

GENERAL AGREEMENT ON

RESTRICTED

TARIFFS AND TRADE

L/6384
12 September 1988
Limited Distribution

REPORT OF THE COMMITTEE ON BUDGET, FINANCE AND ADMINISTRATION

INTRODUCTION

1. The Committee on Budget, Finance and Administration met at the Centre William Rappard, Geneva, in formal sessions on 25 February, 15 March, 5 May, 19 May, 22 June, 5 July, 15 July and 28 July 1988.

2. The Committee was chaired by H.E. Mr. K.G.A. Hill of Jamaica and the membership of the Committee was as follows:

Australia	India	Singapore
Belgium	Israel	Spain
Canada	Italy	Sweden
Chile	Jamaica	Switzerland
France	Japan	United Kingdom
Germany, Fed. Rep.	Korea, Rep. of	United States
Hong Kong	Malaysia	Zaire
Hungary	Nigeria	

3. The agendas (GATT/AIR/2555/Rev.1 and GATT/AIR/2591) with the following items were approved:

1. Ways to improve the cash situation of the GATT
2. Assessment on Lesotho of additional contribution to the 1988 budget and advance to the Working Capital Fund
3. Final position of the 1987 budget of the GATT
4. Revised 1988 GATT budget
5. Other business.

4. The Chairman noted that Belgium had become a member of the Budget Committee and welcomed its representative.

5. The Committee had before it the following documents:

- Possible Ways to Resolve GATT Cash Problems (Spec(88)8)
- Reinforced Financial Discipline (CRP/88.4/1/Rev.1)
- GATT Contributions Assessment: Proposal from Tanzania (CRP/88.5/1)
- Draft recommendations to the Council (CRP/88.5/2 and Rev.1)
- Assessment on Lesotho of Additional Contribution to the 1988 Budget and Advance to the Working Capital Fund (L/6306)
- Final Position of the 1987 Budget of the GATT (L/6321)
- Revised 1988 GATT Budget (Spec(88)16).

A. WAYS TO IMPROVE THE CASH SITUATION OF THE GATT

6. In his introductory remarks, the Chairman drew attention to paragraphs 63 and 69 of the report of the Committee's deliberations in October 1987 (L/6248) with regard to measures to solve the deficit anticipated by the end of 1988 and the decision of the Council that the Committee be asked to review the matter urgently and make recommendations to the Council no later than 31 March 1988. However, due to the complexity of the problem, the Committee was unable to meet this deadline which was subsequently extended by the Council.

7. The discussions concentrated on the following issues:

- scale of contributions - proposals for a new minimum;
- arrears;
- early payment encouragement scheme;
- avoidance of arrears in the future;
- other measures:
 - Working Capital Fund;
 - Observer countries;
 - Financial rules and regulations.

8. It was noted in document CRP/88.4/1/Rev.1 that two main and interrelated factors had caused the financial problems that GATT faced last autumn: i) the annually increasing level of outstanding contributions and ii) the irregular and unpredictable payments of current year contributions. Some members felt that the first of these factors was by far the more important. Others were of the view that the second was the critical factor affecting the cash flow situation in 1987.

9. It was further stated that five principles should guide the selection of measures to deal with the problems: i) the measures should form a package solution, and they should be based on ii) reasonableness, iii) fairness, iv) simplicity and v) durability.

10. There was general agreement with regard to these five principles. One member said that in the examination of the balance of rights and obligations, it should be remembered that one of the obligations of a contracting party was certainly to pay its contributions. With regard to principle iii) fairness, some members reiterated their point of view that the timing of the payment of contributions was often tied to national administrative and financial cycles. Other members stressed that national administrative and financial cycles were irrelevant to the timely payment of contributions. In discussing principle iv) simplicity, it was mentioned that any measures should create no additional administrative burden either for the Secretariat or for national administrations.

11. One member drew attention to the mandate received by the Committee from the Council which related also to the cash deficit anticipated for

1988. He suggested that all contracting parties whose contributions for 1988 have not been paid should pay them by 31 October 1988 and in any event not later than 31 December 1988.

I. SCALE OF CONTRIBUTIONS - PROPOSALS FOR A NEW MINIMUM

12. One member reminded the Committee of his delegation's proposal that the scale of contributions to the GATT income budget be assessed for all contracting parties on the basis of actual shares in world trade. This would ensure equal treatment for all contracting parties. He recalled that this proposal, contained in Doc. L/6249 and Corrigendum 1, had been before the Council in November 1987 and that the Council in requesting the Budget Committee to examine and make recommendations on the issues before it now had requested the Committee to include in this examination "any other proposals thereon". He wished to emphasize that his delegation's proposal for changing the scale of contributions remained on the table.

