentive points have been established will be allocated amongst Member States in accordance with ratios calculated as indicated above. Distribution of interest earnings will be made in the second year after the year for which incentive points are allocated, if there is a sufficient cash surplus in that year. If the cash surplus is not sufficient, distribution will be made from the first cash surplus arising in a subsequent year.</p> <p>The allocation will be used first to meet any outstanding arrears of contributions of a Member and secondly to reduce the contribution of a Member in the year when the allocation was made.</p>	<p>The rates of receipt are shown below:</p> <table><tr><th></th><th>31 December %</th><th>31 March %</th></tr><tr><td>1988</td><td>76</td><td>32</td></tr><tr><td>1989</td><td>78</td><td>35</td></tr><tr><td>1990</td><td>68</td><td>30</td></tr><tr><td>1991</td><td>78</td><td>25</td></tr><tr><td>1992</td><td>76</td><td>28</td></tr><tr><td>1993</td><td>91</td><td>39</td></tr><tr><td>1994</td><td>N/A</td><td>34</td></tr></table>		31 December %	31 March %	1988	76	32	1989	78	35	1990	68	30	1991	78	25	1992	76	28	1993	91	39	1994	N/A	34
	31 December %	31 March %																										
1988	76	32																										
1989	78	35																										
1990	68	30																										
1991	78	25																										
1992	76	28																										
1993	91	39																										
1994	N/A	34																										

Collection of assessments contributions: Incentive and penalty schemes

**B. Penalty schemes**

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Organization	Nature of scheme	Conditions of introduction	Main characteristics <sup>a</sup>	Experience
<b>UPU</b>	Charges of interest on late payments.	Introduced by the Eighth Universal Postal Congress, Stockholm, 1924.	<p>(i) The annual contributory shares are payable in advance.</p> <p>(ii) The amounts due bear interest from the beginning of each financial year at 3 per cent per annum during the first six months and at 6 per cent per annum from the beginning of the seventh month.</p> <p>(iii) Interest of 5 per cent from the seventh month after the date of shipment on invoices for publications and other supplies.</p> <p>(iv) Interest transferred to the Reserve Fund.</p> <p>(v) No influence on voting rights.</p>	High collection rate at the beginning of the financial year.
<b>ITU</b>	Charges of interest on late payments. Loss of the right to vote.	Since the inception of the ITU; included in the International Telecommunication Convention since 1973.	The annual contributory shares are payable in advance. The amounts due bear interest from the beginning of each financial year at 3 per cent per annum during the first six months and at 6 per cent per annum from the beginning of the seventh month. A member which is in arrears in its payments loses its right to vote for as long as the amount of its arrears equals or exceeds the amount of the contribution due from it for the preceding two years.	During the past 10 years the percentage of total current year's contributions received by the end of the first six months has been 85 to 93 per cent and over 91 per cent in most years.