

International Atomic Energy Agency

GENERAL CONFERENCE

GC

GC(43)/24
24 September 1999

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Forty-third regular session

AMENDMENT OF ARTICLE XIV.A OF THE STATUTE

Report by the Board of Governors

1. The Secretariat submitted to the first session of the Programme and Budget Committee in January this year, for initial discussion, document GOV/INF/1999/1 putting forward ideas for a more efficient programme and budget mechanism for the regular budget. During the discussion, several members of the Committee made a number of suggestions that were taken into account by the Secretariat in the preparation of its formal proposal on the matter contained in document GOV/1999/23, which was submitted to the resumed session of the Committee in May this year. This document proposed a change in the present programme and budget process in order to enable the Agency to implement the concept of biennial programming in full and to better incorporate the results and experience gained in the prior cycle into a new programme cycle.
2. At its meeting in May, the Committee expressed considerable support for the Secretariat's proposal for biennial programming which it considered as a means of rationalizing the programme and budget process: it would free resources for better programme performance evaluation, reduce the amount of documentation without compromising quality and permit the Agency to harmonize the programme and budget cycle of the Agency with that of other UN system organizations. The practice of biennial budgeting (starting with even years) is applied throughout the organizations of the United Nations system. The Committee, therefore, agreed to recommend the proposal for approval of the Board of Governors.
3. At its meeting on 8 June, 1999, the Board of Governors approved the Committee's recommendation and endorsed the Secretariat's proposal with respect to biennial programming changes outlined in document GOV/1999/23. (Annex 1)
4. Regarding the Secretariat's recommendation to consider amending Article XIV.A of the Agency's Statute so as to provide for biennial budgeting as well, several members expressed support for it as it was felt that a biennial programme would best be implemented under a budget that provided resources for the entire biennium. It was noted, however, that any amendment of the Statute would require a formal proposal to be submitted by a Member State in accordance with Article XVIII. A of the Statute.

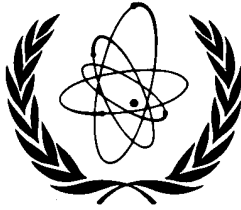
For reasons of economy, this document has been printed in a limited number.
Delegates are kindly requested to bring their copies of documents to meetings.

5. Following the unanimous approval of the Secretariat's proposal by the Board of Governors at its June session and in light of the support expressed for amending Article XIV.A, the Chairman of the Board, in his capacity as Governor for Slovenia submitted, on behalf of his government, a formal proposal for the amendment of Article XIV.A of the Statute. Certified copies of the text of the Slovenian amendment were communicated by the Director General to all Member States by Circular Letter N5.11 of 28 June 1999 (see Attachment to document GOV/1999/44).

6. The Slovenian proposal was submitted to the Board, at its September session in document GOV/1999/44 (Annex 2), for its consideration and observations, in accordance with Article XVIII.C (i) of the Statute. An information paper prepared by the Secretariat outlining the key changes which would be required as a result of biennial budgeting was also before the Board in document GOV/INF/1999/12 (Annex 3).

7. There was considerable support in the Board for the Slovenian proposal to amend Article XIV.A of the Statute. Several Governors expressed appreciation to the Chairman for his initiative. The Board decided to recommend that, at its forthcoming 43rd regular session, the General Conference approve the said Slovenian proposal for amendment of Article XIV.A of the Statute and for this purpose recommended the adoption by the General Conference of the draft resolution contained in Annex 4 to this report.

8. The Board decided to transmit to the General Conference this report as its observations on the proposed amendment required by Article XVIII.C of the Statute.



GC(43)/24
Annex 1

B

International Atomic Energy Agency

BOARD OF GOVERNORS

~~GOV/1999/23~~
~~15 April 1999~~

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Programme and Budget Committee
Item 4 of the provisional agenda
(GOV/COM.9/136)

Proposed changes to the Agency's Programme and Budget Process towards Biennial Programming

1. The purpose of this paper¹ is to propose a change in the present programme and budget process in order to enable the Agency to implement the biennial programming concept in full and to better incorporate the results and experience gained in the prior cycle into the formulation of the new programme cycle.

