

## International Renewable Energy Agency (IRENA)



Discussion paper  
(Explanatory Note on the Assessment Scale)

### **Workshop II: IRENA's statutes and finance**

**Berlin, June 30 to July 1, 2008**

This discussion paper has been developed to offer support to the working group on IRENA's statutes and financing. The working group was initiated within the preparatory process for the foundation of IRENA and shall convene twice before the Founding Conference in November 2008. The aim of this paper is to provide input for the debate at the first workshop on IRENA's statutes and finance and to stimulate an open exchange of thoughts; however, it shall not anticipate the results of the workshop. Parts 1 and 2 of this paper discuss the scale of assessment used by the United Nations and its advantages. Part 3 presents some alternative scales used by other organisations.

Pictures: Wind Turbines by © H.-G.Oed/BMU; Water by © B.Müller/BMU; Photovoltaic by © K.-U.Gerhardt/Pixelio

## Scale of assessment for contributions

Article XII of IRENA's statutes states that part of IRENA's budget shall be financed by contributions from its Member States, according to a scale of assessment determined by the Assembly.

A **scale of assessment** based on that **of the United Nations** would seem to be most appropriate for this purpose. This recommendation takes into account the following factors:

- Economic issues (especially member states' differing capacity to pay)
- Practices adopted by other organisations
- Cost implications for IRENA of developing its own scale of contributions

### 1. The UN scale of assessment

The United Nations scale of assessment is adjusted by the UN General Assembly every three years on the recommendation of the UN Committee on Contributions.

The main principle used in the calculation of the UN scale of assessment is that the expenses of the Organization shall be apportioned broadly according to Member States' capacity to pay. Based on the System of National Accounts 1993 (SNA1993), the Gross National Income (GNI) of each member state is calculated in the national currency and then converted into US dollars. This gives the percentage share in World GNI of each Member State. The Committee on Contributions of the UN General Assembly has in the past considered a number of other indicators such as GDP or Net National Product. The ultimate choice of Gross National Income converted to US dollars at market exchange rates probably has much to do with the fact that this is the figure most commonly reported by countries.

The UN scale for the period 2007-2009 comprises the following elements:

- Estimates of Gross National Income
- Average statistical base periods of three and six years
- Conversion rates based on market exchange rates, except where this would cause excessive fluctuations in (or distortions to) the income of some Member States; in this case, price-adjusted exchange rates or other appropriate conversion rates are employed
- A debt-burden adjustment for developing countries
- A low per capita income adjustment of 80% with a threshold per capita income limit of the average per capita Gross National Income of all Member States for the statistical base periods
- A minimum assessment rate of 0.001%

- A maximum assessment rate for the least developed countries of 0.01%
- A maximum assessment rate of 22%

Gross National Income (GNI) is an income concept defined as the total income accruing to the owners of the factors of production who reside in the country, regardless of where production takes place. In other words, it is equal to GDP plus labour and investment income from abroad less labour and investment income paid abroad.

## 2. Advantages of the UN scale of assessment

Applying the UN scale of assessment would bring a number of advantages. Firstly, it would take into account the economic situation of **developing countries**, especially those countries which are least able to contribute financially to the Agency. It is widely recognised that the factors chosen by the UN Committee on Contributions in formulating the UN assessment scale represent **an objective and equitable way of estimating countries' capacity to pay**. This is because the UN scale adjusts the national income of Member States with a low per capita income down, so that the greatest relief is given to countries with the lowest per capita income. It also establishes a low income discount for highly-populated developing countries.

Secondly, the UN criterion of “capacity to pay” takes into account important factors such as changes in the economic circumstances of individual countries and changes in their membership of the UN. Thirdly, the UN **scale ensures as much comparability as possible in the statistical material** and other data related to the application of the principle.

The UN scale of assessment is widely accepted. This is shown by the large number of major organisations which derive their scale of contributions from it, including FAO, WHO, ILO, IAEA, UNESCO and UNIDO. In the past, some organisations (FAO, OAS and UNESCO, for instance) have tried to use different scales of assessment for countries' capacity to pay. However, ultimately they have adopted (or re-adopted) the UN scale of assessment. The reason for their decision was to avoid the **additional administrative expenditure and difficulties of data provision associated with introducing new criteria**.

