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Item 4 (c) of the provisional agenda*

Policy issues: international environmental governance

**Voluntary indicative scale of contributions: assessment of the
operation of the extended pilot phase**

Note by the Executive Director

Summary

The annex to the present note provides information on the operation of the extended pilot phase of the voluntary indicative scale of contributions to the Environment Fund and the other voluntary contribution options listed in paragraph 18 of the appendix to decision SS.VII/1. The information is provided in response to the request of the Governing Council in paragraph 16 of its decision 24/1 IV of 9 February 2007 on strengthening the financing of the United Nations Environment Programme.

* UNEP/GC.25/1.

Annex

I. Summary

1. The main results achieved by UNEP through the introduction of the voluntary indicative scale of contributions may be summarized as follows:

(a) Significant broadening of the donor base, as 157 United Nations Member States have pledged and paid contributions during the last six years. In particular many developing countries and countries with economies in transition have become new donors. Unfortunately, not all donor countries have been able to make regular annual contributions;

(b) Greater short-term predictability with respect to voluntary contributions to the Environment Fund, as approximately 75 per cent of Member States pledge annually in accordance with the voluntary indicative scale of contributions. There has also been limited growth in the number of biennial pledges;

(c) Improved financial stability, as the majority of donor countries have at least maintained the level of their voluntary payments to the Environment Fund;

(d) Higher voluntary payments to the Environment Fund, as the negative trends in contributions experienced during the four bienniums preceding adoption of the voluntary indicative scale of contributions was reversed and positive growth in contributions commenced immediately upon adoption of the scale. Pledges and contributions to the Environment Fund increased by 83 per cent, from \$48 million in 2002 to approximately \$88 million in 2008.

(e) Receipt of adequate, increased and timely contributions in a biennium cannot be guaranteed by the voluntary indicative scale alone, as contributions remain voluntary and approximately 25 per cent of donor countries contribute in amounts that are below those suggested by the voluntary indicative scale. Other important factors contributing to strengthening the financial situation of UNEP include the improving strategic vision, focus and management of the organization and the good will of the donor Governments making additional voluntary payments;

(f) The Environment Fund remains vulnerable to exchange rate fluctuations, unpredictable decreases and even non-payment and delayed payments, including by major donors, which affects the programme's cash flow and its ability to finance programme activities. UNEP should continue building the donor confidence through efficient planning, timely delivery of its programme results, improved reporting and more efficient use of available funds.

II. Background

2. The Governing Council/Global Ministerial Environment Forum of the United Nations Environment Programme (UNEP) at its seventh special session, which took place in Cartagena, Colombia, in 2002, adopted the Report of the Open-Ended Intergovernmental Group of Ministers or their Representatives on International Environmental Governance, which is set out in the annex to that decision.

3. In paragraph 16 of its report the Open-ended Working Group said that all Member States of the United Nations should contribute financially to UNEP and, toward that end, called for the application of a voluntary indicative scale of contributions to the Environment Fund.

4. The Open-ended Working Group called for the establishment of the voluntary indicative scale of contributions with the aim of broadening the base of contributions and enhancing predictability in the voluntary financing of the Environment Fund. The voluntary scale was developed specifically for the Environment Fund, taking into account, among other things, the United Nations scale of assessments and the following factors set out in paragraph 17 of the Working Group's report:

(a) A minimum indicative rate of 0.001 per cent;

(b) A maximum indicative rate of 22 per cent;

(c) A maximum indicative rate for the least developed countries of 0.01 per cent;

(d) Economic and social circumstances of the Member States, in particular those of developing countries and countries with economies in transition;

(e) Provisions to allow for any Member State in a position to do so to increase its level of contributions over and above the current level.

5. In response to the Council/Forum's adoption of the Working Group's report the Executive Director of UNEP launched a pilot phase of the voluntary indicative scale of contributions for one year, the second year of the biennium 2002–2003. Following the pilot phase the scale was then applied in the biennium 2004–2005 and then revised for 2006–2007 and 2008–2009. At its twenty-fourth session, in 2007, the Council/Forum reaffirmed its support for the provision of adequate, stable and predictable financing of UNEP as an essential prerequisite for the strengthening of its capacity and functions and the effective coordination of the environmental component of sustainable development (decision 24/1).