Background

2. The programme of the Agency is formulated to achieve the overall goals and objectives as stipulated in the Statute, within the broad framework of the Medium Term Strategy. The programme is approved by the Board of Governors on a biennial basis, the first year of the biennium being an uneven calendar year.² In contrast to the biennial programme, the regular budget of the Agency is compiled on an annual basis, in accordance with Article XIV.A of the Statute.³

3. Pursuant to the relevant Financial Regulations, it has been the practice of the Secretariat to indicate, in the biennial programme and budget document, the proposed regular budget for the first year, as well as the preliminary estimates for the second year. During the first year of the biennium, the Secretariat revises the preliminary estimates for the second year on the basis of a review of the entire programme. Changes resulting from this review are submitted to the Board of Governors for adoption. In effect, the Agency can be said to have an annual cycle for both the programme and the budget.

¹ Reference is also made to document GOV/INF/1999/1 and to the discussions in the Programme and Budget Committee at its meetings in January this year.

² Financial Regulation 3.01 reads: "The Programme for the activities of the Agency shall be established for two consecutive calendar years, starting with an uneven calendar year (the programme biennium)."

³ Article XIV.A of the Statute provides that: "The Board of Governors shall submit to the General Conference the annual budget estimates for the expenses of the Agency."

4. One of the drawbacks encountered in the present practice is the considerable amount of time spent by programme managers in re-assessing the entire programme for the second year of the biennium in order to draw up a new submission. The programme and budget formulation process is repeated nearly in its entirety for the second year of the biennium. The process starts with the issuance of budget instructions, followed by internal discussions, management reviews, preparation of draft proposals, consultations with Member States, and finally the issuance of a rather voluminous budget document containing the proposed changes. Past experience has shown that most of these changes are at the task level. Therefore, it is the Secretariat's view that greater efficiency can be obtained in the overall work of the Agency if efforts presently devoted to the preparation of a formal revised programme — which involves a long and laborious consultation process — are shifted to the improvement of programme implementation, monitoring and evaluation.

5. Similarly, since the work of the Programme and Budget Committee (PBC) is focused on future plans as presented in the proposed programme and budget, the time left for the evaluation of programme implementation is inevitably shortened. In fact, discussions on performance are confined mostly to the financial level, based on the Programme and Budgetary Performance Report (PBPR).

6. Since the vast majority of Agency activities last more than one year, it would seem that biennial, rather than annual, programming is more appropriate. Also, the completeness of programme implementation can be better assessed if a two year cycle is followed. With a one year cycle, assessment is made frequently of incomplete activities.

7. Ideally, the resources required to finance a set of programmes for a given period of time should be estimated and allocated for the same period of time. In other words, a biennial budget would be most suitable for a biennial programme.

Amendment of Article XIV.A of the Statute

8. As mentioned above, a biennial programme would be best implemented under a budget that provides resources for the entire biennium. However, this entails an amendment in Article XIV.A of the Statute (see footnote 2). The amendment would be such that the Statute does not stipulate the periodicity of the submission by the Board of the budget estimates to the General Conference. The periodicity would be governed by the Financial Regulations, which could be amended to provide for the biennial (rather than the annual) submission of budget estimates. If the Statute is amended, major changes can be expected in the present budgeting practice, including the reporting and approval process by the Member States, which is not within the scope of this document. This would include amendments to the Financial Regulations, for instance, to introduce the concept of “financial period of two consecutive years”, rather than “financial year”, as in the case of the United Nations.

9. Since this proposal requires further consideration by the policy making organs, the following arrangement is proposed as an interim solution which addresses *inter alia* the problem of the limitation of resources to one calendar year against a biennial programme.

