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## ACCOUNTING FOR UNPAID ASSESSED CONTRIBUTIONS TO THE REGULAR BUDGET OF THE ORGANIZATION

### SUMMARY

#### Background

**37 C/31:** Financial report and audited consolidated financial statements relating to the accounts of UNESCO for the year ended 31 December 2012 and report by the External Auditor.

**37 C/INF.30:** Oral report by the Chairperson of the APX Commission.

#### Purpose

This information document, following request by the General Conference at its 37th session, provides an explanation on how the Organization accounts for unpaid contributions received after the end of the biennium to which the contributions relate.

## I. Introduction

1. This information document describes the general principles for the assessment and remittance of Member States' contributions to the regular budget, the accounting for unpaid contributions and the use of unpaid contributions received after the period to which the contributions relate to.

2. After the General Conference adopts the regular budget for the biennium and the level of the Working Capital, the Director-General, in compliance with Article 5.3 of the Financial Regulations, invoices Member States one half of their contributions at the beginning of the first year of the budget period. The other half of the contribution is invoiced at the beginning of the second year. The amount invoiced to each Member State is based on the scale of assessment approved by the General Conference.

3. In line with Financial Regulations 5.5, contributions invoiced to Member States are considered due and payable in full within 30 days of the receipt of the communications of the Director-General or as of the first day of the year to which they relate, whichever is the later. Contributions of the current year that remain unpaid as of 1 January of the following year are considered to be one year in arrears.

4. The timing of the receipt of contributions has an impact on the Director-General's ability to incur commitments and make payments in accordance with the budget appropriation resolution. Where large contributions are expected not to be received during the budget period and would remain outstanding over a long period, the Organization's planned expenditure is adjusted accordingly. In cases where the delay is of a short-term timing nature, the Organization resorts to either the use of the Working Capital Fund, internal or external borrowing to cover such cash deficits.

5. Arrears owed by Member States are never written-off from the books of the Organization as long as the Member State remains a sovereign State. Where a State ceases to exist, the General Conference decides on how any outstanding balances will be treated. However, from an accounting perspective and in line with International Public Sector Accounting Standards (IPSAS), the Organization makes an allowance for unpaid contributions based on an objective analysis of outstanding amounts owed by Member States.

## II. Allowances for unpaid contributions

6. Member States are expected to pay their contributions at the beginning of each financial year. However, some Member States at times are unable to fulfil their commitment by the end of the biennium to which the contributions relate and some may request payment plans to pay their contributions over a longer period, normally over six years. The Organization is thus faced with the risk of implementing an approved budget without necessarily receiving all the related cash contributions. Based on the general payment history of Member States, an allowance for unpaid contribution is computed and recognized as a charge in the financial statements of the Organization.

7. The allowance is computed under two main categories:

- **General allowance:** Where a Member State has not proposed any payment plan and has a long history of outstanding arrears without making any payment in the recent past, an allowance is computed for the entire amount of arrears due. If a Member State enters into a payment plan, the allowance is computed by taking into account the time value of money which involves discounting the actual amount due. The allowance computed for the unpaid contributions is recorded as a charge in the financial statements and deducted from the accounting reserves. If the Member State pays back in a subsequent period, the amount is credited back to the reserves. Under this type of allowance, no reduction in the Organization's planned expenditure is made. It is expected that the cash flow

management strategy of the Organization will be able to cover the delay in the payment of contributions for such category of Member States. **Table I** below shows the movement in the allowance for unpaid contributions from 2010 to end of 2013. The total general allowance as at 31 December 2013 amounted to \$6.7 million.

**Table I – General allowance** (amounts in US \$)

	2010	2011	2012	2013
<b>Allowance beginning of the year</b>	10,952,830	7,078,833	7,111,712	6,942,303
<b>Write-off*</b>	<b>(3,700,000)</b>			
<b>Increase/(decrease) in allowance</b>	<b>(173,997)</b>	<b>32,879</b>	<b>(169,409)</b>	<b>(263,744)</b>
<b>Allowance end of the year</b>	<b>7,078,833</b>	<b>7,111,712</b>	<b>6,942,303</b>	<b>6,678,559</b>

\*The write-off of \$3.7 million related to the debt owed by the former Yugoslavia<sup>1</sup>.

