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FINANCIAL EMERGENCY OF THE UNITED NATIONS

Analysis of the financial situation of the United Nations

Report 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.5/36/28 and Corr.1 and 2).
2. In section I of his report, the Secretary-General provides information on the issuance of special postage stamps on the conservation and protection of nature and endangered species pursuant to paragraph 7 (a) of General Assembly resolution 35/113. The Advisory Committee notes the progress reported by the Secretary-General in this regard and his expectation that proceeds from the sale of these stamps, which are scheduled to be issued in November 1982, could generate net revenue of some \$2 million.
3. In section II of his report (*ibid.*, paras. 8 to 43), the Secretary-General discusses the financial difficulties of the Organization and lists steps which might be taken to alleviate the situation. In paragraph 22, the Secretary-General states that these difficulties are rooted in the political perceptions of Member States. The report of the Secretary-General deals with certain issues in respect of which some Member States have objections in principle. Some members of the Committee have repeated those objections and stated their reasons therefor. At the same time, the Committee considered that the controversy concerning such items does not fall within the province of the Advisory Committee the functions of which are defined in rule 157 of the rules of procedure of the General Assembly.
4. In paragraph 17, the Secretary-General states that the deficit of the Organization, projected to 31 December 1981, is estimated at \$274.8 million. Of that total, \$95.6 million relates to the regular budget (para. 19).

5. In paragraph 19, the Secretary-General states that the shortfall in payments into the regular budget account - regardless of whether it is due to withholdings or delayed payments - results in an immediate cash shortage to meet the day-to-day cash needs of the Organization, including payroll and payments to vendors. The cash shortage had been met, until recently, by means of borrowing from the Working Capital Fund (\$40 million) and the United Nations Special Account for voluntary contributions ^{1/} (\$66 million) but these resources have now been virtually exhausted. The ongoing cash requirements of the Organization now amount to approximately \$50 million a month (paras. 19 to 21). In the circumstances and in order to alleviate the situation, the Secretary-General submits, in paragraphs 23 to 40 of his report, seven options for consideration by the General Assembly. In paragraph 22, he states of these seven options that

"None of them is new; all have been considered at one time or the other. No single one of them, by itself, offers a complete solution. One or several should be acted upon now, if the Organization is to be able to meet its commitments over the next few years."

6. The seven options are as follows:

Reference in A/C.5/36/28

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| (a) Prompt payment of assessed contributions | paras. 23 to 25 |
| (b) An increase in the Working Capital Fund | paras. 26 to 31 |
| (c) Borrowings in the open market | paras. 32 to 34 |
| (d) Borrowing from Member States | para. 35 |
| (e) Suspension of the provisions of financial regulations 5.2 (d), 4.3 and 4.4 | paras. 36 and 37 |
| (f) Offset of Member States credits against unpaid assessments | para. 38 |
| (g) Issuance of long-term bonds | paras. 39 and 40 |

7. The Advisory Committee is not in favour of options (c) (Borrowings from the open market), (d) (Borrowing from Member States), and (g) (Issuance of long-term bonds), because, apart from difficulties that may arise because of considerations of principle held by certain Member States, all of these options would require the payment of interest which could be substantial, and would thus impose additional burdens upon all Member States. Furthermore, as the Secretary-General states in paragraph 35 of his report,

^{1/} Established by General Assembly resolutions 2053 A (XX) and 3049 A (XXVII).

"There is no visible prospect in the foreseeable future, under existing financial conditions, of the United Nations being able to find the resources in the years ahead with which to repay any loans ..."

8. In its consideration of option (a) (Prompt payment of assessed contributions), the Advisory Committee recalled that in paragraph 21 and table F of its report on administrative and budgetary co-ordination of the United Nations with the specialized agencies and the International Atomic Energy Agency (A/36/641), it provided information indicating a general deterioration in the cash flow situation not only of the United Nations but also of the specialized agencies, mainly as a result of increased delays in the payment of assessed contributions. The Advisory Committee also draws attention to section II B, paragraph 1, of a working paper presented by the Chairman of the Negotiating Committee on the Financial Emergency of the United Nations which, inter alia, points to

"The necessity of a solemn undertaking by all Member States to make full and prompt payments of their assessed contributions to the regular budget of the United Nations in observance of regulations 5.4 and 5.5 of the Financial Regulations of the United Nations. At present, partial and tardy payments by Member States is one of the causes of the United Nations liquidity crisis (withholding is another). If Member States, particularly the major donors, were to pay their assessed contributions in full early in February, the United Nations could earn substantial amounts of interest which cannot be earned at present ..." 2/

The Advisory Committee recommends that the General Assembly invite all Member States to re-examine their present arrangements for paying assessed contributions, in the interest of ensuring that their payments are made on time in accordance with the provisions of the financial regulations.