The **administrative and financial burden of developing new indicators and gathering and converting the necessary statistical information** should not be underestimated. If IRENA were to establish its own committee on contributions and a statistical unit, the costs would increase IRENA's overall budget substantially. This, in turn, would necessitate increasing contributions.

### 3. Alternative scales of assessment for contributions

The alternative assessment scales (not UN-based) used by international organisations fall into two major types:

- (a) **Mixed scales**, partially derived from the UN scale but additionally reflecting certain factors relevant for the organisations in question
- (b) **“Class and unit” systems**

Assessment scales of type (a) are used by some agencies such as ICAO or IMO. This approach takes into account factors relating specifically to the work of these agencies, up to a certain percentage level. As IRENA's functions will be directed towards the large-scale adoption of renewable energy worldwide, it would be possible to base its scale of contributions partly on statistics reflecting the importance of renewable energy in Member States' economies. However, it would be difficult to determine a single indicator relating to renewable energy. Also, making the percentage of renewable energy in countries' total energy production the indicator – as might seem appropriate – would be problematic. If countries with a higher percentage of renewable energy in their total energy production pay smaller contributions and those with a lower percentage of renewable energy pay larger contributions, IRENA will be less attractive for those countries most in need of its support in adopting renewable energy. The reverse situation – countries with a higher percentage of renewable energy paying larger contributions and those with a smaller percentage paying smaller ones – would also be counterproductive given IRENA's aims. Moreover, objective criteria are lacking for how different indicators in such an assessment scale should be weighted.

Assessment scales of type (b) use a “class and unit” system, in which member states contribute to the organisation's budget in accordance with the class they choose to belong to. However, this method has been criticised by developing countries (e.g. in the case of the ITU). Such countries have argued that the UN scale of assessment better reflects the economic conditions of different countries and does not give contributors discretion, thus making it difficult for rich countries to avoid payment without falling into arrears.

## Annex

### Alternative assessment scales used by major international organisations

Organisations	Type of assessment scale	Reasons for deviation
<b>World Meteorological Organization (WMO)</b>	<p>The WMO bases its scale of assessment partially on the interest that different members have in the work of the organisation. Some of the factors taken into account by the organisation include the use of meteorology in national economies, the size of a state's meteorological service, etc. The organisation uses the UN scale for 75% of its expected expenditures, with the other 25% assessed according to the interest of individual members in their respective work.<sup>1</sup></p> <p>The 15<sup>th</sup> Congress of the WMO in 2007 reaffirmed that the assessment of 75% of the proportional contributions of Member States in financial period 2008-2011 should be based on the latest available UN scales of assessment, adjusted for differences in membership. The Congress further decided that the scales of assessments of proportional contributions of Members for the years 2008, 2009 and 2010 will be based on the UN scale of assessments adopted by the UN General Assembly at its 61st session, and adjusted for differences in membership.<sup>2</sup></p>	<p>The reason for partially deviating from the UN scale of assessment in formulating the WMO's assessment scale is to allow factors relating specifically to the work of the organisation to be taken into account. These factors include the use of meteorology in national economies, the size of a state's meteorological service, and so on. Thus the importance of the relevant sectors in different countries' economies is reflected in the organisation's assessment scale.</p>
<b>International Civil Aviation Organization (ICAO)</b>	<p>The current calculation of ICAO's scale of assessments is done as follows: a weighted ability to pay scale is derived by adding together 75% of a capacity to pay scale and 25% of a scale of interest in and importance of aviation.</p>	<p>The reason for partially deviating from the UN scale of assessment in formulating the ICAO's assessment scale is to allow factors relating</p>

<sup>1</sup> Source:

[http://books.google.co.uk/books?id=yuhkMuCgZxIC&pg=PA1092&lpg=PA1092&dq=WMO+scale+of+assessment+different+from+UN+scale+of+assessment&source=web&ots=0\\_wAgJQ6Lw&sig=eELBWImYYjMxYouGRLd1d4FEZnc&hl=en](http://books.google.co.uk/books?id=yuhkMuCgZxIC&pg=PA1092&lpg=PA1092&dq=WMO+scale+of+assessment+different+from+UN+scale+of+assessment&source=web&ots=0_wAgJQ6Lw&sig=eELBWImYYjMxYouGRLd1d4FEZnc&hl=en)