13. One observer supported this view. In this way, least developed countries would be given every encouragement to become contractual members of a multilateral trade framework such as the GATT. He felt that, by the year 2000, most of these countries would be paying contributions which would cover the cost of basic services provided by the GATT. These had been estimated to be some Sw F 10,000 taking into account costs of documentation and publications circulated and related postal charges. He drew attention to his delegation's proposals contained in document CRP/88.5/1.

14. As suggested in CRP/88.4/1/Rev.1 and in the light of views which had been expressed, a reduction of the minimum contribution to some Sw F 17,000 was proposed. This amount would be indexed to annual growth of the GATT budget. Several members were of the opinion that the minimum contribution should rather be expressed as a percentage. A percentage of 0.03 per cent was eventually considered. However, some members maintained reservations on this level for the minimum contribution which, while reducing the contributions assessed on some contracting parties, would entail an increase in the contributions assessed on others. They would be prepared to reconsider the matter as part of an overall solution.

15. Other members of the Committee said that they would not be able to agree to any reduction in the minimum contribution. They were convinced that such an action would merely increase the cost of membership to other contracting parties and would not help in resolving the Organization's financial difficulties. They indicated, however, that they would not block a consensus on this issue. Some members again pointed out that the basis for assessing contracting parties should be equitable with a common formula applicable to all. They did not believe that a minimum percentage fixed 20 years ago was relevant in the context of the escalated GATT budget. They reiterated their firm conviction that trade shares was the only fair basis. In any event the fact that there would be reductions for some

members while there would be increases for others should trade shares or a new minimum be used, was not a convincing argument for maintaining the present inequity. Another member still expressed reservations with the comments of the other members as outlined in this paragraph but indicated that he would not block a consensus on the issue.

16. The Committee recommends to the Council that as from 1 January 1989 the scale of contributions contains a minimum contribution of 0.03 per cent for contracting parties and associated governments whose share in the total trade of the contracting parties and associated governments is 0.03 per cent or less.

II. ARREARS

Forgiveness of debt for outstanding contributions

17. Further to the suggestion contained in Spec(88)8 that CONTRACTING PARTIES could cancel all arrears before a certain date, or 50 per cent of each developing countries' arrears, or all arrears exceeding a certain amount, most members of the Committee were of the opinion that such a measure was not, in itself, a solution to the cash problem and could create a dangerous precedent.

18. Some members thought that such a measure might have a counter productive effect and could discourage timely payments of contributions in the hope that arrears would ultimately be cancelled.

19. One member suggested that debt forgiveness could be linked not only to payment of a certain number of past years' outstanding contributions but also to payment of an advance contribution corresponding to some three year's estimated minimum contribution.

20. One member, supported by an observer, mentioned the possibility of forgiving outstanding contributions if, for example, a contracting party paid its contributions in arrears for the last three to five years.

21. Other members having stated that they were not in a position to agree to any form of debt forgiveness, the Committee ultimately considered that this would not be a viable option and that contributions in arrears were to be paid.

Instalment payments for contributions in arrears

22. The Committee noted that the possibility of establishing instalment payment plans, which in effect is a rescheduling of arrears, had been discussed in the past and, further to recommendations made by the Director-General, this formula had already been implemented. While instalment payment plans had not yet made a significant impact on the situation of outstanding contributions, there was general support that this measure should be pursued.

23. The meeting noted that papers CRP/88.4/1/Rev.1 and CRP/88.5/1 both contained proposals that a certain additional reasonable amount be requested annually from contracting parties with outstanding contributions in order to repay their arrears. It was understood that such payments would be in addition to current year assessments, and that strict adherence to the plans should be observed.

24. One member suggested that these payment plans indicate how much each contracting party in arrears would be required to pay to amortize its debts and the period over which payments would be made. He further proposed that countries whose assessments are based on trade shares should be encouraged to pay their outstanding 1987 contributions by 30 September 1988. The Committee should be kept informed.

