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FINANCIAL EMERGENCY OF THE UNITED NATIONS

Analysis of the financial situation of the United NationsReport of the Advisory Committee on Administrative and
Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on the financial emergency of the United Nations (A/C.5/40/16).
2. In section I of his report the Secretary-General provides information on the issue, pursuant to paragraph 1 of General Assembly resolution 39/239 A of 18 December 1984, of special postage stamps on the critical social and economic crisis in Africa. The Advisory Committee notes the progress reported by the Secretary-General in this regard and his expectation that the sale of these stamps, which are expected to be issued in January 1986, could generate net revenue of some \$600,000.
3. In sections II and III of his report the Secretary-General deals with the financial position of the United Nations. In section II (paras. 9-15) he provides further information on the effects of (a) increasing the Working Capital Fund from \$40 million to \$100 million as from 1982 and (b) suspending the provisions of financial regulations 4.3, 4.4 and 5.2(d) in respect of the surpluses arising at the end of the bienniums 1980-1981 and 1982-1983 (General Assembly resolution 36/116 B of 10 December 1981).
4. The status of the financial deficit and the cash-flow situation are discussed in section III of the report (paras. 16-28). In paragraph 17 the Secretary-General states that the short-term deficit of the Organization, projected to 31 December 1985, is estimated at \$390.7 million. Of that total, \$116.3 million relates to the regular budget (para. 19).

5. In paragraph 19 the Secretary-General states:

"The shortfall in payments for the regular budget - whether due to withholdings or delays in the payment of assessments - results in an immediate cash shortage in respect of the day-to-day cash needs of the Organization - i.e., essentially, payroll and payments to vendors. In order to meet these obligations, the Organization has used the \$100 million Working Capital Fund as well as the funds available in the Special Account, and, on occasion, has resorted to borrowing, temporarily, from peace-keeping funds. In addition, as explained in paragraphs 14 and 15, the amounts realized to date from the suspension of financial regulations 4.3, 4.4 and 5.2(d) have also been utilized to meet the cash requirements for the regular budget."

6. Section IV of the Secretary-General's report contains eight options to alleviate the financial difficulties. In paragraph 29 it is indicated that these options "were all, with one exception, presented in detail by the Secretary-General in his report to the General Assembly on the financial emergency in 1981 [A/C.5/36/28 and Corr.1 and Corr.2]. They are recapitulated here for convenience because the present situation is essentially the same as that which obtained in 1981."

7. The eight options are:

	<u>Paragraph reference</u> <u>in A/C.5/40/16</u>
(a) Prompt payment of assessed contributions	30-32
(b) An increase in the Working Capital Fund	33-37
(c) Borrowing in the open market	38-40
(d) Borrowing from Member States	41
(e) Suspension of the provisions of financial regulations 4.3, 4.4 and 5.2(d)	42
(f) Application of credits to Member States not in arrears	43
(g) Issue of long-term bonds	44-45
(h) Assessment of contributions on a biennial basis	46

The new option proposed is (h), the assessment of contributions on a biennial basis (para. 46).

8. The Advisory Committee recalls that the problem of the financial emergency has been with the Organization for no less than 20 years (see, for example, General

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Assembly resolution 2006 (XIX) of 18 February 1965 and resolution 2049 (XX) of 13 December 1965). The root cause of the problem has been and still is late payment by Member States of their assessed contributions and withholding by Member States from the regular and from peace-keeping budgets (see paras. 20-25 of the Secretary-General's report). It is for Member States, individually and collectively, to weigh the benefits of their current practices with respect to payment of assessed contributions against the costs associated with any special measures that may eventually become necessary to ensure the financial integrity of the Organization.

9. With regard to option (b), an increase in the Working Capital Fund, the Advisory Committee recalls that the Fund was last raised in 1982 from \$40 million to \$100 million (General Assembly resolution 36/116 B). The Committee notes from paragraph 11 of the Secretary-General's report that just prior to that increase the level of the Fund represented 6 per cent of appropriations. It is indicated in paragraph 12 of the report that "when the Working Capital Fund was increased to \$100 million in 1982, it then represented 13.2 per cent of the appropriations for that year. At present, the Working Capital Fund, still at a level of \$100 million, equals 12.2 per cent of the appropriation for 1985." The Advisory Committee inquired into the effect on the above percentages of the separation of the United Nations Industrial Development Organization (UNIDO) from the United Nations. The Committee was informed that, using the 1984-1985 budget as an example, the Working Capital Fund at its \$100 million level would equal 12.8 per cent of the 1985 portion of the revised appropriation for 1984-1985 if resources relating to UNIDO were theoretically excluded.

10. Under the circumstances, the Advisory Committee is not in favour of increasing the Working Capital Fund at this time. However, the Committee recommends that the Secretary-General report to the General Assembly at its forty-first session on the actual situation as it will then exist after the separation of UNIDO.

