

# Convention on Cluster Munitions

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**Ninth Meeting of States Parties**  
**Geneva, 2–4 September 2019**  
Item 10 of the provisional agenda  
**Financial Status of the Convention**

## **Possible measures to address financial predictability and sustainability of the Convention on Cluster Munitions**

**Submitted by the President**

### **I. Mandate and background**

1. The 2018 Meeting of States Parties (MSP) to the Cluster Munitions Convention (CCM) adopted the following decision:

44. In the context of considering the financial status of the Convention, the Meeting noted with concern the financial situation due to the arrears in payment of assessed contributions and underlined the importance to ensure full compliance with article 14 obligations. The Meeting called upon the States Parties and States not parties participating in the Meetings of the States Parties to address issues arising from outstanding dues. The Meeting therefore requested the President of the 2019 Meeting of States Parties to consult and prepare a document in consultation with the Coordination Committee on possible measures to address financial predictability and sustainability, for consideration at the 2019 Meeting of States Parties. In fulfilling this task, the President is invited to take into account discussions held in other disarmament conventions.

2. The mandate to address financial challenges adopted by the 2018 MSP concerns uniquely the costs of Meeting of States Parties and Review Conferences organised by the United Nations. It does not apply to the financing of the CCM Implementation Support Unit (ISU), which follows a different financial stream. The 2017 MSP decided that the CCM ISU financial procedures will be reviewed at the CCM 2<sup>nd</sup> Review Conference (2020).

3. The mandate to address financial challenges was informed by trends regarding the payment of CCM assessed contributions but also by those affecting other disarmament conventions. The non-payment or late-payment of assessed contributions in the context of the Mine Ban Convention, Biological Weapons Convention and Convention on Certain Conventional Weapons has had a significant impact on the functioning of these instruments, notably their formal meetings (MSP, Review Conference). In order to proceed, meetings had to be shortened and informal days without interpretation introduced. Documentation was cut back to a minimum or circulated in English only.



## **II. Institutional and financial arrangements for the Meeting of States Parties to the Convention on Cluster Munitions and Review Conference**

4. CCM article 14 stipulates that the “costs of the Meetings of States Parties, the Review Conferences and the Amendment Conferences shall be borne by the States Parties and States not party to this Convention participating therein, in accordance with the United Nations scale of assessment adjusted appropriately.” For its part, CCM article 11 indicates that the “first Meeting of States Parties shall be convened by the Secretary-General of the United Nations within one year of entry into force of this Convention. The subsequent meetings shall be convened by the Secretary-General of the United Nations annually until the first Review Conference.” The CCM 1<sup>st</sup> Review Conference (Dubrovnik, 2015) decided that the Meeting of States Parties would continue to be convened by the UN Secretary-General.

5. The assistance rendered by the Secretary-General to CCM States Parties in organising the MSP and Review Conference is provided on the understanding that it will not have implications for the regular budget of the United Nations. Costs will be borne fully by States taking part in the meeting.

6. Cost estimates are prepared by the United Nations and approved by the MSP or Review Conference in anticipation of the subsequent CCM formal meeting.

7. Following the adoption of the cost estimates, an invoice for the assessed contribution is then issued and sent out to all States Parties and Observer States (both signatory and non-signatory States) which participated in the prior year meetings. As a rule, the invoices are issued at the end of the year prior to the following year’s meeting. Assessed contributions are due within 30 days following their issuance by United Nations services. The United Nations must have received funds three months prior to entering into any financial commitment, this meaning for the CCM that funds covering the costs of the MSP/Review Conference must have been collected three months prior to the meeting.

8. As of 2019, the United Nations no longer sends a cost estimate to each State Party via its Permanent Mission in Geneva. Upon issuance, the cost estimates for each State Party are instead posted on a restricted segment of United Nations Office at Geneva Disarmament website, and States that have been invoiced are informed thereof by mail.

9. At time of the calculation of the final costs of a meeting for a given year, the assessed contributions received are deducted from the final cost due by a State. If the estimated costs are higher than actual expenditures, then the assessed contribution paid is higher than the final cost and a balance is owed to the State. If the estimated costs are lower than the final ones, then the assessed contribution paid does not cover the actual cost and a balance is due by the State. If the State has not paid its assessed contribution, then its assessed contribution is closed and is replaced by the final balance due based on actual costs.