25. The Committee recommends to the Council that commencing on 1 January 1989:

a) arrears for 1987 and earlier of contracting parties presently assessed at the minimum contribution of 0.12 per cent be paid in yearly instalments equal to a fixed amount corresponding to the 1989 minimum contribution;

b) arrears for 1987 and earlier of contracting parties whose contributions are presently assessed above the minimum contribution of 0.12 per cent be paid in accordance with, and as appropriate, tailor-made repayment schemes.

The Director-General will report to the Budget Committee on these schemes. On the basis of the Director-General's report, the Budget Committee would undertake a review with a view towards making appropriate recommendations to the Council.

III. EARLY PAYMENT ENCOURAGEMENT SCHEME

26. The implementation of early payment encouragement schemes had been discussed in the Committee on the basis of the following documents: Spec(86)7, Spec(86)37, L/6220 Appendix XXI, CRP/88.4/1/Rev.1 and CRP/88.5/2/Rev.1.

27. Some members were doubtful that such schemes would significantly contribute to alleviating the cash flow problem in the GATT and would ensure prompt payment of contributions. Others considered that the elimination of the item "interest on investments" under miscellaneous income in the budget could even worsen the cash flow situation.

28. It was also mentioned that the financial year of some contracting parties did not coincide with the GATT financial year, a fact which would either preclude or make very difficult the payment of contributions at the beginning of the calendar year. One member said that bank transfers took considerable time in his country and if the scheme proposed in

CRP/88.4/1/Rev.1 was adopted he might be obliged to go to his authorities for a supplementary allocation if the payment of funds did not take place in the course of the month it was initiated. Another member said that Governments could take technical measures to overcome these problems.

29. Some members stated that the schemes presented were not sufficiently broad-based for adoption in the GATT and that governments, in meeting their international obligations, do not make early payments simply in the hope of receiving a bonus.

30. Some members suggested that the text of the resolution to be adopted by the CONTRACTING PARTIES be modified. It could be stated that "Contributions from contracting parties are considered as due and payable in full as at 1 January 19.." instead of "as from 1 January 19..". One member of the Committee suggested that GATT should consider the practice adopted by the World Health Organization whereby "Instalments of contributions and advances shall be considered as due and payable in full within thirty days of the receipt of the communication of the Director-General ... or as of the first day of the year to which they relate, whichever is the later" (WHO Basic Documents, paragraph 5.6).

31. Several members expressed the view that the implementation of early payment encouragement schemes should be accompanied by the adoption of disincentive measures. A member suggested that the emphasis be placed on incentives rather than on disincentives while another member was of the opposite opinion.

32. While some members maintained a preference for the reduction scheme proposed in CRP/88.4/1/Rev.1, it was felt that the scheme proposed in CRP/88.5/2/Rev.1 would be preferable. One member suggested that interest should not be credited for payments received after 30 September.

33. In order to emphasize that contributions from contracting parties are considered as due and payable in full as at 1 January of each year, the Committee recommends to the Council that an early payment encouragement scheme, as described in Annex A, be introduced in the GATT with effect from 1 January 1989.

IV. AVOIDANCE OF ARREARS IN THE FUTURE

34. The Secretariat was requested to report on the experience of other international organizations in dealing with the problem of contributions in arrears (see Annex B).

35. With regard to the possibility of charging interest on outstanding contributions, some members said that they were opposed to such a measure as it would inflict an even heavier burden on contracting parties who already have great difficulties in meeting their financial obligations and would only serve to increase the level of outstanding contributions. Other members thought that interest should not be charged ad infinitum but rather should be limited to three or four years.

36. One member of the Committee suggested that if payment of contributions were more than six months late, the contracting party concerned would be obliged to make an advance payment on the next year's contribution. He further proposed that participation in panels or meetings on Codes could be assessed separately to those contracting parties involved, while another member thought that such a measure might discourage a wider participation in the GATT framework and should not be pursued. It was also suggested that contracting parties in arrears would be charged the costs of a panel that they might request or that costs of panels could be debited to the offending party.

37. One member considered that a better financial management of the system of mailing documents would entail savings which could improve the cash situation significantly. He thought that the Committee could request the Secretariat to ask contracting parties if they wanted to collect their documents on their own through their Geneva-based delegations or to receive them by mail locally or in capitals, on payment of an appropriate fee.

38. The Committee was ultimately of the opinion that financial measures such as the charging of interest on contributions in arrears should not be introduced.

