

## 49<sup>th</sup> Meeting of the Standing Committee

*Bonn, Germany, 19 November 2019*

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### **IMPLICATIONS OF ARREARS ON THE CMS BUDGET**

*(Prepared by the Secretariat)*

**Summary:**

This document provides an update on the status of outstanding assessed contributions, particularly with regard to Parties with arrears of three or more years.

Additionally, it provides different scenarios for projecting closing cash balances of the Trust Fund by the end of December 2019 and 2020, taking into consideration different implementation rates for the 2020 budget. The most likely of these scenarios indicate that the Trust Fund may be in danger of depletion by the end of 2020 should the situation not be rectified.

## Background

1. Article VII, paragraph 4 of the Convention requires each Party to contribute to the budget adopted by the Conference of the Parties (COP) for a given financial period according to a scale to be agreed upon by the COP.
2. Paragraph 5 of Resolution 12.2 *Financial and Administrative Matters* urges all Parties to pay their contributions as promptly as possible, and preferably no later than 1 March in the year to which they relate. The COP noted with concern in paragraph 6 of Resolution 12.2 that a number of Parties had not paid their contributions to the core budget for 2017 and prior years thus affecting adversely the implementation of the Convention.
3. While the Trust Fund has carried arrears in the past, the current level of arrears as well as potential arrears in 2020 are of a magnitude that have the potential to put the Trust Fund at risk by the end of 2020. The Secretariat has taken steps to address this situation. First, the Secretariat has sent personalized letters to all Parties with arrears and undertaken additional steps for Parties with the highest level of arrears. The Secretariat has also implemented cost-saving measures including delaying the recruitment of a number of key vacancies. The Secretariat has also made the United Nations Environment Programme aware of the situation and has asked for their assistance with regard to outreach to Parties with arrears. The Secretariat has kept the Chair of the Standing Committee apprised of this situation, and the decision to convene a meeting of the Standing Committee in November 2019 is in large part due to the need to address this matter. As of the preparation of this document, the Secretariat is also reaching out to the Finance and Budget Subcommittee of the Standing Committee to seek their inputs prior to the 49<sup>th</sup> meeting of the Standing Committee.
4. The terms of reference adopted in Resolution 9.15 *Composition and Organisation of the Standing Committee* state that the Standing Committee is to oversee, on behalf of the Parties, the development and execution of the budget (paragraph 1 e)). Accordingly, the Standing Committee is invited to review the information provided in this document and to give guidance to the Secretariat. Given the current state of affairs, the attention of the Standing Committee to this matter is vital.

## Status of Outstanding Assessed Contributions.

5. The total unpaid pledges to the Trust Fund as of 31 August 2019 amount to €1,806,970: €869,390 for 2019, €396,245 for 2018, €458,122 for the previous triennium 2015-2017 and €83,213 for prior years.
6. As of 31 August 2019, of a total of 126 Parties, 70 Parties have yet to pay their contributions for 2019 and 48 Parties have not paid their assessed contribution for 2018. For the previous triennium 2015-2017, 31 Parties have not fully paid their assessed contributions to the Trust Fund; 14 Parties still have outstanding contributions related to the period before 2015.
7. As shown in the table in Annex 1, 24 Parties have arrears of three or more years. Total unpaid pledges attributable to these 24 Parties amount to €1,011,907: €258,506 for 2019, €253,436 for 2018, €416,752 for the previous triennium 2015-2017 and €83,213 for prior years. For the period before 2019, these 24 Parties account for 80 per cent of the total unpaid contributions to the Trust Fund: (64 percent for 2018, 91 percent for the previous triennium 2015-2017 and 100% for the period prior to 2015). Of these 24 Parties, one Party accounted for 70 per cent of the total amount in arrears for the period prior to 2019.