6. The voluntary indicative scale of contributions and other voluntary options set out in paragraph 18 of decision SS.VII/1 have proved to be effective means of stimulating voluntary contributions to the Environment Fund. The donor base has been broadened since introduction of the voluntary scale, with the average number of Member States making annual contributions to the Environment Fund increasing from 76, before the introduction of the scale to approximately 117 during the period 2003–2007. Payments have also increased. UNEP expects a \$88 million in contributions to the Environment Fund in 2008.

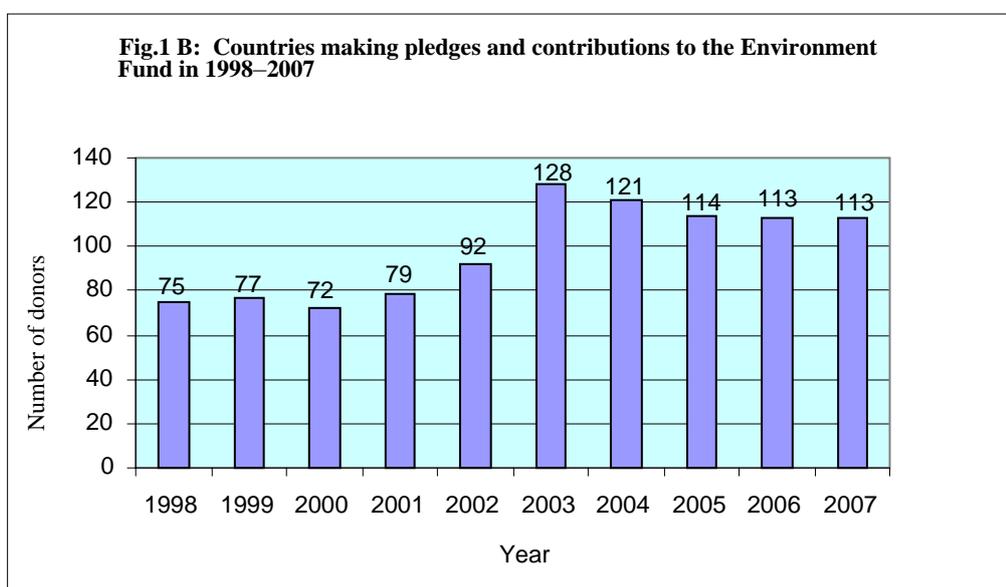
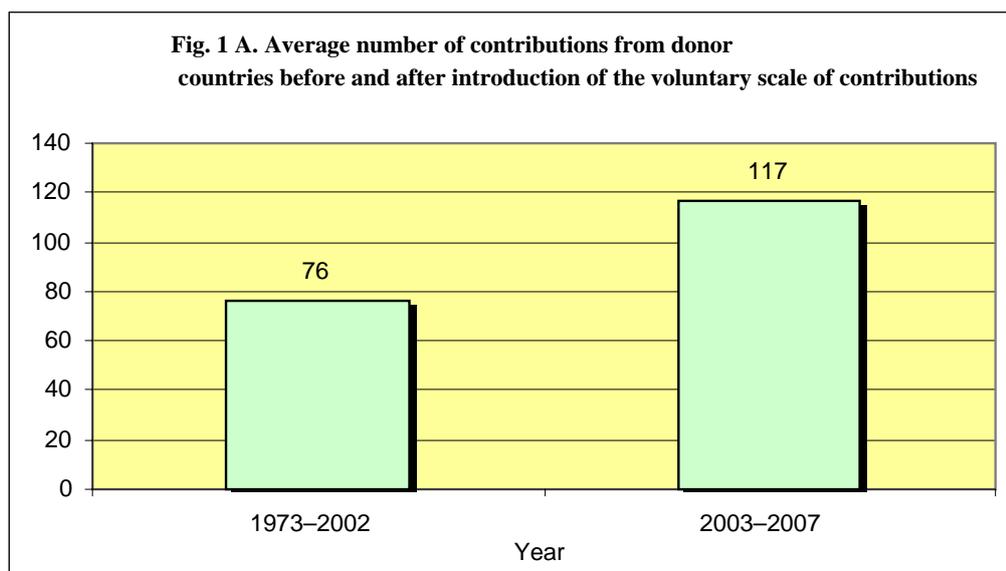
7. The United Nations Secretary-General acknowledged the success of the voluntary indicative scale of contributions in his report to General Assembly at its sixty-third Session, which took place in September 2008 (A/63/201).

