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Agenda item 21

C 89/21  
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**REVIEW OF THE ORGANIZATION'S FINANCIAL FRAMEWORK IN  
ACCORDANCE WITH ASSEMBLY RESOLUTION A.906(22)**

**Note by the Secretary-General**

**SUMMARY**

*Executive summary:* At its twenty-second session, the Assembly invited the Council to keep under review the Organization's financial framework during the 2002-2003 biennium and to report to the twenty-third session of the Assembly. This document provides background material on the operation of the Contributions Incentive Scheme in the Organization, as requested by the Council at its 88th session.

*Action to be taken:* Paragraph 6

*Related documents:* C 88/20

**Background**

1 It will be recalled that the Assembly, at its twenty-second session considered the Council's report of its review of the Organization's financial framework. The Assembly concluded that no change should be made but, in accordance with the Council's advice, decided to request the Council to keep under review the Organization's financial framework during the 2002-2003 biennium and to report to the twenty-third session of the Assembly (resolution A.906(22)).

2 The Council will recall that at its eighty-eighth session, it considered documents C 88/20 and C 88/20/Add.1 and decided to discuss this agenda item further at its eighty-ninth session in November 2002. The Council requested that additional background information be provided on the operation of the Contributions Incentive Scheme.

3 This document provides the historical background to the development and operation of the Contributions Incentive Scheme in the Organization. Since the Organization is one of a number of United Nations agencies which have introduced this scheme, the Council might additionally find it helpful to be provided with relevant background material on these agencies' practice and experience. This information will be provided in an addendum to this document.

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## **4 Contributions Incentive Scheme**

4.1 The Contributions Incentive Scheme was introduced in 1987 when the Assembly at its fifteenth session in November 1987 (resolution (A.629(15))) adopted the Scheme in order to counteract the delay in the payment of annual contributions. The role of the Scheme was last noted by the Council *Ad Hoc* Working Group on Financial Matters in 1991, when the Group concluded that “the present incentive scheme was not a matter to be pursued in the context of the development of a ‘package’” (C 66/20/Add.1). In its subsequent consideration of the financial framework, the scheme has not been subject to policy consideration or review.

4.2 The governing Assembly resolution (A.629(15)), which sets out the formula for calculating the incentive points and the relevant amendment to the Organization’s Financial Regulations, which determines the timing of the allocation of interest earnings, is annexed to this document.

### **Distribution of interest earnings to Member States**

4.3 It will be recalled that the broad aim of the Contributions Incentive Scheme, which commenced in 1988, is to provide for interest earnings on contributions received to be returned to Member States in such a way that the earlier in the biennial year that a Member State pays its contribution, the more points it accrues and hence the larger is its share of the interest earnings. The first distribution of interest earnings was made during 1994 and related to interest earned by Member States during the financial years 1990, 1991 and 1992 and incentive points allocated to Member States during the financial years 1988, 1989, 1990, 1991 and 1992. One of the basic principles of the scheme is that a cash surplus has to be produced for distribution of the interest earnings to take place. This distribution then takes place in the second subsequent financial year; thus 2002 interest earnings would be distributed in 2004. The interest earnings for the period 1990-1992 were distributed during 1994 and distribution of the 1993, 1994 and 1995 interest earnings were made in 1995, 1996 and 1997 respectively. The interest earnings for both 1996 and 1997 were distributed in 1999. However, Council may recall that because of a cash deficit in 1998, in accordance with the terms of the scheme, the distribution of interest earnings of £286,583 for 1998 could not be made in 2000. Similarly, the financial year 1999 also ended with a cash deficit and therefore in accordance with the terms of the scheme, the distribution of interest earnings of £253,757 for 1999 cannot be made until the distribution of the 1998 earnings has been made. Additionally, the financial year 2000 also ended with a cash deficit and therefore in accordance with the terms of the scheme, the distribution of interest earnings of £241,313 for 2000 cannot be made until the distribution of the 1998 and 1999 earnings have been made.

4.4 However, since the financial year 2001 ended with a cash surplus, in accordance with the terms of the scheme, the distribution of interest earnings of £213,336 for 2001 will be made after the distribution of the earnings for the period 1998 to 2000 have been made. Council will recall that it concluded that the question of reducing this accrued liability by drawing on the Organization’s reserves as a special measure would need to be considered along with other prospective demands on the Organization’s reserves, notably arising from the impending investment in a new accounting and financial (ERP) system.

## **5 Overview**

5.1 The Secretary-General will provide the Council with an update of the statistical material found in C 88/20/Add.1 in an addendum to this document, together with the background material noted in paragraph 3. In the light of the Council’s further consideration of this matter at its

eighty-ninth session, the Secretary-General will be pleased to provide additional material which might be sought for inclusion in a draft Council report to the Assembly for the Council's consideration at its ninetieth session in June 2003.

