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Chair: Ms. Bird .... (Australia)
Chair of the Advisory Committee on Administrative and Budgetary Questions: Mr. Terzi

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The meeting was called to order at 3.05 p.m.

Agenda item 138: Improving the financial situation of the United Nations (*continued*) (A/73/809 and A/73/891)

1. **The Secretary-General**, introducing his report on improving the financial situation of the United Nations (A/73/809), said that the report contained measures aimed at resolving the financial crisis facing the Organization. There were many reasons for the crisis, which had been years in the making, and each required a different response.

2. The crisis was an unfortunate reality that the Organization could not continue to work around. It was undermining mandate fulfilment and reform efforts and preventing the Organization from reimbursing troop- and police-contributing countries in a predictable and timely manner, which in turn was hindering their ability to provide life-saving support to peacekeeping operations.

3. Discussing the Organization's financial situation was not an easy conversation. The intention was not to single anyone out, but to solve the crisis. He encouraged the Member States to set aside their political differences and long-standing objections to certain proposals, and to join with him to put the Organization on a sound financial footing. The United Nations was at a tipping point and the action taken next would matter for years to come.

4. He urged all Member States to recommit to fulfilling their financial obligations to the Organization on time and in full. He thanked those Member States that had paid their contributions and those that continued to make every effort to do so, despite the difficult economic conditions they faced. He also urged the Member States to help find a solution to the structural problems that created large upfront expenditures and thereby reduced the available cash resources, created an artificial budget level and compounded the Organization's liquidity problems.

5. The international community had dealt with many complex issues in recent years. The Member States had shown that it was possible to find common ground and act in the interests of the Organization. He was convinced that the same could be done at the current critical juncture.

6. In his remarks to the General Assembly on taking the oath of office, he had promised to work hand-in-hand with the Member States to make reform a priority. He thanked the Member States for supporting his reform efforts, but noted that the success of those efforts depended not only on the Secretariat but also on sufficient and predictable financial contributions from Member States.

7. On several occasions in the previous two years, he had expressed concern about the deteriorating financial health of the Organization. A major cause of that deterioration was the increase in arrears in Member State contributions to the regular and peacekeeping budgets, but inherent structural weaknesses and rigidities in the Organization's budget methodologies exacerbated cash shortfalls. At the end of 2018, the United Nations had truly reached the bottom. As he had promised to Member States in March 2019, his report on improving the financial situation of the United Nations examined the root causes of the crisis and set out proposals that were critical to addressing the emergency.

8. Regular budget operations faced severe liquidity problems. While that had occurred before, the current situation was much worse and would start to have a direct effect on mandate fulfilment if left unaddressed. The liquidity problems had been getting worse year after year, with cash deficits occurring earlier, running deeper and lingering longer. The crisis was not limited to the biennium 2018–2019 and would get worse if immediate measures were not taken.

9. Cash shortages were occurring earlier in the year. The third quarter of the year was now the most problematic, owing to changing payment patterns and the large amounts that the United Nations was expected to absorb without being reimbursed until later. As a result, the Organization had to draw from the liquidity-bridging mechanisms, such as the Working Capital Fund and the Special Account, much earlier in the year and for longer periods. In 2018, the Organization had run out of cash in May, forcing it to resort to the Working Capital Fund. Despite numerous efforts to contain expenditure in 2019, the United Nations was likely to run out of cash in August and have to borrow once again from the Working Capital Fund.

10. In addition, cash deficits now ran so deep that the Working Capital Fund and the Special Account were inadequate. In 2018, for the first time in recent years, the United Nations had been forced to use resources from closed peacekeeping missions to meet payroll obligations. In 2019, despite increased numbers of Member States paying earlier and the implementation of additional measures to align expenditure with liquidity projections, even in an optimistic scenario the Organization's reserves were likely to be exhausted by September or October, which would force it to use resources from closed missions to meet regular budget needs. For the previous three years, the Working Capital Fund had been empty for one quarter of the year, which

was an indication of a more systemic problem: the liquidity reserves were simply too small.