III. Assessment of the operation of the voluntary indicative scale of contributions

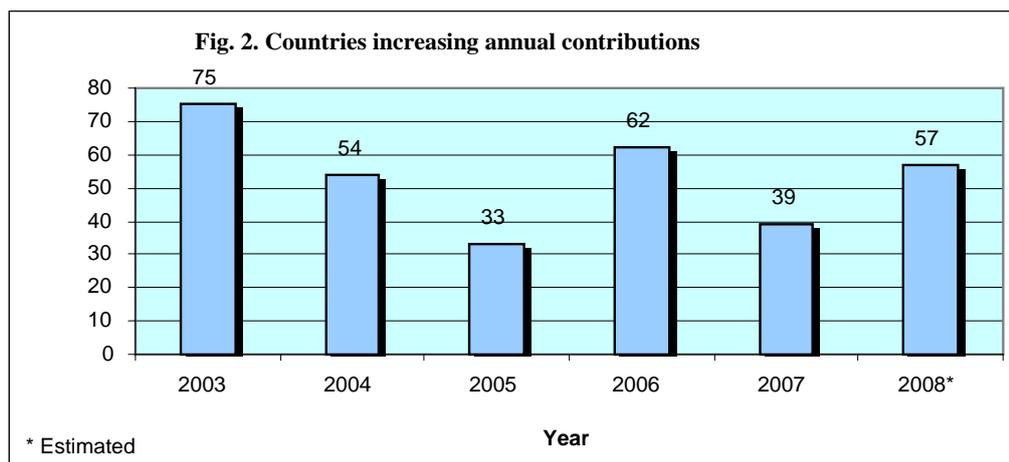
8. Governments remain the most important factor in the process of ensuring adequate, stable and predictable financial resources for UNEP. The priority in resource mobilization is, therefore, to secure timely and adequate contributions to the Environment Fund from all United Nations Member States in order to ensure that UNEP has the financial means it needs to implement its programme of work.

9. The main principles underlying the voluntary indicative scale of contributions have remained unchanged since its drafting in 2002. All payments to the Environment Fund remain voluntary and every Member State, as recommended in Cartagena, is encouraged, taking into account its economic and social circumstances, to contribute an amount that is consistent with or exceeds that suggested by the voluntary indicative scale or to contribute on any other basis that it may identify.

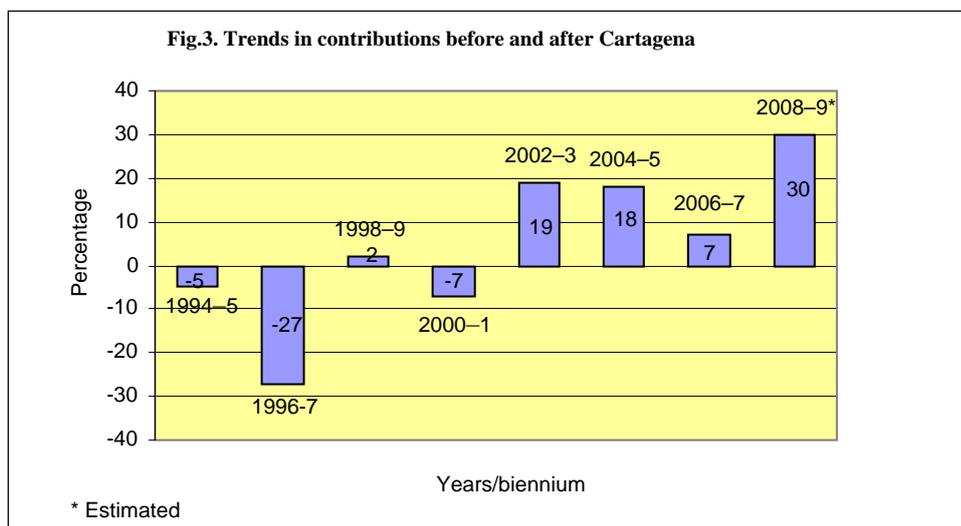
10. The first positive result achieved after Cartagena was the significant broadening of the donor base. Following the introduction of the voluntary indicative scale in 2003 157 Member States contributed to the Environment Fund, while in the five years prior to the Cartagena meeting only 110 did so. The first impact of the voluntary indicative scale was already felt in the year of the Cartagena meeting. Information about the scale was sent to Governments in mid-2002 and in the same year the number of donors increased by 17 per cent. The average number of Member States making annual contributions during the period 1973–2002 was approximately 76. After introduction of the voluntary scale the average number of donors increased by more than 50 per cent as more than 117 Member States made annual pledges to the Environment Fund during the period 2003–2007 (Fig.1 A). There was a significant increase in the number of pledges during the first two years after Cartagena, and then the number of contributing Member States stabilized (Fig.1 B).