39. A number of members were not prepared to accept measures which would infringe upon the rights of contracting parties under the GATT. They would favour those which would cause administrative inconvenience or embarrassment for contracting parties in arrears. In addition, it was suggested that there would be a permanent point on the Council agenda under which the Director-General would inform the Council on the state of contributions. Contracting parties with contributions in arrears could then be asked to report to the Council on measures they intend to take in order to meet their obligations.

40. Some members thought that measures should be imposed only after the level of outstanding contributions reached that equal to two years' assessments, and that there should furthermore be a grace period of four months before such sanctions were applied. Others felt that the administrative measures should go further in order to assure their effectiveness. Yet others expressed reservations on the principle itself of applying sanctions to contracting parties.

41. So as to avoid the occurrence of arrears in the future, the Committee recommends to the Council that the fundamental obligation to pay contributions in full be reinforced and that gradually, implemented administrative measures be introduced as from 1 January 1989.^{1/} These

^{1/} These measures will not be applied in case of outstanding contributions relating to 1987 and/or earlier assessments.

measures, which would be applied, where appropriate, after three month's notice by the Secretariat to the contracting party concerned and the granting of a grace period of one month, would comprise:^{1/}

After one full year's assessed contribution remains outstanding at the end of GATT's financial year:

- documentation would not be posted to delegations to the GATT in Geneva,
- representatives would not be nominated to preside over GATT bodies.

After more than one but less than two full years' assessed contributions remain outstanding at the end of GATT's financial year:

- documentation would not be posted to delegations to the GATT in Geneva,
- representatives would not be nominated to preside over GATT bodies,
- new membership to and participation in the Committee on Budget, Finance and Administration would be reserved for contracting parties whose contributions are paid or who have not more than one full year's assessment outstanding.

After two but less than three full years' assessed contributions remain outstanding at the end of GATT's financial year:

- documentation would not be posted to delegations to the GATT in Geneva,
- representatives would not be nominated to preside over GATT bodies,
- new membership to and participation in the Committee on Budget, Finance and Administration would be reserved for contracting parties whose contributions are paid or who have not more than one full year's assessment outstanding,
- documentation would not be posted to contracting parties,
- recommendations by the Committee on Budget, Finance and Administration to the Council or CONTRACTING PARTIES on financial matters would be acted on only by contracting parties whose contributions are paid or who have less than two full years' assessments outstanding.

^{1/} The first grace period will be extended to 30 June 1989. All contributions received from 1 January 1988 to 30 June 1989 will, in the first instance, be credited against the 1988 assessment unless otherwise instructed by the contracting party concerned. All contributions received after 30 June 1989 will, in the first instance, be credited against the oldest outstanding contribution beginning with 1988; the contracting party concerned may however elect to pay first the amounts due under any instalment plans established under paragraph 25 a) and b).

After three full years' assessed contributions remain outstanding at the end of GATT's financial year:

Should a contracting party be in arrears for three full years' assessed contributions at the end of GATT's financial year, the situation would be reviewed by the Committee on Budget, Finance and Administration with a view to proposing, as appropriate, other measures to the Council to reinforce the obligation to pay contributions.

V. OTHER MEASURES

Working Capital Fund

42. Some members expressed the opinion that the GATT financial problems would not be solved only by an increase of the level of the Working Capital Fund. Other members opposed any increase in the Working Capital Fund and considered that such action would not help resolve the Organization's financial difficulties. They indicated however that they would not block a consensus on this issue. Still other members of the Committee said that a gradual increase in the level of the Fund could form part of a package of measures to tackle the financial difficulties. As suggested in CRP/88.4/1/Rev.1, the channelling of payments of previous years' outstanding contributions into the Fund would allow its increase to a more adequate level of some Sw F 4 million without any additional assessment on contracting parties. Payment of arrears are credited to the Surplus Account from which funds would be transferred to the Working Capital Fund until such time that its level had reached Sw F 4,000,000. Any balance would be taken as income in the following year thereby reducing the total amount assessed on all contracting parties.

43. The Committee recommends to the Council that the Working Capital Fund be increased up to a maximum of Sw F 4,000,000 (approximately six per cent of the 1989 budget). The increase in the level of the Working Capital Fund up to Sw F 4,000,000 will be made exclusively by channelling into the Fund arrears repaid in accordance with instalment schemes outlined in paragraph 25.