11. The United Nations had passed the tipping point in 2018, when it had exhausted all its liquidity reserves. Had he not acted twice during the year to contain expenditure, the crisis would have been bigger. The Organization was doing everything it could to contain expenditure without affecting mandate fulfilment, although such avoidance had not always been possible. However, containing expenditure did not solve the problem, because if the Organization did not spend everything that had been budgeted, the unspent amount – which the Organization had not received in the first place – had to be returned to Member States, including those that were in arrears. It was a totally absurd situation that he had never seen in any other organization. Even the surpluses from closed peacekeeping missions, which the Organization had tapped for the first time since 2005, would not have been sufficient to cover the deficit. If the United Nations had been unable to meet payroll and vendor obligations, the impact on business continuity and the reputation of the Organization would have been catastrophic.

12. In 2019, he had taken additional measures to avert an even bigger crisis. Managers had been instructed to adjust their post and non-post expenditure. As nearly 70 per cent of regular budget expenditures went towards paying salaries and meeting related staff costs, hiring delays were causing operational problems. The practice of delaying other expenditures to pay salaries, however, was also unsustainable. Deferring expenditures to future budget periods merely transferred today’s problems to tomorrow. Eventually, postponed expenditures would become budget reductions when the time to commit the funds ran out, meaning that budget implementation would be driven not by programme planning but by the availability of cash at hand. That went against the Organization’s efforts to focus less on inputs and more on results.

13. It was absurd that he did not have any freedom to manage the budget of the Organization but total freedom not to spend money that he did not in fact have. The system had been constructed to be rigid, but, when faced with cash shortfalls, he had full flexibility to choose where not to spend money that did not exist. It was time to face the absurdity of the Organization’s budgetary procedure and give serious consideration to the types of changes needed.

14. Looking at the Organization’s overall finances and financial ratios could be misleading. While the United Nations had more assets than liabilities, it did not have sufficient liquid assets. The Headquarters buildings, for example, could not be sold. Upon taking office, he had asked whether the residence of the Secretary-General could be sold, but he had been informed that it could be sold only to the Government of the United States of America in the unlikely event of the United Nations closing down its operations in New York.

15. Much of the Organization’s expenditure was covered not by assessments but by voluntary contributions. As a result, some areas had plenty of cash, but that cash could not be moved to the regular budget. The overall financial situation of the United Nations might, misleadingly, appear not to be bad, but the reality was that the Organization was facing a severe cash problem in terms of the regular budget and of budget expenditure and assessed contributions, owing to the rigidity of the system. Given that the United Nations could not borrow money or liquidate its assets, that cash problem had become a serious financial problem.

16. He was forced to operate under liquidity constraints for several months of the year. Structural rigidities, including the compartmentalization of operations by funding source, compounded the liquidity problems caused by arrears and delays in payments. The level of arrears at the end of 2018 had been $529 million, equivalent to more than 20 per cent of that year’s assessments. Five months into 2019, the arrears remained at $492 million.

17. However, the non-payment and late payment of contributions were not the only causes of the Organization’s liquidity problems. The structural weaknesses in the budget methodology had created a situation in which expenditure outpaced the approved budget level and the collection of contributions. That was the result not of underbudgeting or overspending by the Secretariat but of the effects of currency fluctuation, inflation, standard salary costs and vacancy rates on expenditure approved at the end of one year and not assessed until the next. Unfortunately, actual expenditure was sometimes not accommodated in the final amount approved by the General Assembly, as in 2018.

18. Similarly, additional mandates approved by the General Assembly and the Security Council after the approval of the budget were not assessed until the beginning of the following year. The lag between expenditure and assessments had created a gap almost half the size of the Working Capital Fund. Even if all Member States paid on time and in full, the United Nations would still face cash problems towards the end of the year.