11. The second main positive result achieved after Cartagena was a steady increase in voluntary contributions by United Nations Member States. During the first year (2003) that the voluntary indicative scale was used 75 Member States increased their payments to the Environment Fund. In the first full biennium in which the scale was employed, 2004-2005, UNEP received increased payments from 54 Member States in the first year and from 33 Member States in the second year. (It is logical that more Member States increased their contributions in the first year of the biennium, as it may be assumed that the majority of them tried to adjust their contributions in response to the pleas from UNEP as quickly as possible.) In 2006-2007 a revised voluntary indicative scale was introduced, which called for larger contributions. As a result, 62 Member States increased their payments in the first year of that biennium, followed by 39 countries in 2007. The voluntary indicative scale was further revised to provide for a larger budget in 2008-2009, and 53 Member States increased their payments by early December 2008. More are expected to do so by the end of the year and in the second half of the biennium (Fig.2).

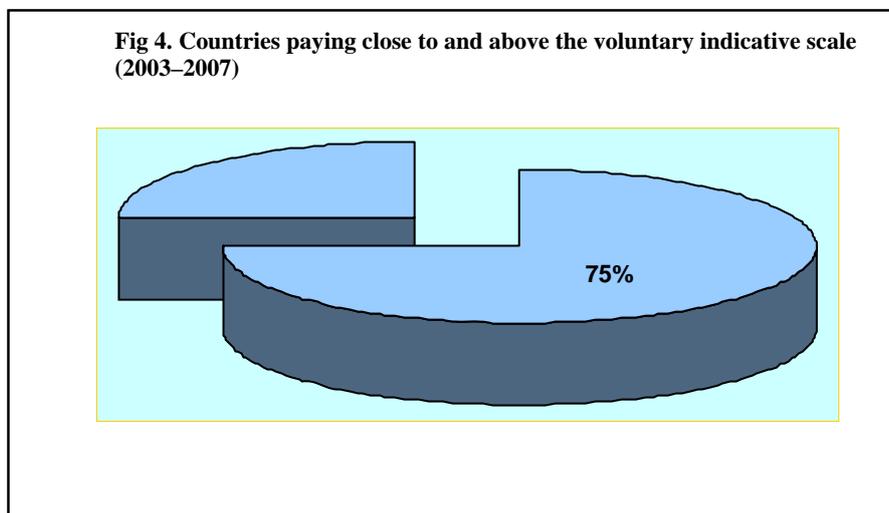


12. The trend in contributions during the four bienniums prior to Cartagena was negative overall. In 1994–1995 contributions decreased by 5 per cent. In the next biennium (1996–1997) contributions further dropped by 27 per cent. After that there was a period of low growth of 2 per cent in the biennium 1998–1999, followed by another cut of 7 per cent in 2000–2001. In the four bienniums since the Cartagena meeting, the trend reversed to steady and positive growth. After the first information on the voluntary indicative scale was communicated to Governments in 2002 and the pilot phase was implemented in 2003 contributions increased in that biennium by 19 per cent. That was followed by a further increase of 18 per cent in 2004–2005. In 2006–2007 the increase was less but still reached 7 per cent. One of the reasons for that was a missed annual payment by a major donor whose estimated contribution was close to 6 per cent of the UNEP annual budget at that time. In the current biennium UNEP has had a very good start in 2008, as several major donors have made additional contributions and many others have increased their payments to the Environment Fund. As a result, the contributions and pledges to the Environment Fund have grown by more than 38 per cent in 2008. Voluntary contributions in 2009 are expected to be lower. Nevertheless, growth for the biennium 2008–2009 is estimated to reach 30 per cent, and UNEP income is expected to exceed the Environment Fund budget appropriations for the biennium (Fig. 3).



