A Feasibility Study on Funding Modalities for Cooperation Projects under ACD

Background

Considering that the sustainability of cooperative economic projects under the aegis of the Asian Cooperation Dialogue would essentially depend upon the financial commitments of member countries, the 2nd ACD High Level Study Group Meeting held in Seoul (2008) decided to entrust RIS to explore the feasibility of creating a funding mechanism.

Objective

The prime objective of this exercise was to evolve an ACD system of financial contribution which is scientific, transparent and development-oriented.

Methodology

To this end, a brief survey of different models of financial contribution in different international and regional organisations was made and it was found that the prevalent mechanism of the UN can be deemed as the most appropriate due its orientation to incorporate the stage of development in all its endeavours, including the financial matters. This is particularly important given the composition of the ACD in terms of its membership of countries that belong to the entire spectrum of development – from the least developed ones to the most advanced economies. Thus, the broad parameters of the contribution by the members of the UN to its budget are analysed and some of its salient features are summarised below with a view to making a template of financial cooperation by the ACD members.

Modalities of Financial Contribution by Members in the UN: Salient Features

- **Overall Budget:** There are three main categories of United Nations expenditures: the regular budget which is financed by a mandatory assessment from the member nations; the peace keeping budget which is also financed by assessment but is separate from the regular budget; and voluntary contributions which finance most of the United Nations' humanitarian relief and development agencies.

- **Regular Budget:** The Article 17 of the United Nations Charter states, "The expenses of the Organization shall be borne by the Members as apportioned by the General

Assembly." The United Nations Committee on Contributions is responsible for drawing up a scale of assessments which is approved by the General Assembly.

- The basic principle for the elaboration of the scale of assessment is capacity to pay. While this is an ideal principle but difficult to put into practice.

- This complex assessment formula is based on a 10-year average of member nation's Gross National Income, and is adjusted for countries with a low per-capita income and high levels of external debt. There is a "scheme of limits" which prevents any nation's rate of assessment to rise or fall too fast from one biennium to the next.

- The top 15 contributing nations represent about 84 percent of the regular budget.

- Payment of assessments to the Regular Budget is a treaty obligation under the United Nations Charter, but few nations pay on time and in full. Member nations are billed on 1 January each year and assessments are due in full by 31 January.

- The payment of the assessed contributions is a legal obligation of each member nation under the Charter. Penalty for non-payment is supported by Article 19 of the United Nations Charter, which states: 'A member of the United Nations which is in arrears in the payment of its financial contributions to the Organization shall have no vote in the General Assembly if the amount of its arrears equals or exceeds the amount of the contributions due from it for the preceding two full years.'

- **Assessment Formula:** The UN is financed from assessed and voluntary contributions from member states. The regular two-year budgets of the UN and its specialized agencies are funded by assessments. The General Assembly approves the regular budget and determines the assessment for each member. As mentioned, this is broadly based on the relative capacity of each country to pay, as measured by their Gross National Income (GNI), with adjustments for external debt and low per capita income.

- **Gross National Income (GNI)** comprises the total value produced within a country (i.e. its Gross Domestic Product), together with its income received from other countries (notably interest and dividends), less similar payments made to other countries. The GNI consists of: the personal consumption expenditures, the gross private investment, the government consumption expenditures, the net income from assets abroad (net income receipts), and the gross exports of goods and services, after deducting two components: the gross imports of goods and services, and the indirect business taxes. The GNI is similar to the Gross National Product (GNP), except that in measuring the GNP one does not deduct the indirect business taxes. For example, the profits of a US-owned company operating in the UK will count towards US GNI and UK GDP, but will not count towards UK GNI or US GDP.

- The Assembly has established the principle that the UN should not be overly dependent on any one member to finance its operations. Thus, there is a 'ceiling' rate, setting the maximum amount any member is assessed for the regular budget. In December 2000, the Assembly revised the scale of assessments to reflect current global circumstances. As part of that revision, the regular budget ceiling was reduced from 25% to 22%. The U.S. is the only member that has met the ceiling. In addition to a ceiling rate, the minimum amount assessed to any member nation (or 'floor' rate) is set at 0.001% of the UN budget. Also, for the least developed countries (LDC), a ceiling rate of 0.01% is applied.