19. Based on the cash projections for 2019, he expected the situation to remain critical. Because the

actual vacancy rates remained lower than the rates assumed at the time of budgeting, the cash shortfalls persisted. He had, therefore, given instructions for the actual rates to be aligned with the assumed rates. As a result, he was unable to follow the Assembly's recommendation that all vacant positions be filled, because the vacancy rate was artificial and the Secretariat did not have the cash to pay the salaries of staff who had not been taken into account in the budget. It was another absurd situation that must be addressed.

20. Expenditure related to the United Nations Mission to Support the Hudaydah Agreement was likely to lead to a cumulative cash deficit of $57 million. The international community had recognized the importance of the Mission and a budget had been approved, but could not be assessed until the following year. Given the current cash shortfall, it was a nightmare for the Organization to keep the Mission going, particularly in the context of the redeployment of forces from Hudaydah.

21. The scope for minimizing the impact on programme delivery would become more restricted if the liquidity problem persisted. However, the financial situation would be even worse if the Secretariat started spending based on the approved budget level. While that would ensure the full implementation of the approved programme plan, it would also mean that the deficit would reach a record high by October, surpassing the $488 million deficit of 2018 and once again putting the Organization at risk of not being able to pay salaries or meet vendor obligations.

22. The United Nations could not operate effectively in such a cash-strapped environment. The solution lay not only in ensuring that all Member States paid in full and on time, but also in putting certain tools in place. With regard to the regular budget, he was proposing measures that would strengthen the liquidity-bridging mechanisms and manage expenditure levels in a manner that supported programme delivery.

23. Liquidity must be increased. He had twice requested the General Assembly to increase the Working Capital Fund to $350 million. In November 2018, he had also requested the transfer of the unencumbered balance of $28.7 million for the biennium 2016–2017 to the Special Account to begin replenishing that account, which had been drawn down in recent years. Unfortunately, those proposals had not been endorsed by the Member States. He hoped that they could now reach an agreement on his proposals to avoid the complete disruption of the Organization's activities.

24. In addition, structural weaknesses must be addressed. While programme budgets would continue to be prepared in the same way, he asked Member States to adopt a realistic budget level that would enable the full implementation of the Organization's activities. That meant that vacancy-rate levels should not be changed artificially and a staffing table that was not fully funded should not be adopted. Following approval of the budget level, he would manage the resources, including staffing, within the budgetary ceiling and with full accountability. Such management would include the transfer of resources between post and non-post expenditures, in order to stay within the approved overall budget. The United Nations should also be able to issue letters of assessment to Member States to take into account new mandates at the midpoint of the year, instead of at the start of the following year, if the cash situation demanded it.

25. Furthermore, he sought the agreement of Member States to suspend the return of unencumbered balances temporarily until the cash situation of the Organization normalized, or at least for the next five years. Unencumbered balances could be retained to replenish the Special Account and fund some of the increases in the level of the Working Capital Fund, thus killing two birds with one stone. The bottom line for the regular budget was clear: the implementation of mandates could no longer be guaranteed if liquidity reserves were not increased.

26. Peacekeeping operations, like regular budget operations, also faced constant liquidity challenges. The cumulative cash balances of peacekeeping operations were decreasing owing to increasing arrears and late payments. Outstanding contributions to active peacekeeping operations amounted to $1.5 billion. At the end of May 2019, despite an aggregate cash balance of $1.3 billion, enough in theory to cover operations for two months, two large missions only had sufficient cash reserves for two weeks, while three others were already in deficit. Typically, the Organization should have three months of cash reserves for each mission.

27. The current situation threatened not only the functioning of peacekeeping operations but also the people serving in difficult environments. Most importantly, it meant that the Organization could not reimburse troop- and police-contributing countries, thus defaulting on its obligations to those countries.