- **Specific allowance:** A State that remains a Member State of the Organization during the financial period for which the General Conference adopts the budget is invoiced its share of the contribution based on the applicable scale of assessment. The Member State, in line with the Constitution of UNESCO, is obliged to settle its financial liability to the Organization. The Member State may decide not to discharge its financial obligations for reasons not associated with its ability to pay. The Organization under such circumstances records a receivable (an asset) for the amount due by the Member State but at the same time makes a corresponding allowance for the non-payment of the contribution. With such an accounting approach, the Organization does not give up its right to the funds due but makes appropriate adjustments in its budget and programmes to cover the shortfall from the non-payment of the contributions. As **Table II** below indicates, the Organization has been making specific allowances since 2011 against contributions due from Member States that have suspended their contributions to the Organization.

**Table II – Specific allowance** (amounts in US \$)<sup>2</sup>

	2010	2011	2012	2013	2014
<b>Allowance beginning of the year</b>	-	-	79,163,093	158,599,588	241,921,487
<b>Increase/(decrease) in allowance</b>		<b>79,163,093</b>	<b>79,436,495</b>	<b>83,321,899</b>	<b>81,401,465</b>
<b>Allowance end of the year</b>	-	<b>79,163,093</b>	<b>158,599,588</b>	<b>241,921,487</b>	<b>323,322,952</b>

### III. Receipt of contributions after the period of the allowance

8. **General allowance:** Under the general allowance category, no reduction in the budget of the Organization is made. The allowance is charged as an expense which reduces the accounting reserves. When the Member State settles the contribution in a subsequent period, the allowance is reversed and an income recorded which then increases the accounting reserves. Such delays in the payment of contributions have a timing effect on the cash flow of the Organization but do not

<sup>1</sup> UNESCO General Conference resolution 35 C/Res.89.III.1 and United Nations General Assembly resolution 63/249.

<sup>2</sup> Amounts owed in euros are converted using United Nations operational rate of exchange. The 2014 figure will change depending on the exchange rate movements during the year.

increase the budgetary resources available when repaid. The impact of these timing delays is managed through the Organization's cash flow strategy: resorting to the use of the Working Capital Fund, short-term internal and external borrowing, advanced receipts from other Member States, and delays in the payment of budget obligations.

9. **Specific allowance:** Under this category, the Organization's budget expenditure is reduced to take account of the contribution that is expected not to be received. Consequently, when the Member State concerned pays the contribution in a subsequent financial period, the allowance is reversed and an income is recorded in the financial statements. Since there has not been previous organizational expenditure financed from such contributions these repayments lead to **additional financial resources** for the Organization. As shown in **Table II, the potential revenue from settlement of unpaid contributions as at 1 January 2014 amounts to \$323.3 million.**

#### IV. Use of the funds when received

10. When there is no actual reduction of budget expenditure related to the unpaid contributions, the funds when received go back to the normal reserves of the Organization. No decision from the Director-General or the governing bodies will be required in this particular situation. The general allowance of \$6.7 million as at 31 December 2013 when repaid would be credited back to the reserves.

11. When there is an actual reduction of budget expenditure related to the specific allowance, then the Director-General would have to make a proposal to the General Conference regarding the use of such funds when received. Since these funds represent new income to the Organization, any decision on its use can only be taken by the General Conference. The amount received will be part of the cash balance of the General Fund awaiting the decision of the General Conference.

12. The Organization used \$42 million of the Emergency Fund to cover the budget deficit arising from the suspension of contributions from 2011 to 2013. The \$42 million would be repaid back into a Special Account. The decision on the use of the repaid funds will be within the authority of the Director-General in line with Articles 6.5 and 6.6 of the Financial Regulations.

13. Currently there is no firm proposal for the use of the outstanding contributions of \$323.3 million less the \$42 million of the budget deficit but a number of options could be considered, including:

- Financing UNESCO priority programmes: the Director-General will present UNESCO programmes in line with the C/4 to be financed from such contributions. Targeted programmes could include those the Organization was unable to fully implement as approved in the relevant C/5 document.
- Funding of the After-Service Health Insurance (ASHI) liability: The External Auditors have recommended that the Organization put in place a sustainable funding strategy for the liabilities associated with staff medical insurance upon retirement. The unfunded ASHI liability as at 31 December 2013 amounted to \$826 million. Part of the unpaid contributions when received could be set aside towards the ASHI funding.
- Financing capital investments: part of the Capital Master Plan or needed major capital investments could be funded from such contributions.