- The exception to this occurs however when drastic economic changes occur in a member nation. For example the former Soviet Union (responsible for 11 percent of the UN regular budget) has divided the responsibility to the newly formed nations. This does not reflect the current economic circumstances nor the conversion rate of rubles to US dollars. Other areas of the world have also experienced great economic changes; the oil producing nations have experienced a decline while many eastern Asian nations have experienced rapid economic growth.

- **Working Capital Fund:** The Working Capital Fund was established with the formation of the Untied Nations and was designed to cover regular budget expenditures and limited emergency expenditures when assessments were late. The Working Capital Fund is authorized to be at a level of about 20% of the regular budget; in 1982 the fund level was increased to $100 million.

- **Recommendation for Improvement:** The more far-reaching suggestions for improving UN financing include weighing the vote on budget and expenditure issues so that those who contribute the most have greater influence as in the World Bank and the International Monetary Fund as well as giving the United Nations the power to tax[1].

- **Current Status:** The current scale of assessments was adopted in 2000, when the Assembly based individual countries' assessments on their gross national income (GNI), with adjustments for external debt and low per capita income. There were also minimum and maximum rates -- so-called "floor" and "ceiling" — of assessment. One of the main features of the scale was a reduction of the ceiling from 25 to 22 per cent, which was then applied to the Organization's main contributor — the United States.

- The current operating budget is estimated at $4.19 billion (refer to Tables1 and 2 for a list of major contributors).

Table 1: Main Contributors to the UN budget, 2006

Member state	Contribution (% of UN budget)
United States	22.00%
Japan	16.624%
Germany	8.66%
United Kingdom	6.13%
France	6.03%
Italy	4.89%
Canada	2.81%

[1] Cynthia Beamon & Kimberly Jones, 'Restructuring UN Finances', http://www.munfw.org/archive/45th/cr1.htm

China	2.667%
Spain	2.52%
Mexico	1.88%
Australia	1.59%
Brazil	1.52%
Other member states	22.679%

- The following **41** Member States have paid their regular budget assessments in full by 31 January 2006, the end of the 30 day due period specified in Financial Regulation 5.4.

Table 2

	Member State	Amount paid (in US$)
1	Azerbaijan	85,330
2	Bahamas	221,857
3	Bangladesh	170,660
4	Belarus	307,187
5	Bolivia	153,594
6	Burkina Faso	34,132
7	Burundi	17,066
8	Gabon	153,594
9	Kenya	153,594
10	Mongolia	17,066
11	Solomon Islands	17,066
12	Suriname	17,066
13	Latvia	255,989

14	Finland	9,096,168
15	Angola	17,066
16	Singapore	6,621,600
17	South Africa	4,983,267
18	Norway	11,587,801
19	Antigua and Barbuda	51,198
20	Liechtenstein	85,330
21	Australia	27,169,043
22	Canada	48,006,605
23	Russian Federation	18,772,580
24	Thailand	3,566,790
25	Armenia	34,132
26	Denmark	12,253,375
27	Luxembourg	1,314,080
28	Slovakia	870,365
29	United Kingdom	104,563,268
30	Ireland	5,973,093
31	Republic of Moldova	18,000
32	Sweden	17,031,850
33	Bulgaria	290,122
34	Congo	17,066
35	Monaco	51,198
36	New Zealand	3,771,582
37	India	7,184,779
38	Maldives	17,795
39	Switzerland	20,427,980

40	**Estonia**	**203,792**
41	**France**	**102,907,868**

- As of **16 October 2006, 71** additional Member States have paid their 2006 regular budget assessment in full after the 31 January 2006 deadline.