28. Member States paid their contributions separately for each mission, and payment patterns tended to differ from one mission to another. Peacekeeping operations did not have a working capital fund. The Peacekeeping Reserve Fund of $150 million was available only to support new missions and the expansion of existing missions. Cash from one active mission could not be

used to finance another, even on a temporary basis and even when such use could be fully justified. The aggregate cash balance of active peacekeeping missions tended to be more than $1 billion at any given moment, yet many missions did not, for short periods of time, have adequate cash to cover all their costs.

29. When cash ran low, missions prioritized paying the salaries of personnel and essential contractors and settling the bills of commercial vendors to avoid disruptions in operations, while delaying reimbursements to troop- and police-contributing countries. Those countries had become, in essence, the financiers of the Organization's liquidity. Although no conscious decision had been taken, such a situation had become inevitable in the absence of any other decisions. It was as if the international community had collectively decided that it was the mission of troop- and police-contributing countries to finance the United Nations, even if they were extremely poor.

30. The Organization had owed more than $250 million to troop- and police-contributing countries at the end of 2018 and a similar amount at the end of the first quarter of 2019. The amount owed was likely to exceed $400 million at the end of June 2019, paralleling the situation at the end of June 2018. Owing to the rigidity of the current rules, the troop- and police-contributing countries that financed the Organization were determined on the basis of the cash position of the individual operations to which they contributed and not by their capacity to shoulder that unfair burden.

31. The resulting paradox was that the United Nations was now financed for prolonged periods by troop- and police-contributing countries, many of which were low-income countries, and, at the same time, the Organization was asking those countries to do more to train their personnel and improve the quality of their equipment. The short-term effect of not reimbursing troop- and police-contributing countries was that it put pressure on their finances. In the long term, the delay in payments created an impediment to attracting countries to deploy new units to peace operations.

32. As with the regular budget, even if the Organization were to contain costs in line with available cash, the resulting underexpenditures would have to be credited back to all Member States proportionally, in accordance with the scale of assessments, including to those Member States that had not yet contributed in full. The current situation was unfair, unsustainable and completely absurd.

33. In his report, he proposed four complementary measures aimed at improving the financial situation of peacekeeping operations. First, the cash balances of all active peacekeeping operations should be managed as a pool, taking care to ensure that the liquidity problems of one mission were not transferred to another. Such a system would optimize the use of resources, greatly alleviate the liquidity problems of some peacekeeping operations and improve the timely settlement of payments to troop-contributing countries, while ensuring the liquidity of lending missions for three months, as was being done currently. In the previous five years, the management of cash in a pool would have ensured timely settlements in 15 out of 20 quarters.

34. Second, a Peacekeeping Working Capital Fund of $250 million should be created. Between the Fund and the pooling of the cash balances of missions, which totalled about $1 billion, active peacekeeping operations would have approximately two months of operating costs available, including payments to troop- and police-contributing countries, based on an annual budget of about $7 billion. Such an approach would have allowed the Organization to reimburse troop-contributing countries fully in 18 of the previous 20 quarters and to reduce the arrears significantly in the remaining two quarters. In June 2019, that approach could enable the Organization to reduce the outstanding payments to troop-contributing countries significantly.

35. Third, assessment letters should be issued for the full budget period and not only until the next mandate renewal. That would facilitate planning by Member States and ensure greater predictability in payment patterns.

36. Fourth, the obligation to return unencumbered balances to Member States should be temporarily suspended. The retained resources could be used to fund the Peacekeeping Working Capital Fund, once again killing two birds with one stone.

37. He would continue to do everything in his power to encourage Member States to fulfil their financial obligations to the Organization. More Member States had paid in full than in previous years, and he thanked those that had responded positively to his calls.

38. However, the United Nations was still nowhere near where it needed to be. He had been obliged to slow down expenditures to align them with the cash at hand and meet payroll obligations. That was beginning to have an impact on mandate fulfilment. The work of the United Nations and the current reforms risked being undermined if the deteriorating financial situation of the United Nations was not urgently and squarely addressed.