13. A majority of the top 50 donors have continued to increase their contributions or at least to maintaining stable of financial support to UNEP. A few Member States have increased their payments by two, three and even more than six times in order to near or exceed the levels suggested by the voluntary scale and the United Nations scale of assessments. Only one of the top 50 donors decreased its payments and four others missed their annual contributions once during the first five years that the voluntary indicative scale's use.

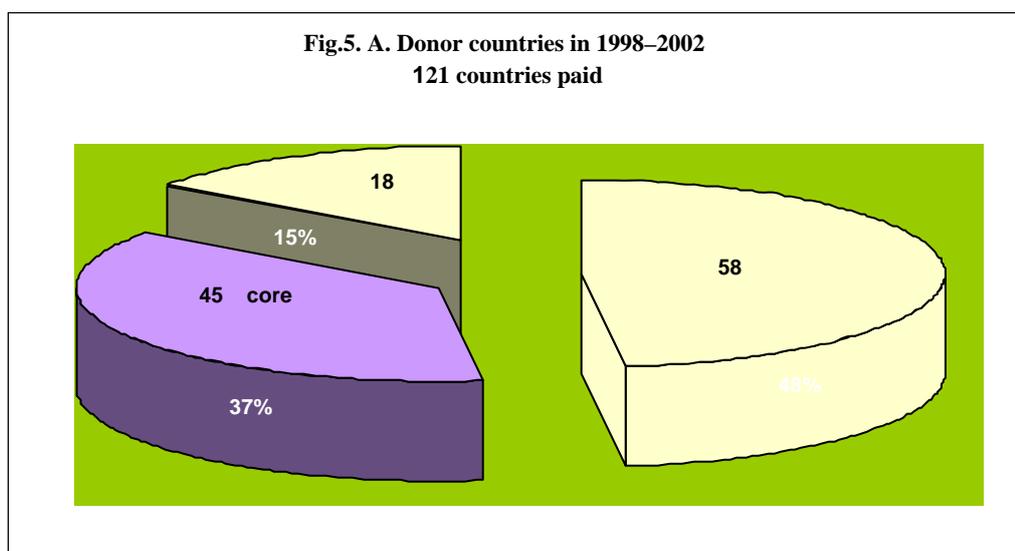
14. The short-term predictability of contributions also improved after Cartagena. About 75 per cent of contributions received during the period 2003–2008 have exceeded, equalled or come very close to the levels called for by the voluntary scale (Fig.4). The remaining 25 per cent of donor countries have made contributions in amounts lower than those suggested by the voluntary scale, but a majority of them have nevertheless increased their contributions in response to the call from UNEP (see also paragraph 25 below). One Member State at its request, has been removed from the voluntary scale.

