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FINANCIAL SITUATION OF UNIDO

Report by the Director-General

Provides information on the financial situation as at 31 December 1998, and updates the information provided in documents IDB.20/8-PBC.14/7 and IDB.20/CRP.3 on the progress achieved in the settlement of arrears and in the timely payment of assessed contributions, in compliance with Board decision IDB.19/Dec.5.

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I. OVERVIEW

1. The financial situation as at 31 December 1998 can be summarized in the following major points:

(a) The level of regular budget cash resources (including the Working Capital Fund) was \$9.6 million. As compared to this, the cash balance as at 31 December 1997 was \$13.5 million. The major reason for the lower cash balance in 1998 was payments amounting to \$9.8 million for the staff separation programme for which no significant additional resources were received. A prudent cash level could only be achieved by the imposition of significant cuts in budgetary expenditures through the introduction of measures to reduce the cash outflow, as reported in document IDB.19/13;

(b) The collection rate of 1998 assessed contributions (82.9 per cent) is comparable with the 1997 rate of 83.8 per cent, and also compares favourably with the 1996 rate of 79.5 per cent;

(c) However, the collection rate of prior years' contributions (12.1 per cent) compares very poorly with the 1997 and 1996 rates of 21.5 and 17.0 per cent respectively;

(d) The cost of the staff separation programme is currently estimated at \$10.5 million, with disbursements as at 31 December 1998 of \$9.8 million. The amount originally estimated for this purpose was \$15.9 million, of which \$13.9 million was authorized from the 1994-1995 unutilized balances (GC.7/Dec.17). The remaining amount, \$2 million, was to be financed from the unspent balance of the staff separation indemnity reserve established pursuant to General Conference decision GC.6/Dec.15;

(e) Regular budget implementation during 1998 was around 40 per cent of the biennial budget. The main reasons for the lower implementation were the uncertain cash flow, a shortfall in the collection of arrears and the non-availability of additional funds during the implementation of the staff separation programme;

(f) Operational budget income was \$11.4 million, against which expenditures amounting to \$13.3 million were incurred. This resulted in a deficit of \$1.9 million, which was financed from the reserve carried over from 1997.

2. Tables 1, 2 and 3 provide the following information:

Table 1: Comparison of the cash flow for 1998 and 1997

Table 2: Financial status of the staff separation programme

Table 3: Status of the operational budget

II. STATUS OF ASSESSED CONTRIBUTIONS

3. Outstanding contributions as at 31 December 1998 are summarized below (details are shown in annex I to the present document). Outstanding contributions as at 31 December 1997, which have been revalued for comparison, are also shown below:

Outstanding contributions as at 31 December (Millions of US dollars)

4. Current information on the scale of assessed contributions, arrears, voting rights, payments received and the status of outstanding contributions is now available on the UNIDO Intranet and Internet Web site, which can be accessed at the following address:

<http://www.unido.org/data/contrib/>

III. SUSPENSION OF VOTING RIGHTS OWING TO NON-PAYMENT OF CONTRIBUTIONS

5. As indicated in the annex I to the present document, voting rights have been suspended in accordance with Article 5.2 of the Constitution and financial regulation 5.5(b), as follows:

	Number of Member States
General Conference	57
Industrial Development Board	3
Programme and Budget Committee	2

IV. SETTLEMENT OF ARREARS AND TIMELY PAYMENT OF ASSESSED CONTRIBUTIONS

Open-ended discussion group on timely payments

6. In its decision IDB.19/Dec.5, the Board emphasized the fundamental principle of adherence to the legal and financial obligations of membership in the Organization. In this regard, the Board invited all Member States to settle their arrears and to pay their assessed contributions on time and in full. In that decision, the Board also adopted the report of the open-ended discussion group on timely payment of assessed contributions and requested the Director-General to take forward the measures recommended therein. The progress on the implementation of the measures is described in paragraphs 7 to 13 below.