11. The Advisory Committee understands that the question of a loan from the United Nations to UNIDO to meet the costs of initial operations (General Assembly resolution 34/96 of 13 December 1979) will be dealt with by the Secretary-General in the context of reports to be submitted later in the current session on aspects of the conversion of UNIDO to a specialized agency. The Advisory Committee intends to deal at that time with any special measures that might be necessary to meet the obligations of the United Nations in this regard.

12. As in 1981 (see A/36/701), the Advisory Committee is not, in principle, in favour of options (c), borrowing in the open market, (d), borrowing from Member States, and (g), issue of long-term bonds. Apart from difficulties that may arise due to considerations of principle held by certain Member States, all of these options would require the payment of interest that could be substantial, and would thus impose an additional burden upon all Member States.

13. With regard to option (e), suspension of the provisions of financial regulations 4.3, 4.4 and 5.2(d), the Secretary-General, after describing action taken in 1972, states in paragraph 42 of his report that "similar action was taken for the regular budget for the 1980-1981 and 1982-1983 bienniums". The following table, supplied to the Advisory Committee, shows the results of the suspension of

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Results of suspension of the provisions of financial regulations 4.3, 4.4 and 5.2(d) shown in paragraph 15 of document A/C.5/40/16

(Millions of United States dollars)

<u>Description</u>	Years in which benefit derived from the suspension of 4.3, 4.4 and 5.2(d)			
	<u>1983</u>	<u>1985</u>	<u>1987</u>	<u>Total</u>
I. <u>Unobligated balance of appropriations</u>				
1980-1981	9.9			
<u>Less:</u> Return of appropriations	2.5			
Unrecorded obligations	<u>1.9</u>	<u>4.4</u>		
Total	5.4 <u>a/</u>			5.4
1982-1983	7.3			
<u>Less:</u> Shortfall of actual income	<u>1.6</u>			
Total		5.7 <u>b/</u>		5.7
II. <u>Savings in liquidation of prior years' outstanding obligations</u>				
1980-1981		14.7 <u>c/</u>		14.7
1982-1983	<u>5.4</u>	<u>20.4</u>	<u>17.6</u> <u>d/</u>	<u>43.4</u>
	<u>5.4</u>	<u>20.4</u>	<u>17.6</u>	<u>43.4</u>

a/ Reflected in audited accounts for 1980-1981 financial statements approved by the General Assembly in 1982 and would have been credited against Member States' assessed contributions in 1983.

b/ Reflected in audited accounts for 1982-1983 financial statements approved by the General Assembly in 1984 and would have been credited against Member States' assessed contributions in 1985.

c/ Balance of unliquidated obligations shown in 1980-1981 financial statements remains open through 1982; net savings reflected in 1982-1983 audited financial statements approved by the General Assembly in 1984 and would have been credited against Member States' assessed contributions in 1985.

d/ Balance of unliquidated obligations shown in 1982-1983 financial statements remains open through 1984; net savings reflected in 1984-1985 audited financial statements to be approved by the General Assembly in 1986 and would be credited against Member States' assessed contributions in 1987.

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financial regulations 4.3, 4.4 and 5.2(d). As used in the table, category II (Savings in liquidation of prior years' outstanding obligations) refers to the first sentence of financial regulation 4.3:

"Appropriations shall remain available for twelve months following the end of the financial period to which they relate to the extent that they are required to discharge obligations in respect of goods supplied and services rendered in the financial period and to liquidate any other outstanding legal obligation of the financial period."

Category I (Unobligated balance of appropriations) refers to the second and last sentence of regulation 4.3:

"The balance of the appropriations shall be surrendered."

14. In its report to the General Assembly at the thirty-sixth session, the Advisory Committee, with regard to the proposal to suspend financial regulations 4.3, 4.4 and 5.2(d), stated its opinion that "it would be prudent to supplement the appeal for the prompt payment of assessed contributions with additional measures which would ease the cash flow situation". The Committee went on to state that "whereas the Secretary-General suggests the indefinite suspension of the financial regulations in question, the Committee recommends that they be suspended at this stage in respect of regular budget surpluses arising at the end of the biennia 1980-1981 and 1982-1983" (A/36/701, para. 10). In view of the situation described by the Secretary-General in his report, the Committee recommends that financial regulations 4.3, 4.4, and 5.2(d) also be suspended in respect of regular budget surpluses arising at the end of the biennium 1984-1985.

15. In so far as the United Nations is concerned, the Advisory Committee questions the utility of option (f), application of credits to Member States not in arrears, particularly if financial regulations 4.3, 4.4 and 5.2(d) are to be suspended for a further biennium. As for option (h), assessment of contributions on a biennial basis, this does not appear to be feasible since there is no reason to suppose that States that delay payment of annual contributions would not similarly delay payment of biennial contributions.