Observers

44. Many members considered that observer countries should be charged with the costs incurred with regard to documentation and publications received and the corresponding postal charges. It was suggested that Sw F 15,000 be charged to observer countries. However, calculations indicated that the actual cost of servicing observer countries amounted on average to some Sw F 1,000 per year. It was suggested that payments from observer countries, if it were decided to charge them, might be channelled into miscellaneous income. Some members stated that, in charging observer countries, GATT would depart from the practice of other international organizations.

45. It was noted that International organizations having an observer status in GATT bodies should not be requested to pay such a fee as an exchange of documentation agreement exists between them and the GATT. One member requested the Secretariat to further study the utility to the GATT of these exchange of documentation agreements.

46. The Committee recommends to the Council that observer countries be invited to contribute a minimum of Sw F 1,000 towards the cost of documentation services provided by the Secretariat. The Committee agreed to examine the management of the mailing system at a future meeting.

Financial rules and regulations

47. It was recalled that the GATT applied the United Nations Financial Rules and Regulations to the extent appropriate, supplemented by specific decisions of the CONTRACTING PARTIES. It was suggested that GATT should investigate further the possibility of establishing its own financial rules and regulations tailored to its own needs. Furthermore, it was suggested that consideration be given to the possibility of introducing a two-year budget in the GATT.

48. The Committee recommends to the Council that financial rules and regulations, tailored to GATT needs, be prepared by the Secretariat for examination by the Committee.

B. OTHER MATTERS

I. ASSESSMENT ON LESOTHO OF ADDITIONAL CONTRIBUTION TO THE 1988 BUDGET AND ADVANCE TO THE WORKING CAPITAL FUND

49. Consequent to the accession to the GATT of Lesotho (L/6306), the Committee recommends that a contribution to the 1988 budget amounting to Sw F 72,228 be assessed on this Government. This assessment represents the minimum contribution of 0.12 per cent applicable to countries whose share in the total trade of the contracting parties is 0.12 per cent or less. Further, on the basis of the level of the Working Capital Fund of Sw F 3,365,978 on 1 January 1988, the Committee recommends to the Council that an amount of Sw F 16,830 be assessed on the Government of Lesotho as an advance to the Fund.

II. FINAL POSITION OF THE 1987 BUDGET OF THE GATT

50. The Committee examined document L/6321 - Final Position of the 1987 Budget of the GATT and heard explanations by a representative of the Secretariat.

51. It was noted that budgetary savings of Sw F 4,152,071 and excess miscellaneous income as well as contributions assessed on contracting parties subsequent to the adoption of the 1987 scale of contributions amounted to Sw F 4,593,783. However, because of the level reached by

contributions in arrears, and because there was a refund to the Working Capital Fund of the advance made at the end of 1986, there was deficit of Sw F 3,125,514 on 31 December 1987. This amount was entirely covered by a transfer from the Working Capital Fund, leading to a nil balance of the Surplus Account.

52. One member of the Committee noted that there was a significant increase in the payments to dispute settlement panelists. In 1986, there were 22 days while in 1987 there were 187. The 1987 appropriation of Sw F 50,000 was overspent by Sw F 144,301, bringing the total to Sw F 194,301. The 1988 appropriation was Sw F 150,000. He indicated that the cost of panels for dispute settlement was an increasing charge on the GATT budget. While recognizing the importance of dispute settlement procedures to the GATT, he felt that it might be necessary to consider innovative but equitable ways of apportioning the cost of panels so as to ensure that contracting parties not involved in disputes were not faced with constantly escalating costs. He said that it would be useful to provide details in the future to the members of the Budget Committee on the cost and composition of each panel in the interest of transparency.

53. In order to cover over-expenditures on certain sections of the Budget, the Committee recommends to the Council that the transfers between budgetary sections be approved as follows:

<u>FROM :</u>	<u>Sw F</u>	<u>TO:</u>	<u>Sw F</u>
<u>Part I: MEETINGS</u>		<u>Part II: MEETINGS</u>	
Section 1 - Forty-third session of the CONTRACTING PARTIES	9,269	Section 2 - Meetings of the Council and other meetings	39,825
<u>Part II: SECRETARIAT</u>		<u>Part II: SECRETARIAT</u>	
Section 5 - Missions	22,780	Section 4 - Dispute settlement panels	144,301
Section 6 - Common staff costs	30,784	Section 8 - Printing	2,849
Section 7 - Common services	108,722	Section 10 - Permanent equipment	249
Section 9 - Representation and hospitality	<u>15,669</u>		
	187,224		<u>187,224</u>
	=====		=====

54. The Chairman pointed out that the situation of short-fall in contributions to meet the income budget was continuing. From the data presented, 18 per cent of assessed contributions for 1987 remained outstanding at 31 December. Despite under-spending of the expenditure budget, a deficit of Sw F 3,125,514 had still resulted. This deficit had to be met from the Working Capital Fund. Consequently, contracting parties

which pay their contributions when due had to bear additional costs to make good on contributions which were not forthcoming on time or at all. He felt this situation was unsatisfactory.