10. The UN financial regulations and rules of the United Nations dictate that extra budgetary activities must not give rise to additional financial liabilities for the Organization. Despite this provision, each year on closing the account for annual activities of the Convention, the United Nations is required to return the excess of estimates over actual expenditures as credits to those States that have paid their assessed contributions in full. Meanwhile, assessed contributions from other States Parties remain unpaid, leaving the Organization with unfunded liabilities.

11. In order to ensure that the support provided to the disarmament conventions does not contravene the United Nations financial regulations and rules, the United Nations indicated in a Note Verbale dated 1 April 2019 that the accounts for a particular year will not be closed until all contributions due are collected or new financial measures adopted (as was done in the case of the Biological Weapons Convention (BWC)). The United Nations also indicated that these measures were necessary in view of the ever-increasing level of unpaid contributions.

### III. The Convention on Cluster Munitions financial situation and challenges

12. Since February 2017, United Nations Office at Geneva has issued monthly reports on the status of disarmament financial contributions, which provide information on late payments and non-payments. For the purpose of this document, late payments are defined as contributions that have not been paid within 30 days of receipt of an invoice from the United Nations but no later than the issue of the next invoice. A non-payment is defined as an assessed contribution that has not been paid, whereas the invoice for the following financial cycle has been issued.

13. The CCM faces a double challenge regarding the financing of its formal meetings. The first one is related to the late payment of invoices whereas the United Nations services need liquidities in hand three months before a meeting for preparations to go ahead. The CCM usually holds its MSP in early September which implies that contributions should be received at the latest at the beginning of June. Funds over the past four years been received in different parts of the year: about 65 per cent in the first quarter, another 15 per cent in the second and still another 16 per cent staggered throughout the last two quarters. Over the past 4 years around 4.7 per cent of the amount billed remained uncollected by the end of December. However, the collection rate as of 30 April 2019 is only 63.7 per cent.

14. Financial reports indicate that some States have overpayment (which totalled \$31,744.67 as of 30 April 2019). While it may be assumed that these overpayments could be used to ease the liquidity challenge, the United Nations is not in a position to use these amounts to finance current year activities. Once the accounts are closed, overpayments become liabilities for the United Nations that will eventually be returned to States.

15. Finally, regarding liquidities, it has to be noted that some States are not in a position to pay within the 30 days following the issuing of invoices owing to their national financial cycle which is not based on a calendar year.

16. In addition to the issue of late payment, it must be underlined that the overall year end collection rates has been trending downwards over the last four years:

Table 1

<i>Year</i>	<i>%</i>
2015	97.1%
2016	95.6%
2017	88.2%
2018	95.4%
<b>Average</b>	<b>95.3%</b>

17. If the CCM performed better than other disarmament conventions in its early years, the collection rates are gradually trending towards those characterising these other conventions. The yearly deficit resulting from non-payments has increased significantly after 2015. Collection rate for 2016 and 2018 was around 95 per cent of costs. The collection rate was significantly lower in 2017, this being explained in large part by the fact that final costs ended up being higher than the initial estimates. In addition, the low collection rate during the 2019 cycle led the Convention to adopt cost-cutting measure for its 2019 MSP.

18. Non-payments compound the liquidity challenge. The CCM has been building a deficit every year, which is gradually accumulating. As of 30 April 2019, this deficit is as follows:

Table 2

<i>Year</i>	<i>Amount</i>
2015 (and previous years)	\$15,984.00
2016	\$7,498.17

<i>Year</i>	<i>Amount</i>
2017	\$13,962.85
2018	\$9,107.31
<b>Total</b>	<b>\$46,552.33</b>

19. The cumulated deficit today equals already roughly 20 per cent of the CCM yearly budget (approximately \$ 230,000). Non-payments are spread out across a number of States owing relatively limited amounts to the Convention. In all, 62 States are concerned by non-payments. 17 States have non-payments covering one financial cycle, 30 have non-payments covering two cycles and 15 have non-payments covering three cycles or more. It must also be underlined that 23 of the 62 States concerned by non-payments are observer States, and that they collectively owe slightly more than \$30,000 (or roughly 2/3 of the non-payments).

20. Late payments together with accumulated deficits make the situation increasingly unsustainable. For the 2018 financial cycle, costs incurred by the United Nations were only finally settled in February 2019 with contributions provided for the 2019 cycle. This obviously implies that the financial problem is at this stage being pushed into future and is likely to worsen unless appropriate measures are put in place.

#### **IV. Measures adopted under other disarmament conventions**

21. Measures have been considered and or adopted over the past few years under the Anti-Personnel Mine Ban Convention (APMBC), the Biological Weapons Convention, the Convention on Certain Conventional Weapons and the Nuclear Non-proliferation Treaty (NPT) in order to address the financial challenges that they are facing. This also applies to the Arms Trade Treaty (ATT), although it must be noted that this instrument is different in that it is fully independent from the United Nations.