Progress on payment plans

7. The following actions were taken by the Director-General to communicate Board decision IDB.19/Dec.5

and the group's recommendations to 62 Member States whose voting rights had been suspended. Those Members owed a total amount of \$30.1 million (or about 70 per cent of the arrears, excluding those owed by the United States).

8 June 1998: Letters were written to the Member States informing them of the Board decision and the group's recommendations. In order to solicit their interest in settling arrears under payment plans, a letter of intent was also sent. The letter from the Director-General also requested a response if the Member States were not interested in making use of a payment plan. The deadline for returning the letter of intent was 6 July 1998.

15 June 1998: UNIDO Representatives in the field were requested to solicit an early response from Member States.

20 October 1998: Reminders were sent to Member States requesting a response.

3 December 1998: All Member States, including the 62 whose voting rights had been suspended, were informed of the possibility to settle arrears through payment plans and other incentives to encourage the early payment of contributions.

8. Information by country concerning progress on payment plans is shown in annex II, and the following table provides an overview of response to the Director-General's communications. To date, no payment plan has been concluded.

	Number of countries	Payment received (June to Dec. 1998)	Amount outstanding
Interested in payment plans	4	\$ 256,912	\$ 7,653,884
Partial payments made, but no response to communications	11	\$2,403,465	\$ 4,265,562
No payment or response to communications	47	-	\$16,447,612
Total	62	\$2,660,377	\$28,367,058

Incentives for early payment

9. To encourage Member States to make timely payments, the open-ended discussion group recommended the introduction of an incentive mechanism, based on a mathematical formula ("S" curve). The group also recommended that the incentive amount may be the interest earned under the regular budget in a given year, and that the incentive amount could be deducted from future assessed contributions or could be used for purposes specified by Member States.

10. Under the incentive mechanism, the interest earned on the investment of cash is distributed to Member States in accordance with a system of incentive points accumulated on the basis of the timing and amount of contributions paid. Incentives are relatively greater for States paying early in the year, and less for those paying in the second half of the year. An example illustrating the incentive mechanism is shown in annex III.

11. For each biennium, UNIDO estimates and budgets for an amount of interest expected to be earned on surplus funds. This amount is shown in the programme and budgets as miscellaneous income, and Member States' assessments are reduced by that amount in accordance with financial regulation 5.2(b). The incentive amount to be allocated to Member States would be the amount of interest earned over and above the estimated interest income reflected in the budget. This amount will only be known after the biennium's accounts are audited, i.e. by 1 June 2000 for the biennium 1998-1999. Therefore, the excess interest income for 1999, if any, could only be distributed in the form of a credit to the assessment of eligible Member States for the year 2001, or could be used for purposes specified by Member States. The interest income budgeted for 1999 is \$698,100.

12. In order to permit the introduction of this scheme, Member States would have to agree to a modification of financial regulation 5.2(b). The Secretariat recommends that a temporary modification may be introduced by way

of a General Conference decision pending a review of the scheme as explained in the following paragraph.

13. At present, the Secretariat is not in a position to determine whether the measures, including the "S" curve incentive mechanism, will have a direct bearing on improving the collection of assessed contributions during 1999. A document to be issued to the sixteenth session of the Programme and Budget Committee will report on any improvement in the pattern of payments by Member States which may indicate the extent to which the incentive measures have motivated them to pay their 1999 assessed contributions earlier as compared with previous years. The document will also report on the experience of other United Nations organizations that have adopted incentive schemes and payment plans.

V. ACTION REQUIRED OF THE COMMITTEE

14. The Committee may wish to recommend to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report on the financial situation of UNIDO (IDB.21/4-PBC.15/4);

"(b) Recommends that the General Conference, notwithstanding financial regulation 5.2(b), authorize the Director-General to distribute the interest income earned in excess of the budgetary estimates for 1999, if any, to eligible Member States in accordance with the incentive mechanism ("S" curve) described in paragraphs 9-13 of document IDB.21/4-PBC.15/4, or to utilize those funds for purposes specified by Member States;

"(c) Urges those Member States that have not yet paid their assessed contributions, including advances to the Working Capital Fund, and prior years' arrears to do so without delay."