Proposed changes

New format of the budget document for the second year of the biennium

10. The main aim of this document is to propose that the efforts by the Secretariat and the Member States be devoted to programme planning in one year and the analysis of the implementation of planned activities in the next year. This would lead to the elimination of a detailed document (the 'Blue Book') for the second year of the biennium. Instead, a concise summary document would be issued. This document would contain only the summary tables at the programme level, revising the original budget estimates in light essentially of the projected price adjustments (a concept similar to that applied in the modifying document GOV/1998/1/Mod.1). Only significant programme changes would be indicated.

11. 'Significant programme changes' include:

- (a) Those changes which result in the redeployment of resources between Major Programmes;
- (b) Changes in the objectives at the Major Programme or programme level; and
- (c) Changes deriving from new or additional mandate(s), or from deliberations of the policy-making organs which have been adopted after the biennial programme for the period in question was approved and which cannot be accommodated within existing resources.

12. It is noted that items (a) and (c) are regulated under Financial Regulations 4.02 and 3.06, respectively. With regard to item (b), the possibility that the objectives at the Major Programme or programme level have to be changed during the second year of the biennium is very remote. However, this item was included in case such a situation were to arise owing to extraordinary developments during the first year of the biennium.

13. Any other changes would be treated as adjustments to the programme during the implementation period and would be reported to the Board in a proposed new biennial programme performance report that would replace the PBPR (see paragraph 14 below). It should be noted that at present programme adjustment takes place internally: any adjustment required after the adoption of the programme by the Board is reflected during implementation through internal mechanisms such as the mid-year financial and programme review.

Programme and financial performance report

14. The contents of what is currently known as the PBPR would be split into two parts: a financial performance report for the first year, which would contain essentially financial information; and a biennial programme performance report, which would include programmatic and financial performance information (to be considered during the first year of the subsequent biennium).

15. The new biennial programme performance report would provide details and justifications for programme adjustments made during the course of implementation, as well as key issues such as difficulties that were beyond the Secretariat's control. In contrast to the Annual Report, which summarizes the achievements of the Agency for the outside world, the biennial programme performance report would focus on a comparison of the implementation against the original plan. The findings of this report, and the comments by the Member States thereon, would serve as input for the planning of future programmes.

16. During the first year of the biennium, the PBC would focus on the assessment of programme performance for the biennium just concluded by reviewing the biennial programme performance report submitted by the Secretariat. The conclusions would be reported to the Board, which would ensure that these are appropriately reflected in the formulation of the programme for the following biennium.

Carry over of the unspent balance of the first year of the biennium to the second year

17. In accordance with the current Financial Regulations, any unobligated regular budget resources for a given financial year must be returned to Member States. However, activities may often have to be postponed for reasons beyond the Secretariat's control. If these postponements occur during the last two to three months of the year, there is usually insufficient time to bring forward other approved activities. In such instances, the unspent resources must be reported as not implemented and returned to Member States when in fact these resources are part of the total supporting the overall biennial programme, and are not a "surplus" as this term is commonly understood. It is therefore proposed that any unspent balance of regular budget resources deriving from activities in the first year of the biennial programme be automatically carried over to the second year for implementation of the postponed or unimplemented part of the programme. At the end of the programme biennium any surplus would be determined and credit established for the assessed contributions from Member States in accordance with the applicable scale of assessment for the budget year. For this policy to be adopted, Financial Regulations 4.03, 4.04, 7.02 and 7.03 would need to be modified as follows (amendments in italics):

Financial regulation 4.03

After approval by the General Conference, appropriations shall be available for obligation in respect of the financial year for which they were approved. However, any unobligated balance of the appropriations for the first financial year of the programme biennium shall be carried over and made available for obligation until the end of the second financial year of the programme biennium.

