



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
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the
United
Nations

Organisation
des
Nations
Unies
pour
l'alimentation
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l'agriculture

Продовольственная и
сельскохозяйственная
организация
Объединенных
Наций

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

FINANCE COMMITTEE

Hundred and Twenty-third Session

Rome, 6 – 10 October 2008

Measures to Encourage Timely Payment of Contributions

Executive Summary

1. The impact of delays in payment by Member Nations of assessed contributions and ways to improve the Organization's cash shortage situation have been discussed by the Finance Committee at each of its recent past Sessions, resulting in two resolutions adopted by the 34th Session of the Conference in November 2007.
2. As requested by the Conference at its 34th Session, aided by the information provided in document FC115/8 *Measures to Improve the Organization's Cash Shortage Situation*, the Committee is requested to review the various alternative measures aimed at ensuring payment in full and on time by all Member Nations of their assessed contributions and make a recommendation to the June 2009 session of Council.

Introduction

3. The impact of delays in payment by Member Nations of assessed contributions and ways to improve the Organization's cash shortage situation have been discussed by the Finance Committee at each of its recent past Sessions¹. At its 118th Session, the Committee agreed to propose to the Conference three measures which all Committee members supported at the time, postponing discussion of other measures to a later session, allowing further analysis as well as consideration of any relevant recommendations arising from the Independent External Evaluation. The three measures were:

- a) The Committee agreed to recommend to the Conference through the Council a derogation of Financial Regulation 5.6 in order to allow the Secretariat to accept contributions in non-freely convertible local currencies, under certain conditions.
- b) The Committee agreed to propose to the Conference, through the Council, that Member Nations in arrears of more than the amount of the contributions due from them for the two preceding calendar years be required to submit an instalment plan to the Finance Committee for review, and subsequent approval by the Conference.
- c) The Committee further agreed to propose to the Conference, through the Council, that the practice of automatically restoring voting rights for all Member Nations on the first day of the Conference be immediately discontinued.

4. At its 132nd and 133rd Sessions, the Council agreed in principle to propose to the Conference the introduction of the three measures recommended by the Finance Committee subject to the final language being refined, and endorsed further consultation on the draft resolutions with any agreed text to be considered directly by the Conference for adoption. As a result of negotiations during the 34th Session of the Conference in November 2007, two resolutions were adopted by the Conference:

Resolution 13/2007

1. *“Urges all Member Nations to make all necessary efforts to pay promptly all their assessed contributions to the Organization both for the ongoing year and the past years if applicable, or to submit an instalment plan to accommodate their payment in the latter case where appropriate;*
2. *Requests the Council to submit to its consideration at its next Regular Session a comprehensive package of incentive and other measures aimed at ensuring payment in full and on time by all Member Nations of their assessed contributions;*
3. *Decides to keep the matter under review.” and*

¹ Main documents recently discussed by the FC in this regard:

108th Session of FC: 27 September – 1 October 2004 (Analysis of Contributions Received and proposals for Improvement)

109th Session of FC: 9-13 May 2005 (Incentive Scheme to encourage Prompt Payment of Contributions-Analysis of Impact of Zero Discount Rate)

110th Session of the FC: 19-23 September 2005 (Acceptance of Local Currency from Developing Countries in Payment of Assessed Contributions)

115th Session of the FC: 25-29 September 2006 (Measures to Improve the Organization's Cash Shortage Situation)

118th Session of the FC: 17-25 May 2007 (Measures to Improve the Organization's Cash Shortage Situation)

Resolution 14/2007

1. *“Decides, in order to facilitate the payment of contributions by those Member Nations with limited availability of convertible currency, to approve a derogation from Financial Regulation 5.6 to allow the Director-General to accept contributions in non-freely convertible local currencies under [certain] ... conditions:*
 2. *Decides that a Member Nation, whose currency is not freely convertible, wishing to avail itself of this payment method, shall submit a request to the Director-General and obtain approval prior to effecting any transfer of funds to the Organization. The Director-General shall decide on such a request based on whether it is in the best interests of the Organization and involves no risk of financial loss.”*
5. At its 122nd Session in May 2008, the Finance Committee proposed to discuss various alternative and additional measures which could be introduced to improve collection and protect priority Programmes. The Committee resolved to review these in more detail at its October 2008 session including related recommendations in the IEE Report and proposals emerging in the IEE follow-up.