Table 1. Regular budget cash flow
(Millions of dollars)

	1 January to 31 December	
	1998	1997
Opening balance (1 January)	<u>13.5</u>	<u>3.4</u>
Receipts		
Assessed contributions		
- Current year	54.3	69.4
- Prior years	8.3	16.8
Other income	<u>12.0</u>	<u>16.6</u>
Total receipts	<u>74.6</u>	<u>102.8</u>
Disbursements		
Regular budget	61.8	88.7
Separation indemnity	9.8	1.4
Prior years' obligations (net)	9.9	0.0
United Nations loan	1.0	1.0
Receivables/payables/revaluation (net)	<u>(4.0)</u>	<u>1.6</u>
Total disbursements	<u>78.5</u>	<u>92.7</u>
Closing balance (including Working Capital Fund)	<u>9.6</u>	<u>13.5</u>

Table 2. Staff separation programme
Financial status as at 31 December 1998
(Millions of US dollars)

Authorized from 1994-1995 (GC.7/Dec.17)	13.9
Unspent balance (GC.6/Dec.15)	<u>2.0</u>
Total	<u>15.9</u>
Staff separation estimates	<u>10.5</u>
Disbursements to 31 December 1998	<u>9.8</u>

Table 3. Operational budget
Status as at 31 December 1998
(Millions of US dollars)

Technical cooperation delivery	<u>79.5</u>
Reserve balance (1 January 1998)	4.2
Income	11.4
Expenditure	<u>(13.3)</u>
Reserve balance (31 December 1998)	<u>2.3</u>

Annex I
STATUS OF ASSESSED CONTRIBUTIONS
TO THE UNIDO REGULAR BUDGET
As at 31 December 1998

	Outstanding contributions (In equiv. US dollars)¹	Year(s) outstanding	Status of voting rights²
Afghanistan	58,585	1992(P)-1998	NO
Albania	67,246	1992(P)-1998	NO
Algeria	372	1998(P)	
Angola	5,571	1998(P)	
Argentina	1,612,978	1996(P)-1998	
Armenia	762,131	1992-1998	NO
Austria	-		
Azerbaijan	1,136,608	1993-1998	NO
Bahamas	27,993	1997(P)-1998	
Bahrain	-		
Bangladesh	91	1998(P)	
Barbados	6,909	1998(P)	
Belarus	897,342	1996(P)-1998	
Belgium	-		
Belize	6,771	1998	
Benin	6,102	1998	
Bhutan	-		
Bolivia	61,498	1992(P)-1998	NO
Bosnia and Herzegovina	204,244	1992-1998	NO
Botswana	-		
Brazil - IDB & PBC	7,331,591	1995(P)-1998	NO
Bulgaria	528	1998(P)	
Burkina Faso	56,310	1993(P)-1998	NO
Burundi	51,772	1993(P)-1998	NO
Cambodia	31,480	1995(P)-1998	NO
Cameroon	2,687	1998(P)	
Cape Verde - IDB	75,970	1991(P)-1998	NO
Central African Republic	91,945	1989(P)-1998	NO
Chad	76,257	1991-1998	NO
Chile	69,448	1998(P)	
China	-		
Colombia	-		
Comoros	111,949	1986-1998	NO
Congo	86,613	1989(P)-1998	NO
Costa Rica	74,703	1991(P)-1998	NO
Côte d'Ivoire	-		
Croatia	89,811	1998(P)	
Cuba	168,530	1996(P)-1998	