Financial regulation 4.04 (a)

(a) Appropriations shall remain available for twelve *months*, or in respect of research contracts and related technical *contracts twenty-four months*, following the end of the financial year for which they were approved, *or in the case of carry over pursuant to*

Regulation 4.03, following the end of the financial year into which the appropriations were carried over, to the extent that they are required to discharge any unliquidated obligations for that financial year.

Financial regulation 7.02

At the end of each financial year the provisional surplus or deficit for the year shall be determined by establishing the balance between the following credits and charges to the Regular Budget Fund:

(a) Credits:

1. Assessed contributions received for the year from Member States; and
2. Miscellaneous income received during the year.

(b) Charges:

1. All disbursements against the appropriations for that year;
2. Provisions for unliquidated obligations to be charged against the appropriations for that year;
3. Provisions for unobligated balances of appropriations set aside to implement deferred programme activities in the following financial years;
4. Transfers to Reserve Funds as authorized by the Board; and
5. *Provisions for unobligated balances of appropriations carried over from the first financial year to the second financial year of the programme biennium in accordance with Regulation 4.03.*

The provisional surplus or deficit shall be retained in the Regular Budget Fund for the following twelve months.

Financial regulation 7.03

(a) At the end of the twelve-month period referred to in Regulation 7.02 the cash surplus or deficit for the financial year shall be determined by:

1. Crediting to the provisional surplus or deficit:

- (i) Any arrears of prior years' assessed contributions received during that period;
- (ii) Any savings from the provisions made for unliquidated obligations pursuant to Regulation 7.02(b)(2);
- (iii) Any savings from the provisions for unobligated balances of appropriations set aside for deferred programme activities pursuant to Regulation 7.02(b)(3); *and*
- (iv) *Any savings from the provisions for carried over unobligated balances of appropriations pursuant to Regulation 7.02(b)(5).*

2. Charging to the provisional surplus or deficit:

(i) The cash deficit, if any, of the financial year preceding the financial year for which the cash surplus or deficit is determined.

(b) After the audit by the External Auditor of the accounts for the twelve-month period referred to in Regulation 7.02 has been completed, the cash surplus shall be allocated among Member States in accordance with the scale of contributions for the financial year to which the surplus relates. The Board may defer the allocation of the cash surplus if the surplus is required to finance a temporary cash shortage of the Regular Budget Fund.

(c) The individual allocations to those Member States who have paid their assessed contributions in full for the year to which the surplus relates shall be applied to liquidate in the following order:

1. Any outstanding advances to the Working Capital Fund;
2. Any arrears of assessed contributions;
3. Assessed contributions for the current financial year.

The allocations to the remaining Member States shall be so applied after their arrears of assessed contributions for the financial year to which the surplus relates have been liquidated in full.

Timing of the implementation of the new biennial programming

18. In accordance with the Agency's Financial Regulations, the programme cycle following the approved 1999–2000 biennium would normally cover the years 2001–2002. Unlike other United Nations system organizations, the Agency's programme biennium starts with an uneven year (e.g. the Agency's budget is for 1999–2000, while other organizations have a cycle of 1998–1999 and subsequently 2000–2001). For better resource planning (with UNOV and UNIDO) and programme co-ordination (with FAO, WHO, UNEP, etc.), it is suggested that the cycle be harmonized. For this policy to be adopted, Financial Regulation 3.01 would need to be modified as follows (amendments in italics):

Financial Regulation 3.01

The Programme for the activities of the Agency shall be established for two consecutive calendar years, starting with an *even* calendar year (the programme biennium).

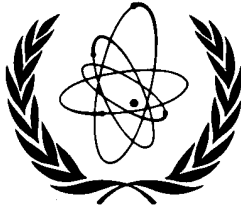
19. If the harmonization were to be implemented with immediate effect, a transitional period of one year (i.e. 2001) can be introduced; the concept of biennial programming could then be applied as of 2002–2003. In such a case, there would be a need to suspend the application of Financial Regulation 3.01 exceptionally for the year 2001.