8. As agreed at the 48<sup>th</sup> meeting of Standing Committee, the Secretariat sent a list of the Parties in arrears and relevant invoices to the Members of the CMS Standing Committee to engage their support on the collection of arrears from the Parties in their respective regions. Additionally, the Secretariat sent personalized letters in September 2019 to the Parties that had contributions outstanding at that time. The Secretariat sent separate reminders to the 24 Parties that had arrears for three or more years, drawing their attention to paragraph 9 of Resolution 12.2, by which they would not be able to vote at the Thirteenth Meeting of the Conference of the Parties (COP13) and they would not be able to hold office in any of the Convention bodies, if payments were not received. In line with the guidance of the 48<sup>th</sup> meeting of the Standing Committee, the Secretariat advised these 24 Parties that a payment plan could be developed, if the Party was not in a position to pay its total outstanding contributions in one settlement.
9. In Paragraph 5 of Resolution 8.3, the COP agreed that there shall be maintained a working capital at a constant level of at least 15 per cent of estimated annual expenditure or \$ 500,000, whichever is higher. This was reaffirmed in Resolution 12.2. Until now, the CMS Trust Fund has maintained the working capital reserve at a constant level of \$500,000 and the Secretariat has never reached a stage where it needed to tap into the Trust Fund working capital reserve.

#### Projected closing cash balance of the Trust Fund as of 31 December 2019 and 2020

10. To understand more fully the potential impact of the above unpaid contributions, the Secretariat has prepared four scenarios of Trust Fund cash positions as of 31 December 2019 and 2020, set forth in the table in Annex 2. The cash positions in each scenario will depend on two factors: the contributions that will be received, and the rate of implementation of the budget.

- a. Contributions expected:

The Secretariat made the following assumptions for each of the scenario:

- Scenario 1 assumes that 83 per cent of the total contributions will be paid, on the basis of historical experience. This excludes those unpaid contributions from the Parties that have arrears for three or more years.
- Scenario 2 assumes that in addition to the contributions payable in Scenario 1, Parties with four or less years in arrears will pay their contributions.
- Scenario 3 assumes that in addition to the contributions payable in Scenario 1, Parties with six or less years in arrears will pay their contributions.
- Scenario 4 assumes that in addition to the contributions payable in Scenario 1, all 24 Parties that have arrears for three or more years will pay their contributions.

- b. Expenditure:

The figures for 2019 expenditure are based on the 2019 estimated expenditure as reported in UNEP/CMS/StC49/Doc3.1. For 2020, the following three budget implementation rates are considered:

- 100% implementation rate predicts that the entire 2020 budget will be fully expended after deducting the funds for the financial commitments related to servicing COP13 due to the decision to hold COP13 in February 2020.

- 88% implementation rate assumes some budget savings will be experienced through all budget items including operational costs even though all staff positions will have been fully encumbered from 2020.
  - 80% implementation rate assumes some budget savings will be incurred through postponing recruitment of all vacant staff positions, including the P4 - Avian Programme Management Officer and the GS6 - Personal Assistant to the Executive Secretary.
11. Scenario 1 assumes that 83 per cent of the total contributions will be paid, on the basis of historical experience. This excludes those unpaid contributions from the Parties that have arrears for three or more years. Under this scenario, taking into account the estimated expenditure for 2019, the closing cash balance of the Trust Fund by the end of December 2019 will be €228,121. Depending on the implementation rate in 2020, the closing cash balance of 2020 varies:
- If the Secretariat implements the 2020 budget fully, the closing cash balance of 2020 would be (€489,806). This means the Secretariat would have to tap into the Trust Fund working capital reserve from the last quarter of 2020 and would exhaust it completely by end of December 2020.
  - With an 88 per cent implementation rate in 2020, the closing cash balance would be (€145,138) by the end of December 2020. Under this scenario, the Secretariat would still have to use part of the Trust Fund working capital reserve to cover a negative cash balance.
  - With an 80 per cent implementation rate in 2020, the closing cash balance by the end of December 2020 would be €84,640. However, such a remaining balance would not be sufficient to cover the Secretariat's salary obligations for January 2021, requiring the Secretariat to tap into the Trust Fund working capital reserve if the contributions for 2021 are not received by the beginning of 2021.
12. Scenario 2 assumes that Parties with four or less years of arrears will pay their contributions, which would result in a closing cash balance of the Trust Fund by the end of December 2019 of €461,752. Depending on the implementation rate of 2020, the closing cash balance of 2020 varies:
- If the Secretariat implements the 2020 budget fully, the closing cash balance of 2020 would be €10,933. This remaining balance would not be sufficient to cover the Secretariat's salary obligations for January 2021, requiring the Secretariat to tap into the Trust Fund working capital reserve if the contributions for 2021 are not received by the beginning of 2021.
  - With an 88 per cent implementation rate in 2020, the closing cash balance would be €355,600 by the end of December 2020.
  - With an 80 per cent implementation rate in 2020, the closing cash balance would be €585,378 by end of December 2020. However, the Secretariat would suffer from a lack of key positions, hampering its ability to fully implement the agreed Programme of Work 2018-2020.