39. Moreover, the current delays in expenditure should not be mistaken for budget discipline. They were

not savings resulting from the Secretariat doing its work in a more efficient and cost-effective manner, but cuts resulting from a lack of cash, which prevented the United Nations from performing at its best.

40. His team looked forward to engaging with the Member States to clarify his proposals, allay any concerns and facilitate decision-making. He counted on the full support of Member States to reach common-sense solutions that would allow the United Nations to get out of the present unsustainable situation.

41. **Mr. Terzi** (Chair of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/73/891), said that the Advisory Committee noted the Secretary-General's efforts to manage the recent liquidity problems experienced by the Organization and recalled that the General Assembly had repeatedly urged all Member States to fulfil their financial obligations, as set out in the Charter of the United Nations, on time, in full and without conditions.

42. As indicated in various reports of the Board of Auditors, the overall financial situation of the Organization was sound. However, liquidity challenges existed and the liquidity situation of the Organization must be monitored closely.

43. The Advisory Committee was concerned about the reimbursement of troop- and police-contributing countries in a number of peacekeeping missions; the Organization's financial obligations to those countries must be settled in a timely manner.

44. The Advisory Committee's recommendations on the Secretary-General's proposals were set out in section III of the Advisory Committee's report. The Advisory Committee recommended that the General Assembly approve the suspension of the surrender of the unspent appropriations of the regular budget, and of the relevant financial regulations, for a trial period of one year in 2020, and request the Secretary-General to provide updated information on the impact of that measure to the Assembly during its seventy-fourth session.

45. Since the Special Account served as an important additional liquidity tool to complement the Working Capital Fund in the management of cash flows in the regular budget, the Special Account should continue to be used to complement the Working Capital Fund. A decision on whether or not to replenish the Special Account was within the purview of the General Assembly.

46. With regard to peacekeeping budgets, the proposal that the cash balances of active peacekeeping missions be managed in a pool, thereby allowing cross-borrowing among such missions while maintaining separate fund balances and accounts, would address the liquidity challenges experienced by the missions. The Advisory Committee trusted that further information on the specific operating modalities of the proposal would be provided to the General Assembly. The Advisory Committee recommended that the Assembly approve the proposal on a trial basis for the 2019/20 budget period and request the Secretary-General to provide information on the implementation of the proposal to the Assembly during its seventy-fourth session.

47. The proposal for the General Assembly to approve the issuance of assessment letters for peacekeeping operations for the full budget period would address the liquidity challenges faced by peacekeeping missions. Such letters should clearly indicate the amounts of the financial contributions corresponding to the current mandate period and an estimate of the amounts for the remaining part of the budget period, subject to the extension of the mandate.

48. **Mr. Katkhuda** (Observer for the State of Palestine), speaking on behalf of the Group of 77 and China, said that the Group was concerned about the financial health of the United Nations. For the Organization to be effective in fulfilling its mandates, it must be given adequate resources.

49. The Group recognized the need to extend sympathetic understanding to Member States temporarily unable to meet their financial obligations owing to genuine economic difficulties, and commended those that had made real efforts to reduce their arrears despite the domestic challenges they faced. Any deliberate, unilateral withholding of contributions by Member States that did have the capacity to pay was unacceptable.

50. The non-payment of assessed contributions, in particular the wilful, unilateral withholding of contributions, had led to the difficulties faced by the Organization. All Member States in a position to do so should pay their assessed contributions in full, on time and without conditions. It was paradoxical that certain Member States with special privileges were effectively setting the Organization's mandates, but were not complying with their legal and financial obligations to ensure that those mandates were fulfilled. All stakeholders must uphold their legal obligation to bear the expenses of the United Nations. Only then would the Secretary-General have the resources to successfully implement mandates.