Summary

20. The proposals contained in this document are as follows:
- (a) Issue one full programme and budget document every two years.
 - (b) Issue, for the second year of the biennium, only a summary budget document containing price adjustments and, if applicable, any significant change(s).
 - (c) Revise the present format of the PBPR, issuing: (i) during the second year of the biennium, a financial performance report for the first year; and (ii) during the first year of the subsequent biennium, a report focused on programme performance for the entire biennium.
 - (d) Harmonize the programme and budget cycle with other UN system organizations possibly by having a one time one year cycle for 2001; amend Financial Regulation 3.01; and suspend that Regulation for the year 2001.
 - (e) Allow the Secretariat to carry over unspent funds from the first year to the second year of the programme biennium, with the final surplus settled only at the end of each programme biennium; and amend Financial Regulations 4.03, 4.04, 7.02 and 7.03.

Recommended action by the Board

21. The Board of Governors is invited to:
- (a) Adopt amendments to the Agency's Financial Regulations, as indicated in paragraphs 17 and 18 above, with effect from 1 January 2002;
 - (b) Suspend the application of Regulation 3.01 exceptionally for the year 2001, when the programme of activities shall be established for one year only; and
 - (c) Consider — if so proposed by a Member State — the amendment of Article XIV.A, of the Agency's Statute as described in paragraph 8 above, for consideration by the General Conference.



GC(43)/24
Annex 2

GOV/1999/44
~~30 June 1999~~

B

International Atomic Energy Agency

BOARD OF GOVERNORS

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AMENDMENT OF ARTICLE XIV OF THE STATUTE

Amendment proposed by Slovenia

Attached is a communication dated 28 June 1999, received from the Governor for Slovenia, concerning amendment of Article XIV of the Statute. The communication enclosed the text of an amendment to Article XIV of the Statute of the Agency proposed by Slovenia.

The Board will be called upon to make its observations on the proposed amendment at its session in September, for submission to the General Conference. Accordingly, the certified text of the proposed amendment is attached.

28 June 1999

Dear Dr. ElBaradei,

Article XIV of die Statute

I have the honour as Governor of Slovenia, in the light of the decision of the Board of **Governors** at its June 1999 session agreeing to the change to biennial programming for the Agency and the considerable support expressed for amending the Statute to provide for biennial budgeting. to submit the attached text of a proposal by Slovenia for amendment to Article XIV. A. of the Statute of the Agency.

I would appreciate it if, pursuant **to the** requirements of Article XVIII . A of the Statute, certified copies of this amendment are circulated to all Member States of the Agency without delay.

With best wishes.

Yours sincerely,


Miroslav Gregorc

Enclosure

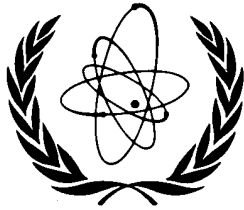
Dr. Mohamed ElBaradei
Director General
International Atomic Energy Agency
Wagramerstrasse 5
1400 Vienna

**PROPOSAL BY SLOVENIA FOR AMENDMENT TO ARTICLE XIV OF THE
STATUTE**

In the first sentence of Article XIV.A. replace the word 'annual' with the word 'biennial'.

On behalf of the Director General of the International Atomic Energy Agency, I, Larry D. Johnson, Director of the Legal Division of the Secretariat, hereby certify that the foregoing is a true copy of the text of an amendment to Article XIV of the Statute of the Agency which is proposed, pursuant to Article XVIII.A of the Statute, by Slovenia.


29 June 1999



International Atomic Energy Agency

BOARD OF GOVERNORS

~~GOV/INF/1999/12
27 August 1999~~

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BIENNIAL BUDGETING

1. The purpose of this paper is to provide information to assist the Board of Governors in considering the proposed amendment to Article XIV.A. of the Statute to provide for biennial rather than annual budgeting (GOV/1999/44).