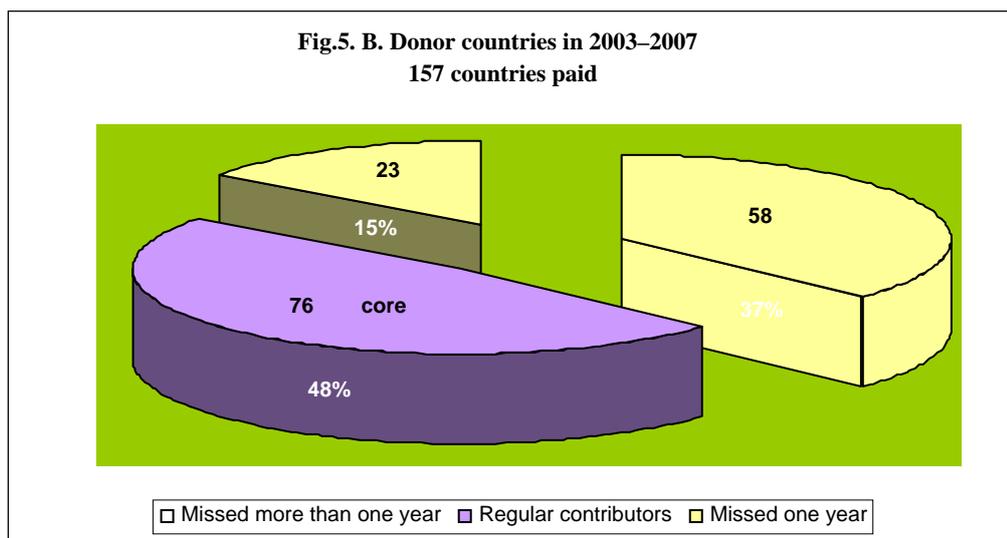


15. Another important factor has been improved stability in financing for UNEP after Cartagena. The proportion of core donors making regular annual contributions during the last five years increased by 11 per cent compared to the previous five-year period. The number of regular paying donor countries increased by 31 (Fig.5). At the same time the number of Member States making no contributions decreased by half, from 70 to 35.

16. During the period 1998–2002 contributions were paid by 121 Member States, with 45 of them (37 per cent) making payments every year, 18 Member States (15 per cent) missing one year and 58 (48 per cent) missing more than one year (Fig.5. A). Seventy Member States did not pay at all during that period.

17. Of 157 Member States that have paid since 2003, 76 (48 per cent) made contributions every year throughout the period 2003–2007 and 23 others (15 per cent) missed one year. The remaining 58 Member States (37 per cent) missed more than one year (Fig.5. B). Thirty-five Member States made no payments during the same period.





18. The above positive trends improved the financing of UNEP significantly. Pledges and contributions during the period that the voluntary indicative scale has been in use have increased by 83 per cent and have become more regular and predictable.

19. The voluntary indicative scale of contributions has not, however, much improved long-term predictability or cash flow. Since Cartagena, it has been the Executive Director's practice to inform United Nations Member States of the details of each new proposed voluntary indicative scale six months before the start of the biennium budget cycle to which it relates. Member States have been encouraged to make early pledges for a given biennial cycle either on the basis of the voluntary scale or any other basis identified in paragraph 18 of the Open-ended Working Group's report (see also paragraph 19 below). Approximately one-fifth of donors have informed UNEP in advance of their plans to contribute to the Environment Fund in a given biennium. That is an improvement, although most early pledges for the second year of a given biennium cannot be confirmed prior to parliamentary approval. A majority of donors have continued to pledge for one year only. The flow of payments has not changed much, as Member States have often delayed making both pledges and payments. Approximately 52 per cent of contributions are made in the second half of the year (see also paragraph 25).

20. On a few occasions Member States have been unable to increase their contributions for a given year as much as they might have by the fact that budget allocations have already been approved at the national level by the time UNEP has publicized the level of contributions contemplated by the voluntary indicative scale for a given biennium. To minimize this impact UNEP is planning to inform Governments about the indicative scale for upcoming bienniums earlier than it has done in previous years. More detailed information on this subject, including analyses of responses from Member States, has been presented in various documents prepared for previous sessions of the Governing Council/Global Ministerial Environment Forum (UNEP/GC.22/INF/20/Rev.1; GCSS.VIII/INF/12; GC.23/INF/12, GC24/INF/22).

IV. Assessment of the other voluntary options contained in paragraph 18 of decision SS.VII/1

21. In paragraph 18 of the report adopted by the Governing Council/Global Ministerial Environment Forum at its seventh special session, the Open-ended Intergovernmental Group of Ministers or their Representatives on International Environmental Governance called for Member States to contribute to the Environment Fund either on the basis of the voluntary "indicative scale of contributions, or on the basis of any of the following:

- (a) Biennial pledges;
- (b) United Nations scale of assessment;
- (c) Historical level of contributions;

- (d) Any other basis identified by a Member State.