9. At the same time, the Advisory Committee has reservations about the suggestion in paragraph 25 of the Secretary-General's report (A/C.5/36/28 and Corr.1 and 2) that consideration be given to requiring payment of interest on outstanding contributions after a set date each year. Such a requirement would be onerous for Member States which delay their payment not out of choice but because of genuine financial or administrative difficulties.

10. Given the acuteness of the Organization's financial difficulties, as described by the Secretary-General, and the danger that United Nations activities might be disrupted if the Secretary-General is unable to pay for the day-to-day operations of the Organization, the Advisory Committee is of the 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. One such

2/ The working paper is reproduced in section II of the report of the Negotiating Committee on the Financial Emergency of the United Nations - Official Records of the General Assembly, Thirty-first Session, Supplement No. 37 (A/31/37).

measure is the suspension of financial regulations 5.2 (d); 4.3 and 4.4, 3/ as suggested by the Secretary-General under option (e), which would permit the retention of uncommitted balances of regular budget appropriations. 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.

11. In paragraph 36 of his report, the Secretary-General recalls that the General Assembly, at its twenty-seventh session in 1972, adopted resolution 2947 B (XXVII) of 8 December 1972, suspending the provisions of financial regulations 5.2 (d), 4.3 and 4.4 in respect of an amount of \$3.9 million no longer required in the appropriations for 1972, and decided that the amount should be held in a suspense account, pending a further decision. In paragraph 37, the Secretary-General suggests that this amount might be applied against the deficit. The Advisory Committee recommends that this amount continue to be held in suspense.

12. While the suspension of financial regulations 5.2 (d), 4.3 and 4.4 would ease somewhat the cash position of the Organization, the amounts involved are likely to be small when viewed in the context of the requirements under the regular budget which are estimated by the Secretary-General in paragraph 19 of his report at \$50 million a month. In paragraph 42, the Secretary-General expresses the view that the first priority is to place the Organization reasonably beyond the risk of defaulting on its commitments over the immediate years and that, to that end, it is essential to increase the level of the Working Capital Fund.

3/ Regulation 5.2: For each of the two years of a financial period, the contributions of Member States shall be assessed on the basis of half of the appropriations approved by the General Assembly for that financial period, except that adjustments shall be made to the assessments in respect of:

...

(d) Any balance of the appropriations surrendered under regulations 4.3 and 4.4;

Regulation 4.3: Appropriations shall remain available for 12 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. The balance of the appropriations shall be surrendered.

Regulation 4.4: At the end of the 12-month period provided in Regulation 4.3 above, the then remaining balance of any appropriations retained will be surrendered. Any unliquidated obligations of the financial period in question shall at that time be cancelled or, where the obligation remains a valid charge, transferred as an obligation against current appropriations.

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13. In this connexion, the Advisory Committee notes that while the present level of the Fund (\$40 million) has remained unchanged since 1963 the annual level of the regular budget of the Organization has risen from \$92.8 million for 1963 to \$669.5 million in 1981. As can be seen from annex VI of the Secretary-General's report, in 1963 the Working Capital Fund was equal to 43.1 per cent of the annual budget; the corresponding figure for 1981 is 6 per cent. Furthermore, the continuing decentralization of activities from Headquarters has increased the requirements for imprest accounts all over the world. In all these circumstances, the Advisory Committee agrees that there is need to increase the level of the Working Capital Fund. In the Committee's opinion it would be prudent to set the level of the Fund at approximately two months of current net expenditure, i.e. at \$100 million. Accordingly, the Committee recommends that the General Assembly should increase the level of the Working Capital Fund from \$40 million to \$100 million as from 1982.