13. Scenario 3 assumes that Parties with six or less years of arrears will pay their contributions, which would result in a closing cash balance of the Trust Fund by the end of December 2019 of €467,223. Depending on the implementation rate of 2020, the closing cash balance of 2020 varies:
- If the Secretariat implements the 2020 budget fully, the closing cash balance of 2020 would be €22,657. This remaining balance would not be sufficient to cover the Secretariat's salary obligations for January 2021, requiring the Secretariat to tap into the Trust Fund working capital reserve if the contributions for 2021 are not received by the beginning of 2021.
  - With an 88 per cent of implementation rate in 2020, the closing cash balance would be €367,325 by the end of December 2020.
  - With an 80 per cent implementation rate in 2020, the closing cash balance would be €597,103 by end of December 2020. However, the Secretariat would suffer from a lack of key positions, hampering its ability to fully implement the agreed Programme of Work 2018-2020.
14. Scenario 4 assumes that all 24 Parties with three or more years of arrears will pay their contributions which would result in a closing cash balance of the Trust Fund by the end of December 2019 of €477,579. Depending on the implementation rate of 2020, the closing cash balance of 2020 varies:
- If the Secretariat implements the 2020 budget fully, the closing cash balance of 2020 would be €44,854. This remaining balance would not be sufficient to cover the Secretariat's salary obligations for January 2021, requiring the Secretariat to tap into the Trust Fund working capital reserve if the contributions for 2021 are not received by the beginning of 2021.
  - With an 88 per cent of implementation rate in 2020, the closing cash balance would be €389,521 by the end of December 2020.
  - With an 80 per cent implementation rate in 2020, the closing cash balance would be €619,299 by end of December 2020. However, the Secretariat would suffer from a lack of key positions, hampering its ability to fully implement the agreed Programme of Work 2018-2020.

Discussion and Analysis: Implications of arrears for the budget proposal and scale of contributions 2021-2023

15. Article VII. The Conference of the Parties of the Convention states that:

*“The Conference of the Parties shall establish and keep under review the financial regulations of this Convention. The Conference of the Parties shall, at each of its ordinary meetings, adopt the budget for the next financial period. Each Party shall contribute to this budget according to a scale to be agreed upon by the Conference. Financial regulations, including the provisions on the budget and the scale of contributions as well as their modifications, shall be adopted by unanimous vote of the Parties present and voting”.*

16. On the basis of Article VII, the budget should be contributed to by all Parties to the Convention, and the Secretariat would normally prepare the budget proposal 2021-2023 and the scale of contributions using the UN Scale of Assessment in effect as of January 2019.

17. Part of the reason for the existing situation is that as new Parties acceded to the Convention, the scale of contributions payable by each other Party was adjusted downward for the following budget period. In the case where a new Party's contribution under the UN Scale of Assessment is relatively high and it fall into arrears, such arrears can result in a downward trend for the health of the Trust Fund.
18. The Secretariat will be preparing a budget proposal for the consideration of COP13, and will include at least three scenarios. Given the situation with arrears, it may be advisable for the Conference of the Parties to consider a number of different alternatives for the scale of assessed contributions. Three alternatives might be submitted for the consideration of COP13:
19. First, in line with the guidance of the 48<sup>th</sup> meeting of the Standing Committee, the proposed scale of contributions for 2021-2023 will include an option using a minimum contribution of €1,000 or €2,000 per annum for Parties with contributions less than €1,000 or €2,000, on the basis of the UN Scale of Assessment. This approach is currently in use for contributions to the Agreement on the Conservation of Populations of European Bats (EUROBATS) and the Agreement on the Conservation of African-Eurasian Migrator Waterbirds (AEWA), respectively.
20. Other alternatives that could be considered include:
  - 1) agreeing that when new Parties accede to the Convention, the scale of contributions for the next triennium budget period will not be decreased.
  - 2) preparing an additional voluntary scale of assessed contributions to offset the current arrears.
21. In addition, the COP may need to consider other cost-saving measures such as a reduction on the frequency of meetings of the governing bodies.