22. The measures that have been considered and/or adopted under these instruments fall into the following broad categories.

##### **A. Measures related to timely payment and non-payment of contributions**

23. As a rule, conventions have added language in their outcome document to remind States of their financial obligations. This has included in particular:

- i. A call to pay assessed contributions in full and in a timely manner as well as a request that outstanding arrears be paid promptly.**
- ii. A request to the United Nations to issue monthly an updated status of contributions.**
- iii. A decision to maintain a dedicated item on the agenda of all formal meetings on financial matters.**

24. More operational measures have been considered and/or adopted for States with long-standing arrears. They include in particular:

- iv. A request that States that are two years or more in arrears enter in a dialogue with the Presidency or Secretariat of the convention to identify how the debt can be addressed/settled.**
- v. A decision that States that are two years or more in arrears will lose of some privileges under the treaty, such as voting right or the capacity to hold office or to be in a position to benefit from the sponsorship programme.**

## B. Measures to avoid deficit spending and accumulating liabilities

25. Several measures have been considered and/or adopted under disarmament conventions to avoid deficit spending and that UN services accumulate liabilities. These measures also tend to have a positive impact on liquidities. These measures notably includes:

**i. The calculation of credits due to States Parties that paid their contributions for a given financial year on the basis of the final cash balance following the closure of the accounts for that financial year.** This measure was adopted by the BWC in 2018. At this stage, not all stakeholders seem to have clarity concerning what its implementation entails in practice. For its part, the United Nations, which is tasked to implement the measure, understands it as follows: *credits are calculated based on the difference between income received for the year and actual expenditures and any residual cash is returned to those member States that contributed, on a pro rata basis. This is in contrast to the current practice in CCM whereby credits are calculated for all States Parties based on the difference between the original cost estimate and actual costs, with the result that United Nations has to return money that it does not have because not all assessed contributions were paid. To be functional, this measure needs a priori to be associated with a cap on spending based on the average collection rate for the preceding three years, as indicated under point 4 below (so that the actual costs are effectively less than the approved cost estimates, i.e. budget).*

**ii. Decision that arrears for unpaid contributions should remain the amount of the initial assessment invoiced to the relevant State Party for the year in question.** Currently the State Party in arrears receives a final invoice reflecting its share of the actual costs which in the majority of cases is lower than the estimated costs. This effectively rewards a State Party for paying after the end of the financial year. Such a measure was adopted by the BWC in 2018.

**iii. The invoicing of delegations from observer States (signatory and non-Signatory States) for participation in a formal meeting only after that event has taken place.** Today, observer States that have participated in past CCM meetings are included in the adjusted scale of assessment for the billing and invoiced ahead of meetings. If an observer decides not to participate in the event, this will become a liability for the UN. Accordingly, one option is to invoice observers only after they have effectively taken part in a meeting. Another option is to not invoice observers at all, although this would require to amend CCM Article 14.1 Both the CCW (2017) and the BWC (2018) decided that they would invoice States other than States Parties retrospectively.

**iv. The limitation of spending for a financial cycle to an amount based on the average collection rate for the preceding three years, unless contributions for the financial year indicate that this average will be exceeded.** Such a measure helps in not spending contributions that may not come and in avoiding increasing liabilities. This measure was adopted by the BWC in 2018.

## C. Measures to ensure liquidity

26. A number of measures have been considered and/or adopted to address the liquidity challenge. This includes in particular the following:

**i. The establishment of a contingency provision in the annual budget.** The contingency provision is added each year to the assessed contributions but also returned to States in the form of credit on their invoice. Accordingly, the contingency is a one-time budget increase that is then rolled-over. Such a contingency provision was for instance adopted in the NPT and the Mine ban treaty, and in both cases was set at 15 per cent of budget.

**ii. The establishment of a working capital reserve as a source of short-term financing.** The working capital reserve enables temporary drawdowns that are being repaid from the annual assessed contributions. In some cases, a certain amount is set

as a target for the capital reserve. Capital reserves established under disarmament treaties rely on voluntary contributions, although reserves based on assessed contributions have been set up under other regimes.