BACKGROUND

2. Although the Agency has been operating under a biennial programming system, in practice the programme and budget formulation process is repeated nearly in its entirety for the second year of the biennium. In document GOV/1999/23, the Secretariat proposed a series of changes leading to more effective and efficient biennial programming. The proposals, which were approved by the Board of Governors in its June 1999 meeting, have the following advantages over the current practice:

- (a) More effective utilization of the time that Member States and the Secretariat devote to programme formulation and approval.
- (b) More effective monitoring of programme implementation and reporting on programme performance to Member States.
- (c) Better programme formulation on the basis of the evaluation of the work in the previous biennium.
- (d) Decrease in the volume of documentation.
- (e) Increased flexibility in programme implementation through the carryover of unused appropriation balances to the second year of the biennium.
- (f) Better programme co-ordination and resource planning with other United Nations organizations as a result of the harmonization of the programme cycles.

3. As explained in GOV/1999/23, a biennial programme would best be implemented under a budget that provides resources for the entire biennium. However, biennial budgeting would require amendment of the Statute since Article XIV.A. provides that:

“The Board of Governors shall submit to the General Conference the *annual* budget estimates for the expenses of the Agency.”

4. In the light of the support expressed for amending the Statute so as to enable biennial programming to be accompanied by biennial budgeting, a Member State (Slovenia) has submitted a proposal for the amendment of Article XIV.A. (GOV/1999/44). The proposed amendment will be put before the Board at its session in September and the Board’s observations will be submitted to the General Conference.

CHANGES REQUIRED UNDER BIENNIAL BUDGETING

5. The practice of biennial budgeting to support biennial programming is applied throughout the United Nations system and has proved to be more effective than annual budgeting. If the proposed change in Article XIV.A. of the Statute is adopted, a series of changes in the budgeting and financial procedures of the Secretariat would be required. In accordance with demonstrated best practices within the United Nations system, the key changes envisioned are as follows.

Biennial appropriations

6. A change to biennial appropriations could be achieved by treating the biennium as a single entity so that resources would be available for the implementation of the approved programme over the two year period, providing more flexibility and enhancing the effectiveness and efficiency of programme delivery.

Annual assessments

7. Assessments could continue to be levied and collected annually in accordance with the practice followed by other United Nations organizations. This could be done on a fifty-fifty basis between the first and second years of the biennium. Article XIX.A. of the Statute, concerning the suspension of voting rights, would not be affected by these changes.

Biennial audits

8. The financial period for the purposes of auditing could also be established as two years, with external audit reports being provided at the end of the second year of the biennium.

Interim reports at the end of the first year

9. Interim financial performance reports and income and expenditure reports could be prepared at the end of the first year of each biennium. These reports could be in the form of summaries of the financial position and could be presented to the Board of Governors and/or the General Conference.

CONCLUSIONS

10. Biennial budgeting would fully complement the Agency's implementation of biennial programming. If the switch to biennial budgeting is approved, some changes can be expected in the present budgeting practice. Insofar as this would require the amendment of the relevant Financial Regulations, the Secretariat would, of course, consult with other United Nations organizations which already have a biennial budget cycle and adopt the best practices available in the United Nations system.

**DRAFT RESOLUTION RECOMMENDED BY
THE BOARD OF GOVERNORS**

AMENDMENT OF ARTICLE XIV.A OF THE STATUTE

The General Conference,

Having considered the proposal for amendment of Article XIV.A of the Agency's Statute submitted by Slovenia as contained in Annex 2 to document GC(43)/24 in accordance with Article XVIII.A of the Statute;

Having also considered the report and recommendation of the Board of Governors on the proposal for amendment contained in document GC(43)/24, which constitutes the Board's observations on the amendment submitted in accordance with Article XVIII.C(i) of the Statute;

Approves the aforesaid amendment to replace the word "annual" with the word "biennial" in the first sentence of Article XIV.A of the Statute.