Requested action

22. The Standing Committee is invited to take note of this document and to provide the Secretariat with comments and guidance as necessary.

## ANNEX 1

## Overview of the Parties with arrears of three or more years to the CMS Trust Fund (in Euros)

	Party	Accession year	Years in arrears	Total arrears related to the period before 2019	% of total prior-year arrears	2019 assessed contribution	Total arrears, incl 2019	% of total Arrears, incl 2019	2020 assessed contribution
				EUR		EUR	EUR		EUR
1	Brazil	2015	3	531,517	70.55%	210,404	741,921	73.32%	240,552
2	Nigeria	1987	4	25,930	3.44%	11,503	37,433	3.70%	13,151
3	Egypt	1983	3	23,058	3.06%	8,366	31,424	3.11%	9,564
4	Iraq	2016	3	12,457	1.65%	7,100	19,557	1.93%	8,117
5	Ecuador	2004	3	8,406	1.12%	3,687	12,094	1.20%	4,216
6	Cameroon	1983	4	2,498	0.33%	550	3,048	0.30%	629
7	Burkina Faso	1990	4	611	0.08%	220	831	0.08%	252
8	Eswatini	2013	4	599	0.08%	110	709	0.07%	126
9	Antigua & Barbuda	2007	3	266	0.04%	110	376	0.04%	126
10	Togo	1996	4	218	0.03%	55	273	0.03%	63
	<b>Sub-total</b>			<b>605,560</b>	<b>80.38%</b>	<b>242,105</b>	<b>847,665</b>	<b>83.77%</b>	<b>276,796</b>
11	Cuba	2008	6	20,177	2.68%	3,577	23,755	2.35%	4,090
12	Tunisia	1987	6	7,776	1.03%	1,541	9,317	0.92%	1,762
13	Yemen	2006	6	2,887	0.38%	550	3,437	0.34%	629
	<b>Sub-total</b>			<b>30,840</b>	<b>4.09%</b>	<b>5,669</b>	<b>36,509</b>	<b>3.61%</b>	<b>6,481</b>

	Party	Accession year	Years in arrears	Total arrears related to the period before 2019	% of total prior-year arrears	2019 assessed contribution	Total arrears, incl 2019	% of total Arrears, incl 2019	2020 assessed contribution
14	Libya	2002	16	81,211	10.78%	6,880	88,091	8.71%	7,865
15	Syrian Arab Republic	2003	8	11,443	1.52%	1,321	12,764	1.26%	1,510
16	Gabon	2008	11	7,462	0.99%	936	8,398	0.83%	1,070
17	Dem. Rep of the Congo	1990	23	4,057	0.54%	440	4,498	0.44%	503
18	Equatorial Guinea	2010	8	3,446	0.46%	550	3,996	0.39%	629
19	Niger	1983	23	2,332	0.31%	110	2,442	0.24%	126
20	Guinea-Bissau	1995	23	1,954	0.26%	55	2,009	0.20%	63
21	Somalia	1986	23	1,954	0.26%	55	2,009	0.20%	63
22	Chad	1997	20	1,708	0.23%	275	1,983	0.20%	315
23	Sao Tome & Principe	2001	18	764	0.10%	55	819	0.08%	63
24	Djibouti	2004	14	671	0.09%	55	726	0.07%	63
	<b>Sub-total</b>			<b>117,002</b>	<b>15.53%</b>	<b>10,732</b>	<b>127,734</b>	<b>12.62%</b>	<b>12,270</b>
	<b>TOTAL</b>			<b>753,402</b>	<b>100.00%</b>	<b>258,506</b>	<b>1,011,907</b>	<b>100.00%</b>	<b>295,546</b>