<sup>2</sup> For more information, see: [http://www.cmo.org.tt/Docs/CMC47/CMC\\_Docs/CMC47\\_Doc\\_10%20\\_\(a\)%20.doc](http://www.cmo.org.tt/Docs/CMC47/CMC_Docs/CMC47_Doc_10%20_(a)%20.doc)

	<p>The capacity to pay scale is derived from the UN scale of assessment. The interest in and importance of civil aviation scale is based on aviation data, for which domestic capacity carries a weight of 25% and international capacity a weight of 75%.</p> <p>The basic scale is calculated by applying a minimum scale of 0.06% and a maximum scale of 25%. The increase in a state's rate of assessment as compared with the previous years is limited to 10% of the previous year's rate of assessment or 0.07% of the total scale of assessment, whichever is higher."<sup>3</sup></p>	<p>specifically to the work of the organisation to be taken into account, such as domestic aviation capacity. Thus the importance of the relevant sectors in different countries' economies is reflected in the organisation's assessment scale.</p>
<b>International Maritime Organization (IMO)</b>	<p>The IMO assessment scale is based on a formula which is different from the one used in other UN agencies. The amount paid by each Member State depends primarily on the tonnage of its merchant fleet. The annual budget of IMO is distributed between the organisation's 164 Member States and 3 Associate Members on the basis of a contribution formula which apportions 85% of the budget on the basis of the gross tonnage of ships registered in each Member State, as recorded by Lloyds Register, and 15% according to a state's capacity to pay as determined by the UN assessment scale of contributions.<sup>4</sup></p>	<p>The reason for deviating widely from the UN scale of assessment is to allow the organisation to take into account factors relating specifically to the work of the organisation, such as the tonnage of a country's merchant fleet. Thus the importance of the relevant sectors in different countries' economies is reflected in the organisation's assessment scale.</p>
<b>International Telecommunications Union (ITU)</b>	<p>The ITU's main source of financing is the contributions of its Member States<sup>5</sup>, which account for 67.3% of the overall budget. Sector Members contribute 11.4% of the overall budget, while Associates contribute 0.9%. At each plenipotentiary conference, every member selects its own class of</p>	<p>The reason for using a "class and unit" approach in the ITU's assessment scale is that it allows a significant amount of flexibility on the part of the</p>

<sup>3</sup> For more information, see: [http://www.icao.int/icao/en/assembl/a36/wp/wp036\\_en.pdf](http://www.icao.int/icao/en/assembl/a36/wp/wp036_en.pdf)

<sup>4</sup> Sources: [http://www.imo.org/Newsroom/mainframe.asp?topic\\_id=69&doc\\_id=578](http://www.imo.org/Newsroom/mainframe.asp?topic_id=69&doc_id=578) and <http://www.greenpeace.org/international/campaigns/toxics/toxic-trade/the-international-maritime-org>

<sup>5</sup> Membership of ITU is open to governments, which may join the Union as Member States, as well as to private organisations such as carriers, equipment manufacturers, funding bodies, research and development organisations and international and regional telecommunication organisations, which can join ITU as Sector Members. Source: <http://www.itu.int/net/about/budget/2008.aspx>

	<p>contribution. The amount of the contributory unit is determined when the budget is approved and the current value of one contributory unit for a Sector Member is set at 1/5 of that of a Member State. The scale of unit classes ranges from 1/16 of a unit to 40 units but any member may choose a number of contributory units over 40. Only Member States listed by the UN as least developed countries and those determined by the Council may select the 1/8 and 1/16 unit classes of contribution.<sup>6</sup></p>	<p>Member States. According to Lyall (1997), flexibility is crucial for bringing about cooperative international action in “organisations with limited financial requirements for their major function” – namely the encouragement and facilitation of precisely this kind of cooperation.</p>
<p><b>Universal Postal Union (UPU)</b></p>	<p>The financing of the UPU's activities is not based on the UN scale. All budget expenses are financed jointly by the Member States, based on a contribution class system. Upon admission to the UPU, new member countries are free to choose one of ten contribution classes ranging from 1 to 50 units.<sup>7</sup> They contribute to the UPU's budget according to the contribution class to which they belong.<sup>8</sup> A 0.5 unit is reserved for the least advanced countries as listed by the UN and for other countries designated by the Council of Administration. Notwithstanding the contribution classes, any member country may opt to contribute more than 50 units. Currently there are five countries with the maximum 50 contribution units.<sup>9</sup></p>	<p>The reason for using a “class and unit” approach in the UPU's assessment scale is that it allows a significant amount of flexibility on the part of the Member States. According to Lyall (1997), flexibility is crucial for bringing about cooperative international action in “organisations with limited financial requirements for their major function” – namely the encouragement and facilitation of precisely this kind of cooperation.</p>