**6 Action requested of the Council**

6.1 The Council is invited to take note of the information provided in this document and its addendum and to decide as appropriate.

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**ANNEX**

Assembly - 15th session

**RESOLUTION A.629(15)**  
**adopted on 20 November 1987**

**ARREARS OF CONTRIBUTIONS**

**A. Prompt payment of contributions**

THE ASSEMBLY

TAKING NOTE with appreciation of the payments made by Members to meet arrears of contributions,

NOTING ALSO with appreciation the prompt payment of current year's contributions made by some Members,

CONCERNED however that there are still delays in the payment of current year's contributions as well as in the settlement of contributions due and payable for earlier years,

RECALLING regulation 5.4 of the Financial Regulations of the Organization under which contributions are considered as due and payable in full within thirty days of receipt of the notice of assessment issued by the Secretary-General or as of the first day of the calendar year to which they relate, whichever is the later,

1. URGES all Member States to pay their current year's contributions in accordance with financial regulation 5.4;
2. URGES FURTHER those Member States in arrears to liquidate them at the earliest possible date;
3. REQUESTS all Members of the Council to set an example in this regard by prompt payment of both current year's contributions and any arrears;
4. REQUESTS the Secretary-General to continue to take all possible steps to secure prompt payment of current year's contributions and of arrears of contributions from all Member Governments concerned;
5. FURTHER REQUESTS the Secretary-General to propose new instalment plans for meeting arrears to those Members with the longest outstanding arrears which have not already entered into such arrangements;
6. REQUESTS the Council to continue to treat the problem of arrears as a matter of high priority.

## B. Contributions incentive scheme

THE ASSEMBLY,

HAVING CONSIDERED the recommendations of the Council and the Secretary-General concerning the introduction of a contributions incentive scheme to encourage early payment of contributions in accordance with the Financial Regulations:

1. DECIDES to introduce a contributions incentive scheme with effect from 1 January 1988;
2. FURTHER DECIDES that the modalities of the scheme shall be as follows:

- (a) Incentive points shall be awarded in accordance with a formula which relates the date of payment of the current year's contributions to the number of incentive points. Points shall be awarded per £1,000 of current year's contributions paid;
- (b) The formula shall be as follows:

$$\text{points} = 5 + \sqrt[3]{(125 - 250 \times \text{day} \div 360)}.$$

The resulting incentive points for each day of the year are indicated at Annex to this resolution;

- (c) At the end of each year, the ratio of each Member State's points to the total points awarded to all Members shall be established;
  - (d) Interest earnings on contributions received in the year for which incentive points have been established shall be allocated amongst Member States in accordance with the ratios established under subparagraph (c) above;
  - (e) Allocations shall take place in the second year after the year for which incentive points have been established if there is sufficient cash surplus in the year for which incentive points have been established; if there is not a sufficient cash surplus in that year, allocation shall be made from the first cash surplus arising in a subsequent year;
  - (f) Allocations shall be used firstly to meet any outstanding arrears of contributions of a Member and secondly to reduce the contributions of a Member in the year when the allocation is made.
3. DECIDES ALSO, notwithstanding the provisions of paragraphs 2(c) and (d) above, that incentive points gained in 1988 and 1989 shall be accumulated with those gained in 1990, that the first allocation under the incentive scheme shall be based on the ratio of a Member State's incentive points in the period 1988-1990 inclusive to all incentive points gained in the period 1988-1990 inclusive, and that the amount to be allocated shall be interest earnings on contributions received in 1990.

4. APPROVES the following amendment to the Financial Regulations:

**Regulation 6.1(b)** - Any cash surplus in the General Fund at the close of any calendar year shall be allocated among Members firstly to meet reimbursements due under any contribution incentive scheme established by the Assembly and secondly in proportion to the assessments other than basic assessments contributed for that year. As at 1 January following the year in which the audit of the relevant accounts is completed, amounts to be allocated from the cash surplus shall be released and applied to liquidate, in whole or in part, first any advances due to the Working Capital Fund; secondly, any arrears of contributions; and thirdly, contributions for the calendar year following the year in which the audit is completed.