## ANNEX 2

## Projection on the closing cash balances of the CMS Trust Fund in 2019-2020 (in Euros)

Projected implementation rates *	86%	100%	86%	88%	86%	80%
<b>Scenario 1. Assumes that 83% of the contributions from all Parties other than those in Annex 1 collected</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
Opening cash balance as at 01st January**	694,829	228,121	694,829	228,121	694,829	228,121
Contributions - expected to be received	1,952,643	2,232,435	1,952,643	2,232,435	1,952,643	2,232,435
Expenditure***	(2,351,008)	(2,872,226)	(2,351,008)	(2,527,559)	(2,351,008)	(2,297,781)
Net cashflow for the year	(398,365)	(639,792)	(398,365)	(295,124)	(398,365)	(65,346)
Provision for exchange rate fluctuations ****	(68,342)	(78,135)	(68,342)	(78,135)	(68,342)	(78,135)
<b>Closing cash balance as at 31st December</b>	<b>228,121</b>	<b>(489,806)</b>	<b>228,121</b>	<b>(145,138)</b>	<b>228,121</b>	<b>84,640</b>
<b>Projected implementation rates *</b>	<b>86%</b>	<b>100%</b>	<b>86%</b>	<b>88%</b>	<b>86%</b>	<b>80%</b>
<b>Scenario 2. Assumes that 83% of the contributions from all Parties other than those in Annex 1 collected and that the Parties with four or less years in arrears will pay</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
Opening cash balance as at 01st January**	694,829	461,752	694,829	461,752	694,829	461,752
Contributions - expected to be received	2,194,748	2,509,230	2,194,748	2,509,230	2,194,748	2,509,230
Expenditure***	(2,351,008)	(2,872,226)	(2,351,008)	(2,527,559)	(2,351,008)	(2,297,781)
Net cashflow for the year	(156,260)	(362,997)	(156,260)	(18,329)	(156,260)	211,449
Provision for exchange rate fluctuations****	(76,816)	(87,823)	(76,816)	(87,823)	(76,816)	(87,823)
<b>Closing cash balance as at 31st December</b>	<b>461,752</b>	<b>10,933</b>	<b>461,752</b>	<b>355,600</b>	<b>461,752</b>	<b>585,378</b>

<b>Projected implementation rates *</b>	<b>86%</b>	<b>100%</b>	<b>86%</b>	<b>88%</b>	<b>86%</b>	<b>80%</b>
<b>Scenario 3. Assumes that 83% of the contributions from all Parties other than those in those in Annex 1 collected and that the Parties with six or less years in arrears will pay</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
Opening cash balance as at 01st January**	694,829	467,223	694,829	467,223	694,829	467,223
Contributions - expected to be received	2,200,416	2,515,711	2,200,416	2,515,711	2,200,416	2,515,711
Expenditure***	(2,351,008)	(2,872,226)	(2,351,008)	(2,527,559)	(2,351,008)	(2,297,781)
Net cashflow for the year	(150,592)	(356,516)	(150,592)	(11,848)	(150,592)	217,930
Provision for exchange rate fluctuations****	(77,015)	(88,050)	(77,015)	(88,050)	(77,015)	(88,050)
<b>Closing cash balance as at 31st December</b>	<b>467,223</b>	<b>22,657</b>	<b>467,223</b>	<b>367,325</b>	<b>467,223</b>	<b>597,103</b>
<b>Projected implementation rates *</b>	<b>86%</b>	<b>100%</b>	<b>86%</b>	<b>88%</b>	<b>86%</b>	<b>80%</b>
<b>Scenario 4. Assumes that 83% of the contributions from all Parties other than those in Annex 1 collected and that all Parties with three or more years in arrears will pay</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
Opening cash balance as at 01st January**	694,829	477,579	694,829	477,579	694,829	477,579
Contributions - expected to be received	2,211,148	2,527,981	2,211,148	2,527,981	2,211,148	2,527,981
Expenditure***	(2,351,008)	(2,872,226)	(2,351,008)	(2,527,559)	(2,351,008)	(2,297,781)
Net cashflow for the year	(139,860)	(344,246)	(139,860)	421	(139,860)	230,200
Provision for exchange rate fluctuations****	(77,390)	(88,479)	(77,390)	(88,479)	(77,390)	(88,479)
<b>Closing cash balance as at 31st December</b>	<b>477,579</b>	<b>44,854</b>	<b>477,579</b>	<b>389,521</b>	<b>477,579</b>	<b>619,299</b>

\* Implementation rate refers to expected expenditure as a percentage of the approved budget

\*\* Excludes : operating reserve, advance contributions for future years and unpaid contribution for prior years

\*\*\* Expenditure includes COP13 servicing costs of EUR 113K in 2019 which as approved in 2020 budget but brought forward to 2019 due to the decision to hold the COP13 in February 2020. Respective amount is deducted from 2020.

\*\*\*\* 3.5 per cent of the contributions is provisioned to cover exchange rate fluctuations during the period 2019-2020