III. REVISED 1988 GATT BUDGET

55. The Committee examined document Spec(88)16 - Revised 1988 GATT Budget and took note of the fact that savings of Sw F 110,000, resulting from a decision by the United Nations General Assembly to increase contributions to the Pension Fund at a lower rate than had been foreseen, had led to corresponding reduction to Sw F 61,439,000 in the 1988 Expenditure Budget and to Sw F 60,190,000 in the contributions assessed on contracting parties.

56. Several members of the Committee welcomed the reduction in the expenditure budget and it was felt that this was a precedent which the Committee should follow in the future. This measure was a tangible reminder of the unsatisfactory situation which continued to exist whereby contracting parties were assessed on the basis of an expenditure budget which was chronically underspent. Yet contracting parties could receive no funds nor credit against the following year's assessment because of the equally chronic late payment or non-payment of contributions. This situation demonstrated the importance of reaching an agreement on the questions which were mandated by the Council, including the question of the minimum contribution and measures to encourage the early payment of contributions.

57. The Committee recommends to the Council that the 1988 expenditure budget be revised to the level of Sw F 61,439,000 and financed as follows:

Contribution assessed on contracting parties	Sw F 60,190,000
Miscellaneous income	<u>Sw F 1,249,000</u>
	Sw F 61,439,000
	=====

OTHER BUSINESS

58. The Chairman drew attention to the fact that Kampuchea continues to be listed even though the view has been expressed by the Legal Advisor to the Secretariat that the country concerned does not qualify as a contracting party and consequently no assessment should be made on it. The Committee should decide on this question at a forthcoming meeting.

POINTS FOR DECISIONS: Paragraph 16
Paragraph 25
Paragraph 33
Paragraph 41
Paragraph 43
Paragraph 46
Paragraph 48
Paragraph 49
Paragraph 53
Paragraph 57

ANNEX A

GATT early payment encouragement scheme

(i) Generalities

1. With a view to encouraging contracting parties to pay their contributions as early as possible in the year in which they fall due, the interest earned by investing the funds received by the secretariat should be refunded to the contracting parties pro rata, depending on the amount of their payments and on the date which they are made. As a consequence, the miscellaneous income in the annual income budget estimates will no longer include the item for interest earned on investments.

(ii) Technicalities

2. As a general rule, the secretariat, upon receiving contributions, invests in short-term deposits the funds which are not to be used immediately. Since the total interest received is a combination of three factors:

- (a) the amount of funds held in deposit;
- (b) the duration of the deposits;
- (c) the interest rate;

the amount to be distributed can only be known with precision at the close of the budget year. Therefore, the crediting operation can physically take place only after the beginning of the new financial year, in other words, too late in principle for the amount credited to be deducted from the contributions assessed for the new financial year. Consequently only the contributions assessed for the second following year would be reduced by the amount of interest accrued. The scheme would work as follows:

- YEAR A - interest is credited; at the end of the year the allocation of interest is determined;
- YEAR A + 1 - the contributions assessed for year A+2 are calculated when the budget estimates are prepared; interest credit is taken into account and deducted from the contributions assessed for year A+2;
- YEAR A + 2 - payment of contribution assessed less interest credited.

3. Bearing in mind that the date of payment and the amount paid are two important factors, one could consider that the determination of the amounts of interest to be distributed should be based on a formula under which these two factors would serve as a basis for the calculations of interest entitlements.

4. Where a contribution was received during the year when it was due, a number of points to be credited to the account of the contracting party concerned would be calculated as follows;

number of points = $\frac{\text{amount}}{10,000} \times \text{number of days to run up to the end of the year (360 days)}$

For example - assuming a country paid Sw F 200,000 on 17 March, the number of points crediting in its favour would result from the following formula:

$$\frac{200,000 \times 283}{10,000} = 5,660$$

Assuming further that the total number of points apportioned during the year amounted to 350,000 and that the amount of interest to be distributed was Sw F 150,000, the amount credited to the country concerned would be:

$$\frac{150,000 \times 5,660}{350,000} = \text{Sw F } 2,426$$

Should the country have paid its contribution on 10 October (number of days to run up to the end of the year: 77) the amount credited would have been Sw F 660.