ANNEX

CONTRIBUTIONS INCENTIVE SCHEME

Table of incentive points

Day	Pts	Day	Pts	Day	Pts	Day	Pts	Day	Pts	Day	Pts
0	10.00	60	9.37	120	8.47	180	5.00	240	1.53	300	0.63
1	9.99	61	9.36	121	8.45	181	4.11	241	1.51	301	0.62
2	9.98	62	9.34	122	8.43	182	3.88	242	1.50	302	0.61
3	9.97	63	9.33	123	8.41	183	3.72	243	1.48	303	0.60
4	9.96	64	9.32	124	8.39	184	3.59	244	1.46	304	0.58
5	9.95	65	9.31	125	8.37	185	3.49	245	1.44	305	0.57
6	9.94	66	9.29	126	8.35	186	3.39	246	1.42	306	0.56
7	9.93	67	9.28	127	8.33	187	3.31	247	1.40	307	0.55
8	9.92	68	9.27	128	8.31	188	3.23	248	1.39	308	0.54
9	9.92	69	9.26	129	8.28	189	3.16	249	1.37	309	0.53
10	9.91	70	9.24	130	8.26	190	3.09	250	1.35	310	0.51
11	9.90	71	9.23	131	8.24	191	3.03	251	1.33	311	0.50
12	9.89	72	9.22	132	8.22	192	2.97	252	1.32	312	0.49
13	9.88	73	9.20	133	8.20	193	2.92	253	1.30	313	0.48
14	9.87	74	9.19	134	8.17	194	2.87	254	1.28	314	0.47
15	9.86	75	9.18	135	8.15	195	2.82	255	1.27	315	0.46
16	9.85	76	9.16	136	8.13	196	2.77	256	1.25	316	0.45
17	9.84	77	9.15	137	8.10	197	2.72	257	1.23	317	0.43
18	9.83	78	9.14	138	8.08	198	2.68	258	1.22	318	0.42
19	9.82	79	9.12	139	8.05	199	2.64	259	1.20	319	0.41
20	9.81	80	9.11	140	8.03	200	2.60	260	1.18	320	0.40
21	9.80	81	9.10	141	8.00	201	2.56	261	1.17	321	0.39
22	9.79	82	9.08	142	7.98	202	2.52	262	1.15	322	0.38
23	9.78	83	9.07	143	7.95	203	2.48	263	1.14	323	0.37
24	9.77	84	9.05	144	7.92	204	2.45	264	1.12	324	0.36
25	9.76	85	9.04	145	7.90	205	2.41	265	1.11	325	0.35
26	9.75	86	9.03	146	7.87	206	2.38	266	1.09	326	0.34
27	9.74	87	9.01	147	7.84	207	2.34	267	1.08	327	0.33
28	9.73	88	9.00	148	7.81	208	2.31	268	1.06	328	0.32
29	9.72	89	8.98	149	7.78	209	2.28	269	1.05	329	0.31
30	9.71	90	8.97	150	7.75	210	2.25	270	1.03	330	0.29
31	9.69	91	8.95	151	7.72	211	2.22	271	1.02	331	0.28
32	9.68	92	8.94	152	7.69	212	2.19	272	1.00	332	0.27
33	9.67	93	8.92	153	7.66	213	2.16	273	0.99	333	0.26
34	9.66	94	8.91	154	7.62	214	2.13	274	0.97	334	0.25
35	9.65	95	8.89	155	7.59	215	2.10	275	0.96	335	0.24
36	9.64	96	8.88	156	7.55	216	2.08	276	0.95	336	0.23
37	9.63	97	8.86	157	7.52	217	2.05	277	0.93	337	0.22
38	9.62	98	8.85	158	7.48	218	2.02	278	0.92	338	0.21
39	9.61	99	8.83	159	7.44	219	2.00	279	0.90	339	0.20
40	9.60	100	8.82	160	7.40	220	1.97	280	0.89	340	0.19
41	9.59	101	8.80	161	7.36	221	1.95	281	0.88	341	0.18
42	9.58	102	8.78	162	7.32	222	1.92	282	0.86	342	0.17
43	9.57	103	8.77	163	7.28	223	1.90	283	0.85	343	0.16
44	9.55	104	8.75	164	7.23	224	1.87	284	0.84	344	0.15
45	9.54	105	8.73	165	7.18	225	1.85	285	0.82	345	0.14
46	9.53	106	8.72	166	7.13	226	1.83	286	0.81	346	0.13
47	9.52	107	8.70	167	7.08	227	1.80	287	0.80	347	0.12
48	9.51	108	8.68	168	7.03	228	1.78	288	0.78	348	0.11
49	9.50	109	8.67	169	6.97	229	1.76	289	0.77	349	0.10
50	9.49	110	8.65	170	6.91	230	1.74	290	0.76	350	0.09
51	9.47	111	8.63	171	6.84	231	1.72	291	0.74	351	0.08
52	9.46	112	8.61	172	6.77	232	1.69	292	0.73	352	0.08
53	9.45	113	8.60	173	6.69	233	1.67	293	0.72	353	0.07
54	9.44	114	8.58	174	6.61	234	1.65	294	0.71	354	0.06
55	9.43	115	8.56	175	6.51	235	1.63	295	0.69	355	0.05
56	9.42	116	8.54	176	6.41	236	1.61	296	0.68	356	0.04
57	9.40	117	8.52	177	6.28	237	1.59	297	0.67	357	0.03
58	9.39	118	8.50	178	6.12	238	1.57	298	0.66	358	0.02
59	9.38	119	8.49	179	5.89	239	1.55	299	0.64	359	0.01
										360	0.00