	Outstanding contributions (In equiv. US dollars)¹	Year(s) outstanding	Status of voting rights²
Cyprus	-		
Czech Republic	-		
Democratic People's Republic of Korea	356,512	1992(P)-1998	NO
Democratic Republic of the Congo	85,777	1989(P)-1998	NO
Denmark	-		
Djibouti	75,991	1991(P)-1998	NO
Dominica	65,226	1992(P)-1998	NO
Dominican Republic	244,307	1986-1998	NO
Ecuador	65,459	1996(P)-1998	
Egypt	-		
El Salvador	100,369	1988-1998	NO
Equatorial Guinea	111,949	1986-1998	NO
Eritrea	19,831	1996(P)-1998	
Ethiopia	18	1998(P)	
Fiji	11,275	1997(P)-1998	
Finland	-		
France	-		
Gabon	45,879	1995(P)-1998	NO
Gambia	68,383	1991(P)-1998	NO
Georgia	1,315,001	1992-1998	NO
Germany	-		
Ghana	863	1998(P)	
Greece	-		
Grenada	79,455	1990(P)-1998	NO
Guatemala	178,966	1990(P)-1998	NO
Guinea	44,696	1994(P)-1998	NO
Guinea-Bissau	96,670	1988(P)-1998	NO
Guyana	-		
Haiti	6,571	1998	
Honduras	65,106	1992(P)-1998	NO
Hungary	-		
India	-		
Indonesia	113,672	1998(P)	
Iran (Islamic Republic of)	1,377,767	1996(P)-1998	
Iraq	1,161,095	1990(P)-1998	NO
Ireland	-		
Israel	-		
Italy	-		
Jamaica	6,909	1998(P)	
Japan	-		
Jordan	-		
Kazakhstan	349,494	1997-1998	

	Outstanding contributions (In equiv. US dollars)¹	Year(s) outstanding	Status of voting rights²
Kenya	-		
Kuwait	421	1998(P)	
Kyrgyzstan	300,902	1993-1998	NO
Lao People's Democratic Republic	-		
Lebanon	-		
Lesotho	6,909	1998	
Liberia	84,753	1990-1998	NO
Libyan Arab Jamahiriya	179,628	1998(P)	
Lithuania	522,748	1994(P)-1998	NO
Luxembourg	-		
Madagascar	14,952	1997(P)-1998	
Malawi	21,913	1996(P)-1998	
Malaysia	-		
Maldives	16,428	1996(P)-1998	
Mali	42,169	1994(P)-1998	NO
Malta	-		
Mauritania	94,174	1988(P)-1998	NO
Mauritius	89	1998(P)	
Mexico	-		
Mongolia	-		
Morocco	-		
Mozambique	-		
Myanmar	-		
Namibia	-		
Nepal	638	1998(P)	
Netherlands	-		
New Zealand	-		
Nicaragua	111,949	1986-1998	NO
Niger	76,001	1991(P)-1998	NO
Nigeria	95,055	1998(P)	
Norway	-		
Oman	-		
Pakistan	55,271	1998	
Panama	22,051	1996(P)-1998	
Papua New Guinea	15,311	1997-1998	
Paraguay	237	1998(P)	
Peru	108,120	1997(P)-1998	
Philippines	51,415	1998(P)	
Poland	-		
Portugal	172,206	1998(P)	
Qatar	47,188	1997(P)-1998	
Republic of Korea	-		

	Outstanding contributions (In equiv. US dollars)¹	Year(s) outstanding	Status of voting rights²
Republic of Moldova	702,423	1993(P)-1998	NO
Romania	-		
Russian Federation	7,974,544	1997(P)-1998	
Rwanda - PBC	55,864	1993(P)-1998	NO
Saint Kitts and Nevis	34,270	1995(P)-1998	NO
Saint Lucia	-		
Saint Vincent and the Grenadines	91,473	1989(P)-1998	NO
Sao Tome and Principe	111,949	1986-1998	NO
Saudi Arabia	2,051,435	1996(P)-1998	
Senegal	406	1998(P)	
Seychelles	28,857	1995(P)-1998	NO
Sierra Leone - IDB	77,368	1990(P)-1998	NO
Slovakia	-		
Slovenia	-		
Somalia	111,949	1986-1998	NO
Spain	-		
Sri Lanka	-		
Sudan	-		
Suriname	21,437	1996(P)-1998	
Swaziland	-		
Sweden	211,399	1998(P)	
Switzerland	-		
Syrian Arab Republic	52,147	1998(P)	
Tajikistan	224,223	1993(P)-1998	NO
Thailand	-		
The former Yugoslav Republic of Macedonia	20,772	1996(P)-1998	
Togo	57,212	1993(P)-1998	NO
Tonga	-		
Trinidad and Tobago	65,274	1996(P)-1998	
Tunisia	-		
Turkey	-		
Turkmenistan	147,192	1995-1998	NO
Uganda	39,789	1994(P)-1998	NO
Ukraine	7,552,878	1994(P)-1998	NO
United Arab Emirates	101,988	1998(P)	
United Kingdom of Great Britain and Northern Ireland	-		
United Republic of Tanzania	59,794	1992(P)-1998	NO
Uruguay	50,345	1997(P)-1998	
Uzbekistan	288,680	1996(P)-1998	
Vanuatu	62,439	1992(P)-1998	NO
Venezuela	151,214	1998	