INCENTIVES OR PENALTIES BASED ON TIMING OF PAYMENT OF CONTRIBUTIONS
Status and Relevant Developments in the United Nations System

UN/Agency	Amount of annual budget (\$1000 000)	Applies incentives or penalties based on timing of payment of contributions	Governing bodies are currently considering (or have considered) proposals for introduction of such measures	Applies estimated interest income against Budgetary Appropriations to determine Assessed Contributions
UN	694	No	<p>Incentives for early payments and penalties for late payments have been considered at the 37th session of the General Assembly in 1981, but after the debate on the subject in the Fifth Committee, it may be concluded that there was little support at the time for the introduction of new procedures in this respect. Nevertheless, in view of the financial crisis faced by the UN Organization in 1986 the General Assembly, by its resolution 41/204, requested the Secretary-General "to continue to study various options to alleviate the financial difficulties of the Organization, taking into account the views expressed by Member States, including, <i>inter alia</i>, a review of the practices of other organizations of the United Nations system for achieving prompt and full payment of assessed contributions and to report to the General Assembly at its forty-second session".</p>	Yes
WMO	272	No	<p>Assembly <u>rejected</u> a few years ago an interest charge proposal. Report of the Joint Inspection Unit on cash management in the United Nations Organization and four specialized agencies reviewed by WMO Executive Board in January 1987. Executive Board generally in agreement idea of incentive scheme for distribution of interest on investments only in accordance with timing of payment of contributions close to ICAO system. Director-General requested to provide study for review by Executive Board at January 1988 session.</p>	No

UN/Agency	Amount of annual Budget (\$000 000)	Applies incentives or penalties based on timing of payment of contributions	Governing Bodies are currently considering (or have considered) proposals for introduction of such measures	Applies estimated interest income against Budgetary Appropriations to determine Assessed Contributions
FAO	219	No	The Council of FAO at its June 1987 session requested the FAO Secretariat to prepare a resolution for consideration of the Autumn session of the Council and the November session of the FAO Conference, recommending a positive incentive scheme by distribution of interest earned among Member States which have paid their assessed contributions in full by the end of the biennium, on a weighted basis, in accordance with the amount and timing of payment of their contributions.	Yes
UNESCO	145	No	Twenty-third session of General Conference requested Director-General to study feasibility and desirability of introducing positive incentive measures and report to Executive Board for submission to the General Conference at its twenty-fourth session.	Yes
ILO	140	No	At its June 1987 session the Governing Body of ILO considered a proposal from the Employers' Group to improve the rate of collection of contributions, by granting rebates on assessed contributions to those Member States that pay their contributions in a timely manner. The Governing Body took no decision on this proposal but will pursue the question of an incentive scheme and is to receive a new paper on the subject at a future session (probably November 1987).	No
IAEA	99	No		Yes
UNIDO	66	No		No

UN/Agency	Amount of annual Budget (\$000 000)	Applies incentives or penalties based on timing of payment of contributions	Governing Bodies are currently considering (or have considered) proposals for introduction of such measures	Applies estimated interest income against Budgetary Appropriations to determine Assessed Contributions
ITU	54	Yes(1)	No further current consideration.	No
ICAO	32	Yes effective 1 January 1987	Incentive scheme approved by Assembly held September/October 1986 .	Estimated Interest Working Capital Fund - effective 1 Jan. 1987
WFO	24	No	No current consideration; Governing Body discussed matter in 1983 and 1985, but decided in 1985 not to approve a proposal that a study be made concerning the possibility of charging interest on unpaid contributions.	Yes
WMO	23	No	Congress decided in May 1987 to introduce an incentive scheme effective 1 January 1988 by distribution of General Fund interest in accordance with timing and amount of contributions paid, using the ICAO's "S curve" formula.	No
IRU	14	No	No current consideration; Council in 1981 considered interest credit scheme, but did <u>not</u> adopt it.	Yes
IPU	12	Yes(2)	No further current consideration.	No

(1) Contribution (in Swiss Francs) not received by 1 January subject to 3% p.a. interest charge during first six months and 6% per annum thereafter.
 (2) Interest charges similar to (1).