51. Management reform must be grounded in the Organization's intergovernmental, multilateral and

international character. In that regard, the Group emphasized the oversight roles of the Fifth Committee, the Committee for Programme and Coordination and the Advisory Committee, and their critical involvement in planning, programming, budgeting, monitoring and evaluation, as well as in ensuring the Secretariat's accountability to Member States for programme implementation.

52. The Group was concerned about the Secretary-General's proposal to transfer managerial authority to the Secretariat and underlined the importance of complying with Article 17 of the Charter of the United Nations. His proposal did not take into account the existing mechanisms for exercising budgetary discretion. The Group would examine the matter in accordance with the prerogatives of the General Assembly.

53. The Group welcomed the Secretary-General's ongoing efforts to improve efficiency and to ensure financial stability and predictability through budget reform, and would study his proposals carefully. Nevertheless, no amount of budgetary and managerial flexibility could compensate for a basic lack of financial resources. At the same time, the solutions proposed should not place an unfair burden on those Member States that had always complied with their legal and financial obligations.

54. **Mr. Teo** (Singapore), speaking on behalf of the Association of Southeast Asian Nations (ASEAN), said that ASEAN wished to thank the Secretary-General and his team for their regular outreach on the issue of improving the financial situation of the United Nations. While ASEAN acknowledged the Secretariat's efforts to improve efficiency and efficacy through innovative processes and reforms, additional efforts were required from the Secretariat and Member States to enable the United Nations to secure the resources it needed to implement its mandates effectively.

55. ASEAN was concerned at the deteriorating financial situation of the United Nations. The regular budget had experienced negative cash balances every year since 2012, including a negative cash balance of $323 million at the end of 2018, the most profound deficit in a decade. With regard to the peacekeeping budget, more than $1 billion was owed to 85 Member States, most of which were developing countries. The financial positions of individual peacekeeping missions differed greatly. At the end of 2018, only two peacekeeping missions had had cash reserves equivalent to more than three months of operating costs. Such trends were not sustainable.

56. The Organization's main financial challenge was a lack of liquidity. ASEAN sympathized with those Member States that faced difficulties in paying their contributions owing to factors beyond their control, but urged States that had the capacity to do so to pay their assessments in full, on time and without conditions. That would greatly improve the financial stability of the United Nations. All Member States had a legal responsibility to comply with their financial obligations and a moral responsibility to ensure that the United Nations had adequate resources to implement its mandates.

57. The Secretary-General's proposals included measures to encourage the payment of contributions and adjustments to the budget methodology; such measures must uphold the principles of accountability, transparency and sustainability while giving due recognition to the capacity to pay of individual Member States. ASEAN would study all the proposals carefully.

58. ASEAN saw merit in the proposal that the cash balances of active peacekeeping operations be managed as a pool and looked forward to hearing more about how that would alleviate delays in payments to troop- and police-contributing countries. While the Secretariat should not be micromanaged, any increase in managerial flexibility must be matched by increased levels of accountability and transparency.

59. Any measures intended to address the current challenges of the Organization should be aimed at achieving a sustainable solution and addressing the root causes of the problem, and must not place unfair additional burdens on Member States. Member States that had consistently paid their contributions in full should not be subsidizing those that had continued to withhold payments.

60. **Mr. Gonzato** (Observer for the European Union), speaking also on behalf of the candidate countries Albania, Montenegro, North Macedonia and Serbia; the stabilization and association process country Bosnia and Herzegovina; and, in addition, Georgia, the Republic of Moldova and Ukraine, said that the European Union agreed that the liquidity situation of the United Nations required urgent action and welcomed the Secretariat's efforts to minimize the impact of cash shortfalls on mandate fulfilment. The European Union shared the Secretary-General's analysis that the continued accumulation of arrears and the inherent structural weaknesses and rigidities in the Organization's budget methodologies undermined the functioning of the United Nations, both at Headquarters and in the field. Those issues must be addressed without delay to enable

the Organization to implement its mandates, achieve the expected results and address new challenges.