	Member State	Amount Paid (in U. S. $)	Date of Payment
1	**Cape Verde**	**17,066**	**1 February**
2	**Poland**	**7,867,418**	**2 February**
3	**Kuwait**	**2,764,689**	**3 February**
4	**Laos**	**17,066**	**6 February**
5	**Netherlands**	**28,841,508**	**6 February**
6	**Swaziland**	**34,132**	**6 February**
7	**Mauritius**	**187,726**	**7 February**
8	**Trinidad and Tobago**	**375,452**	**9 February**
9	**Malaysia**	**3,464,394**	**10 February**
10	**Iraq**	**273,056**	**14 February**
11	**Slovenia**	**1,399,410**	**20 February**
12	**Croatia**	**631,441**	**22 February**
13	**Uzbekistan**	**303,924**	**22 February**
14	**Czech Republic**	**3,123,075**	**24 February**
15	**Italy**	**83,367,319**	**24 February**
16	**Namibia**	**102,396**	**24 February**
17	**Samoa**	**17,066**	**27 February**
18	**Tanzania**	**102,396**	**27 February**
19	**Hungary**	**2,150,314**	**1 March**
20	**Jordan**	**187,726**	**2 March**

21	Republic of Korea	30,650,503	8 March
22	Bahrain	511,979	9 March
23	Spain	43,006,274	15 March
24	Tajikistan	17,500	15 March
25	Saudi Arabia	12,168,045	16 March
26	Greece	9,044,971	17 March
27	Algeria	1,297,015	20 March
28	Portugal	8,021,011	23 March
29	Sri Lanka	290,122	24 March
30	Fiji	68,264	27 March
31	Belgium	18,243,534	4 April
32	Cuba	733,838	4 April
33	Botswana	204,792	6 April
34	Yemen	102,396	10 April
35	Egypt	2,047,917	11 April
36	Austria	14,659,678	17 April
37	Romania	1,023,959	20 April
38	Nicaragua	17,066	21 April
39	Mozambique	17,066	24 April
40	Grenada	17,066	25 April
41	Colombia	2,645,228	27 April
42	Mauritania	17,066	3 May
43	Indonesia	2,423,369	22 May
44	Qatar	1,092,223	22 May
45	Brunei Darussalam	580,243	31 May
46	Iceland	580,243	2 June

47	Cyprus	665,573	8 June
48	Ghana	68,264	8 June
49	Djibouti	17,066	8 June
50	Guatemala	511,979	15 June
51	Germany	147,825,532	22 June
52	Turkey	6,393,142	28 June
53	Andorra	85,330	3 July
54	Ethiopia	68,264	5 July
55	Nepal	68,264	5 July
56	Tunisia	546,111	5 July
57	Tonga	17,066	24 July
58	Cambodia	43,132	27 July
59	Saint Vincent and the Grenadines	17,066	1 August
60	United Arab Emirates	4,010,506	17 August
61	Jamaica	136,527	31 August
62	Zimbabwe	119,462	1 September
63	Turkmenistan	85,330	8 September
64	Libyan Arab Jamahiriya	2,252,709	12 September
65	San Marino	51,198	14 September
66	Nigeria	716,771	18 September
67	Venezuela	2,918,283	18 September
68	Mali	34,132	22 September
69	Democratic Republic of the Congo	51,198	25 September
70	Haiti	51,198	26 September

71	**China**	**35,036,460**	**28 September**

- As of **16 October, one** Non-Member State has paid its 2005 regular budget assessment in full

	Non-Member State	Amount Paid (in U. S., $)	Date of Payment
1	**Holy See**	**8,533**	**23 February**

- **Recommendations:** (i) Given the UN model as above, the ACD may consider adopting a formula based on a combination of GNI and per capita GNI for reflecting a more reasonable and equitable financial contribution to the ACD projects. This would help preventing a situation characterised by asymmetric contributions from the more developed members in terms of absolute or per capita GNI and at the same time invite some minimal commitments from the lesser developed members. In addition, there is a need to prevent a free rider situation and the concomitant lack of commitment towards the developmental cause. (ii) To achieve a more balanced modality, it is worthwhile to institute both a ceiling rate and a floor rate; the exact percentages could be deliberated upon. (iii) It is also recommended that the lead and complementing countries in a particular sector under the ACD sectoral programme could take asymmetric financial responsibilities in supporting the projects. (iv) An innovative aspect could be to engage the private sector for financial partnerships in specific sectors. (v) A Working Capital Fund could be established for the purposes of running the proposed secretariat and other activities including the cooperation at the level of research, think-tanks and policy makers.