6 Source: <http://www.itu.int/net/about/budget/2008.aspx>

7 Source: [http://www.upu.int/about\\_us/en/finances.shtml](http://www.upu.int/about_us/en/finances.shtml)

8 These classes are as follows: classes of 50, 45, 40, 35, 30, 25, 20, 15, 10, 5, 3, 1, and 0.5 units

9 Source: [http://www.upu.int/acts/en/upu\\_general\\_regulations-bucharest\\_2004\\_en.pdf](http://www.upu.int/acts/en/upu_general_regulations-bucharest_2004_en.pdf)

<b>World Intellectual Property Organization (WIPO)</b>	At WIPO, contributions are again assessed under a “class and unit” system by each Member State, according to the class to which the state belongs for the purpose of contributions. The amount of the annual contribution payable by each state in each class is calculated by multiplying the number of units of that class by the value, in Swiss francs, of one contribution unit. This value is fixed during the General Assembly meeting in joint session with the assemblies of the contribution-financed unions. <sup>10</sup>	The reason for using a “class and unit” in the WIPO’s assessment scale is that it allows a significant amount of flexibility for the Member States. According to Lyall (1997), flexibility is crucial for bringing about cooperative international action in “organisations with limited financial requirements for their major function” – namely the encouragement and facilitation of precisely this kind of cooperation.
<b>INTERPOL</b>	In the case of ITERPOL, Member States' contributions are also determined using a “class and unit” system. The level of contribution is fixed when a new Member State joins, based on a number of budget units with a minimum of 2 and a maximum of 100. <sup>11</sup>	
<b>International Coffee Organization (ICO)</b>	At ICO, the annual contribution of each Member to the Administrative Budget is proportional to the number of its votes at the time the Administrative Budget for the financial year is approved and the weight that it bears compared to the total votes of all Members. If there is a change in the distribution of votes among Members at the beginning of the financial year for which contributions are assessed, contributions are adjusted correspondingly for that year. In determining contributions, the votes of each Member are calculated irrespective of the suspension of the voting rights of any Member or any redistribution of votes resulting from this. The initial	The reason for using this scale is to reflect the different importance of Member States as reflected by their coffee exporting and importing capacity. There are two categories of Member States: Exporting Members, together holding 1,000 votes, and Importing Members, holding the same number of votes. Each Member has

10 Source: [http://www.wipo.int/about-wipo/en/pdf/wipo\\_financial\\_regulations.pdf](http://www.wipo.int/about-wipo/en/pdf/wipo_financial_regulations.pdf) and [http://www.wipo.int/treaties/en/contribution\\_classes.html](http://www.wipo.int/treaties/en/contribution_classes.html)

11 Source: <http://www.interpol.int/public/icpo/generalassembly/agn69/reports/agn69r01.pdf>

contribution of new Members joining the organisation are assessed by the Council on the basis of the number of votes to be held by them and the period remaining in the relevant financial year, but the assessments made regarding other Members for the same year are not altered.<sup>12</sup>

five basic votes. The remaining votes of the Exporting Members are distributed between them in proportion to the average volume of their coffee exports to all destinations in the preceding four years. The remaining votes of Importing Members are distributed between them in proportion to the average volume of their coffee imports in the preceding four years.<sup>13</sup>

---

<sup>12</sup> Source: <http://dev.ico.org/documents/ica2007e.pdf>

<sup>13</sup> Source: <http://dev.ico.org/documents/ica2007e.pdf>