	Outstanding contributions (In equiv. US dollars)¹	Year(s) outstanding	Status of voting rights²
Viet Nam	7,896	1997(P)-1998	
Yemen	81,359	1991(P)-1998	NO
Yugoslavia ³	1,741,467	1990(P)-1998	NO
Zambia	37,364	1994(P)-1998	NO
Zimbabwe	6,909	1998	
Subtotal (168 Member States)	43,484,120		
United States of America ⁴	62,227,413	1994(P)-1996	NA
Total	105,711,533		

**Summary of outstanding
contributions by year:**

	Dollars	Schillings	Total dollar equivalent
1986	45,081		45,081
1987	47,561		47,561
1988	74,584		74,584
1989	100,250		100,250
1990	488,031		488,031
1991	747,549		747,549
1992	997,599		997,599
1993	1,448,702		1,448,702
1994	9,755,195		9,755,195
1995	35,503,093		35,503,093
1996	3,664,096	346,624,981	33,417,311
1997	1,231,358	116,487,857	11,230,315
1998	1,999,882	117,291,170	11,856,262
Total	56,102,981	580,404,008	105,711,533

Notes:

(P) Partial payment

¹According to financial rule 110.7, all UNIDO transactions in currencies other than United States dollars are recorded at the official rate of exchange established by the United Nations. The outstanding assessed contributions in Austrian schillings have been converted to US dollars using the following exchange rates:

(a) 1998 outstanding amount at US \$1 = ATS 11.90

(b) 1996 and 1997 outstanding amounts at US \$1 = ATS 11.65 (in accordance with Industrial Development Board decision IDB.7/Dec.7).

²The voting rights of 57 Member States have been suspended.

³In accordance with General Conference resolution GC/S.1/Res.1, the Federal Republic of Yugoslavia (Serbia and Montenegro) cannot continue automatically the membership of the former Socialist Federal Republic of Yugoslavia in UNIDO.

⁴Member State of UNIDO until 31 December 1996.

Annex II
PROGRESS ON PAYMENT PLANS

Status as at 31 December 1998
(In equivalent United States dollars)

Member State	Outstanding contributions		Payment received ³
	1 June 1998 ¹	31 December 1998 ²	
Interested in payment plans			
Burkina Faso	80,709	56,310	32,251
Guinea	43,542	44,696	
Kenya	24,065	-	24,661
Ukraine	7,574,098	7,552,878	200,000
Subtotal (4 countries)	7,722,414	7,653,884	256,912
Partial payments made, but no response to communications			
Belarus	1,437,338	897,342	581,993
Bolivia	68,363	61,498	8,019
Croatia	456,410	89,811	366,709
Ecuador	101,763	65,459	39,375
Grenada	78,301	79,455	7,876
Honduras	68,239	65,106	4,287
Libyan Arab Jamahiriya	804,283	179,628	651,684
Lithuania	572,585	522,748	92,900
Saudi Arabia	2,428,631	2,051,435	598,146
Seychelles	62,703	8,857	37,651
Tajikistan	233,789	224,223	14,825
Subtotal (11 countries)	6,312,405	4,265,562	2,403,465
No payment or response			
Afghanistan	57,431	58,585	
Albania	66,092	67,246	
Armenia	753,761	762,131	
Azerbaijan	1,118,457	1,136,608	
Bosnia and Herzegovina	202,750	204,244	
Brazil	7,071,027	7,331,591	
Burundi	50,618	51,772	
Cambodia	30,326	31,480	
Cape Verde	74,816	75,970	
Central African Republic	90,791	91,945	
Chad	75,103	76,257	
Comoros	110,795	111,949	
Congo	85,459	86,613	
Costa Rica	73,549	74,703	
Democratic People's Republic of Korea	348,460	356,512	