- iii. **The closing of the accounts for a given financial cycle not directly when the next one starts, but several months later.** Instead of closing the books in the few months following the MSP or at the end of the financial year, the final balance is determined several months later. Such a measure enables unused fund at the end of a financial year to be used as a source of short-term financing, provided that States authorise the United Nations to do so in the final report of the meeting. It is useful in particular for convention that need significant liquidities early in the year (ISU salary cost, formal meeting early in the year). For instance, the BWC adopted this measure in 2018.

## V. Options for consideration

27. The CCM faces a number of financial challenges. The situation has deteriorated in 2019 with emergency measures having to be taken in view of the low collection rate ahead of the 2019 MSP and in order to limit liabilities. This underlines the necessity to take steps to place the CCM on a more sustainable financial footing. Experiences made under other conventions also indicate that financial challenges cannot be addressed by the adoption of a single measure. It requires the adoption of a whole set of mutually-reinforcing and gradually stringent measures.

28. In this context, the 9MSP should consider the following to **ensure payment in full and on time**:

- **Decides that all formal CCM meetings shall include an item on the financial status** of the Convention at which the status of contributions and financial outlook will be presented, and the implementation of measures to address the financial situation will be addressed.
- **Underlines** that the payment of annual assessed contributions in a timely manner and in full is crucial for the financial sustainability of the Convention, and the importance that financial obligations under the Convention be honoured.
- **Requests States** in arrears to pay outstanding amounts at the earliest possible date and **calls on** States to endeavour to pay their invoices within thirty days of reception.
- **Request the Chair of the Convention** to contact States that have not paid their assessed contribution by March 31 to clarify when it will be paid.
- **Decides that a State** whose contributions are in arrears for two or more years shall enter into a payment schedule with the Chair of the Convention/the UN (FRM) to permit it to clear outstanding arrears, taking into account its financial circumstance. The Chair of the Convention/the UN shall report on progress on any such arrangements to the MSP.
- **Decides that a State Party** whose contributions are in arrears for two or more years which does not conclude a payment schedule as referenced above shall have its voting rights suspended and shall not be eligible to nominate a representative as an office-holder.
- **Request the United Nations** a) to issue invoices as early as possible and in any case no later than either the final day of the financial period preceding the period to which invoices pertain or within 30 days after States Parties after States Parties have adopted the budgets for the next financial period, whichever is later; b) to resume the practice of sending to each billed State its individualised invoice via its Permanent Mission (in addition to posting it on the United Nations website), c) to continue issuing monthly the status of contributions to the Convention and posting it on the Convention's website. Alternatively, to measure a) above, the adoption of a multi-year financial plan covering the period between two review conferences would enable United Nations services to issue invoices at an earlier stage that is currently the case.

29. The 9MSP should consider the following to **ensure avoid further deficit spending and accumulating liabilities**:

- **Decides a) that observer States that participated in a CCM meeting will be invoiced for the following meeting based on an adjusted UN scale of assessment comprising both States Parties and invoiced observer States, b) whereas States Parties will be invoiced based on an adjusted UN scale of assessment comprising States Parties only, c) that the UN shall produce final costings on the basis of the actual meeting costs and the actual States that participated, and that any necessary adjustments shall be made when the accounts are being closed with any debits or credits due to States to be taken into account in invoices for the next contributions to be made<sup>1</sup>.** The 9MSP could additionally decide d) that any observer State that has announced its participation in a MSP or a Review Conference via note verbale will be reminded with sufficient clarity that it will have to share costs for the meeting, and e) that States Parties will further evaluate the possibility that observer States are not billed for taking part in a CCM formal event.
- **Decides that arrears for unpaid contributions should remain the amount of the initial assessment invoiced to the relevant State Party for the year in question, unless expenditures are higher than initial cost estimates.**
- **Decides that spending should be limited to the average collection rate for the preceding three years,** until and unless contributions for the year indicate that this level will be exceeded.

30. The 9MSP should consider the following to **ensure liquidity**:

- **Establish either a contingency fund or a reserve capital fund.** Insofar as possible, a contingency fund should be favoured as it provides for greater predictability by relying on assessed contributions. Also, this approach has been adopted by the CCM sister convention, the APMBC.
- **Decides to close the accounts late.** Accounts should remain open 12 months following the closing of an MSP, at which time the accounts should be closed, a final balanced determined and any surplus funds allocated back to States as credit against their next assessment.

31. For its part, the decision taken by the BWC in 2018 regarding the calculation of credit to States Parties (see measure B.1. in section V. above) was not included as a possible option for consideration in this report in view of a lack of clarity regarding its implementation and diverging views expressed by States Parties thereon.

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<sup>1</sup> Upon confirmation that the differentiated invoicing foreseen in a) and b) can be implemented.