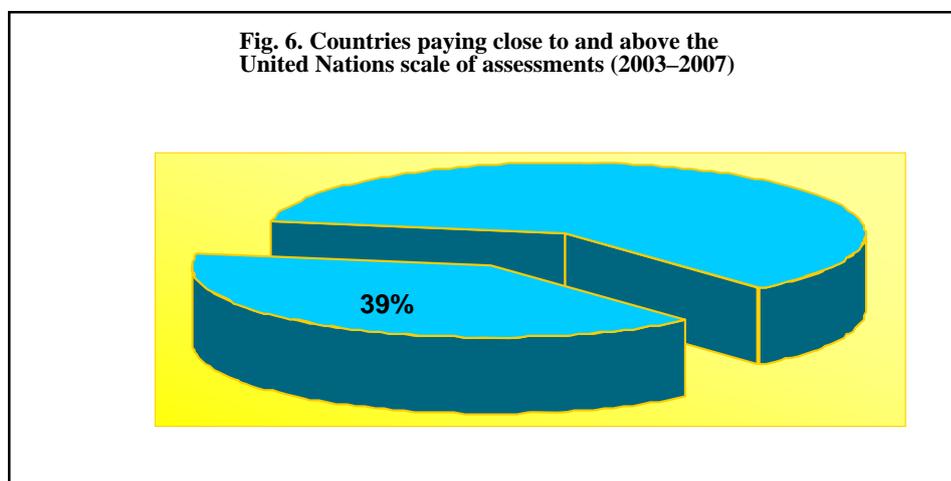
The above voluntary options have been used by Member States in connection with the voluntary indicative scale and are accordingly considered here.

A. Biennial pledges

22. Following the introduction of the voluntary indicative scale for a biennium, the number of Member States making biennial pledges has slightly increased, from less than 20 before, and stabilized. Twenty-five Member States made biennial pledges for 2006–2007. By early December 2008 24 Member States had made pledges for the current biennium. The number is expected to increase to approximately 25 or 26 by the end of the year.

B. United Nations scale of assessments

23. The number of Member States making contributions to the Environment Fund in amounts that are very near or above the amounts indicated by the United Nations scale of assessments has remained stable over recent years. Approximately 39 per cent of all donor countries made contributions at this level during the period 2003–2007 (Fig.6). All such contributions were made in amounts equal to or greater than the amounts suggested by the voluntary indicative scale of assessments.



C. Historical level of contributions

24. Since the introduction of the voluntary indicative scale all donor countries have been invited not to decrease their contributions and to contribute in an amount that is close to or above their historically highest contributions. The majority of them have responded positively to that invitation: of a total 157 Member States that made pledges during the period 2003–2007, only six decreased their payments over the period. There were also Member States that could not sustain their contributions throughout the whole period and had interruptions in their payments (see also paragraphs 13 and 15 above). Seventy-three donors achieved their historical maximum contributions during the last five years, including 85 per cent of the 50 top donors, while others had their peaks earlier in the 1990s, 1980s or even 1970s.

D. Any other basis identified by a Member State

25. Member States have not identified any other specific basis for their voluntary contributions, but 25 per cent have made annual pledges in amounts less than indicated by the voluntary indicative scale. More than half of these countries have gradually increased their contributions, bringing them closer to the voluntary indicative scale. Two major donor countries, paying well above the United Nations scale of assessments, in 2005–2006 suggested that they might wish to stabilize their contributions in percentage terms of the total budget approved by the Governing Council. After one year, however, they decided to change their approach and continued to increase their voluntary contributions. Another Member State is planning to consider this option in the future.

26. The report of the Open-ended Intergovernmental Working Group adopted by the Council/Forum at its seventh special session contains recommendations on the timing of pledges and contributions. In paragraph 20 it contemplates that each Member State, prior to 1 January of each year, will inform UNEP of the contribution it intends to make that year and of the projected timing of that contribution. It also calls on Member States to make their contributions by 1 January of each calendar year, or as soon as possible thereafter. In 2007 the Council/Forum, in its decision 24/9, appealed once again to all Governments to pay their contributions, where possible, before the year to which the contributions relate or at the latest at the beginning of the year to which they relate. Unfortunately, only about 10 per cent of Member States make annual pledges before the start of each biennium. On average for the period 2003–2008, 48 per cent of the income for each calendar year has come in during the first half of the year and 52 per cent in the second half. Two years after Cartagena, in 2004–2005, last-minute contributions, those made between October and December, seemed to be declining. Unfortunately, there are clear signs of this trend reversing. In 2007, for example, close to 45 per cent of contributions were paid during the last three months, and by the beginning of October 2008 UNEP had received just 60 per cent of its estimated income for the year (Fig.7).