Member State	Outstanding contributions		Payment received ³
	1 June 1998 ¹	31 December 1998 ²	
Democratic Republic of the Congo	84,623	85,777	
Djibouti	74,837	75,991	
Dominica	64,072	65,226	
Dominican Republic	243,153	244,307	
El Salvador	99,215	100,369	
Equatorial Guinea	110,795	111,949	
Gabon	44,725	45,879	
Gambia	67,229	68,383	
Georgia	1,296,850	1,315,001	
Guatemala	175,607	178,966	
Guinea-Bissau	95,516	96,670	
Iraq	1,138,733	1,161,095	
Kyrgyzstan	296,047	300,902	
Liberia	83,599	84,753	
Mali	44,018	42,169	
Mauritania	93,020	94,174	
Nicaragua	110,795	111,949	
Niger	74,847	76,001	
Republic of Moldova	689,360	702,423	
Rwanda	54,710	55,864	
Saint Kitts and Nevis	33,116	34,270	
Saint Vincent and the Grenadines	90,319	91,473	
Sao Tome and Principe	110,795	111,949	
Sierra Leone	76,214	77,368	
Somalia	110,795	111,949	
Togo	56,058	57,212	
Turkmenistan	142,337	147,192	
Uganda	38,635	39,789	
United Republic of Tanzania	58,640	59,794	
Vanuatu	61,285	62,439	
Yemen	80,205	81,359	
Zambia	36,210	37,364	
Subtotal (47 countries)	16,045,795	16,447,612	-
Total (62 countries)	30,080,614	28,367,058	2,660,377

Notes

¹Based on exchange rate US dollar 1 = ATS 12.40

²Based on exchange rate US dollar 1 = ATS 11.90 and 11.65

³For the period June-December 1998, based on exchange rate effective on the dates of receipt

Annex III

INCENTIVE MECHANISM

(Based on timing and amount of contribution)

1. Use of the mathematical formula ("S" curve) takes into account the number of days during the year for which funds paid are available to the Organization, thus giving a relatively greater reward to those States paying in the first half of the year and less to those paying in the second half of the year.
2. The use of the formula to calculate the incentive points is complex. However, the calculation has been simplified by a table (attached) that shows the number of incentive points to be awarded whenever a payment is received. The incentive points are awarded on the basis of each one thousand dollars.

Example

3. A Member makes full payment of its contribution (equivalent to US dollars 793,000) on 29 January 1999 (day 29 of the year). Assuming that total incentive points earned by all eligible Member States for 1999 was 190,000 and the incentive amount available for distribution was equivalent to \$400,000, the incentive share of the Member State would be determined as follows:

- (a) Calculation of the awarding of incentive points based on time of receipt of contribution:

Incentive points for 29 January (from table):	9.72
Amount received (\$793,000) in thousands:	793
Incentive points to be awarded: 9.72×793	= 7708

- (b) Calculation of incentive amount applicable to each incentive point:

Incentive amount \div Total incentive points OR $\$400,000 \div 190,000$
= **\$2.105** per incentive point

- (c) Calculation of incentive amount applicable to the contribution of \$793,000 received on 29 January 1999:

Incentive amount from 'b' above \times Incentive points from 'a' above
 $\$2.105 \times 7708 =$ **\$16,225** resulting in a rebate of 2.05 per cent

Had the above contribution been paid on 29 September (day 269 of the year), the incentive amount would have been:

$\$2.105 \times 833$ (1.05 incentive points from the table \times 793 amount received in thousands)
= **\$1,753** resulting in a rebate of 0.22 per cent