CoC Independent External Evaluation Working Group III

6. Discussion in the CoC Working Group III have resulted in additional proposals including (extract from “Chair’s Aide Mémoire – Fifth Meeting of CoC-IEE WG III”):
1. *Countries status with respect to their payments to FAO should be prominently displayed on the FAO website;*
 2. *Existing provisions on loss of voting rights should be rigorously applied;*
 3. *The proposals by the IEE, to deny TCP assistance and recruitment of personnel for countries in arrears was not desirable.*

Members of Working Group III considered that incentives for timely payment could be further explored. Individual suggestions for improvements included (extract from “Chair’s Aide Mémoire – Fifth Meeting of CoC-IEE WG III”):

1. *payment schedules to smooth income and reduce the borrowing requirement;*
2. *charging interest on late payments;*
3. *permitting payments in local currencies;*
4. *reviewing arrears to see if any of these were in effect bad debts.*

The Working Group decided to review its conclusions on this matter in the light of discussion in the Finance Committee.

Conclusion

7. To assist Members in discussing the matter, information regarding the status of current assessments and arrears is attached to the Financial Highlights (FC123/2) document. Moreover, a Working Paper on the Status of Current Assessments and Arrears will be distributed during the 123rd Session of the Finance Committee.
8. The serious effects of delays in payment of contributions and the discussion of ways to improve the Organization’s cash shortage situation have been discussed by the Finance Committee and Council for several years. Despite this, since 2004 FAO has faced even more difficult cash flow problems due to late and missing payments from Member Nations and as a result the Organization was forced to resort to external borrowing for extensive periods, indicating that measures in place or considered for adoption have been largely ineffectual in improving the rate of payment.

9. As requested by the Conference at its 34th Session in November 2007, aided by the information provided in document FC115/8 *Measures to Improve the Organization's Cash Shortage Situation* (in particular the table of proposals in para 13 (attached)), the Committee is requested to review the various alternative measures aimed at ensuring payment in full and on time by all Member Nations of their assessed contributions and make a recommendation to the June 2009 session of Council.

Annex I

Summary of measures to encourage timely payment

10. The following table summarizes all measures considered to date with regard to encouraging timely payment of contributions. These include: measures currently in place to encourage timely payment, measures discussed in the past by the Finance Committee but not implemented, and the proposals made by one Committee member during the 113th Session. The table is an extract from document FC115/8, updated (where highlighted in *italics*) to reflect recent changes.

Measures to improve cash shortage situation	
Measures currently in place	
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)	In accordance with procedures established during the 2002-03 biennium, 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)	Since September 2003 the Finance Division has sent to all FAO Regional, Sub-Regional and <i>Representation (since 2007)</i> Offices a detailed report every three months describing the contributions position of all Member Nations in their region, with the request that FAO officials follow-up with local authorities to ensure payment is made.
f)	Country briefs are provided to the Director-General on an on-going 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, AF 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.
i)	A mechanism introduced by Conference in 1991 with the view to encourage the timely payment of contributions is the Incentive Scheme to Encourage Prompt Payment of

	Contributions. The Committee will recall that the discount rate was temporarily set at zero by a Council decision in November 2004. During its 123rd Session, the Committee should advise on continuation of the zero discount rate. Should the Committee decide to re-instate a non-zero discount rate to be used to apply credits to 2009 contributions, the Committee will be requested to concur with a proposed discount rate to be used. In such case, the Secretariat will provide details of such proposed rate in the form of a working paper.
j)	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).
k)	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).
l)	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).
m)	<i>To facilitate the payment of contributions by those Member Nations with limited availability of convertible currency, the Conference at its 34th Session in November 2007 adopted a proposal to recommend derogation from Financial Regulation 5.6 which allows, under certain conditions, the Secretariat to accept contributions in non-freely convertible local currencies.</i>
Measures discussed in the past but not implemented	
n)	A proposal to consider amounts due to the Working Capital Fund and Special Reserve Account as “contributions” in accordance with Article III.4 and GRO XXII-5 and XXII-7 (considered in 1994).
o)	A proposal to amend the sanctions under Article III.4 and GRO XXII-5 and XXII-7 so that only one year of arrears would have resulted in the loss of voting rights (instead of two) (considered in 1991).
p)	Extension of the restriction under GRO XXII-5 & XXII-7 to include loss of seat in the Finance and Programme Committees (considered in 1991).
Measures Proposed by Japan at FC 113 Session	
q)	Member Nations in arrears more than the amount of the contributions due from them for the two preceding calendar years are required to submit an instalment plan to the Finance Committee for review.
r)	Member Nations in arrears less than the amount of the contributions due from them for two preceding calendar years are required to provide written explanation on the reason of their arrears to the Finance Committee for review.
s)	All Member Nations are encouraged to submit in the

	beginning of each year payment schedule of assessments.
t)	The practice of automatically restoring voting rights for all Member Nations on the first day of the Conference should be immediately discontinued.
u)	The Finance Committee, at their regular meetings, should review recent borrowing and borrowing forecasts of the Secretariat.
v)	The Secretariat will identify and implement measures to avoid cash flow crises.
w)	A set of guidelines are to be developed on the provision of voluntary contributions by Member Nations in arrears.