61. Ensuring the financial health of the United Nations was the shared responsibility of Member States and the Organization. That partnership was fundamental to the ability of the United Nations to fulfil its mandates effectively and efficiently. Putting the Organization on a sound and stable financial footing was a priority for the States members of the European Union, which were collectively the largest financial contributor to the United Nations.

62. Each Member State had a responsibility to fulfil its financial, legal and political obligations to the United Nations, just as the Secretariat had a responsibility to manage for results and allocate funds as efficiently and effectively as possible. He encouraged Member States to pay their assessed contributions in full, as soon as possible and without conditions.

63. The European Union welcomed the Secretary-General's concrete proposals and his commitment to improving the functioning of the Organization, and would continue to support his efforts in that regard. On taking the oath of office, the Secretary-General had promised to work closely with the Member States to make reform a priority. The European Union thanked the Secretary-General for maintaining an open dialogue with all Member States and congratulated him on the progress made in implementing the reforms.

64. Reforming the United Nations was an ambitious undertaking. Now that the challenging process of making durable, sustainable changes to the workings of the Organization was under way, the integrated and holistic approach promoted through the three pillars of the reform must be complemented by budget procedures that enabled the Secretary-General to allocate funds based on priorities and actual needs on the ground. For the United Nations to be responsive, it needed agile, modern budget methodologies and tools. In return for that flexibility, the General Assembly expected the highest standards of transparency and accountability.

65. The regulations and rules governing the new annual regular budget and the peacekeeping budgets should help the United Nations to respond to urgent needs and allocate resources strategically. Budgetary instruments were a means to an end and not an objective per se. They should be fit-for-purpose to deliver results. All too often, the Organization's actions were defined by funding streams and budget lines, instead of common goals.

66. The European Union had studied the Secretary-General's analysis of the financial challenges facing the United Nations, including the impact on the reimbursement of troop-contributing countries. It was regrettable that mandate fulfilment was often hampered by liquidity problems; the European Union would engage constructively on such issues.

67. **Mr. Vachon** (Canada), speaking also on behalf of Australia and New Zealand, recalled that, at the 37th meeting of the Committee, the three delegations had called for action in response to the liquidity crisis. They therefore welcomed the Advisory Committee's acknowledgement of the problems identified by the Secretary-General and senior management, and its endorsement of a number of the Secretary-General's proposals.

68. Given that Member States that contributed troops, police and equipment to peacekeeping operations were the most obvious victims of the Organization's liquidity problems and arrears, it would be appropriate for the General Assembly to begin taking corrective measures during the current session. Australia, Canada and New Zealand fully supported the proposal to manage the cash balances of peacekeeping operations as a pool and to issue assessment letters for the full budget period, subject to the constraints set out by the Secretary-General.

69. In his briefing on the financial situation of the Organization, held on 1 March 2019, the Secretary-General had described to the General Assembly the perverse current situation in which credits were paid to Member States that had not earned them. That not only harmed liquidity but also offended basic notions of fairness. The payment of credits to those in arrears acted as financial transfers from Member States that had fulfilled their obligations to those that had not. They were the opposite of an early-payment incentive.

70. In most other parts of the United Nations system where budgets were funded through assessed contributions, credits were automatically applied against the arrears of Member States. The General Assembly must catch up with the good practices established elsewhere by the United Nations membership.

71. He hoped that the Secretary-General's proposals, if approved by the Assembly, would put peacekeeping missions on a sound footing and improve the Organization's compliance with its obligations under the memorandums of understanding signed with troop-, police- and equipment-contributing countries. The Advisory Committee had not pronounced on an additional proposal relating to more flexible use of the Peacekeeping Reserve Fund, but that proposal merited consideration.

72. Any measures taken by the General Assembly during the current session should be given sufficient time to improve liquidity before their effectiveness was assessed. Only as a last resort should the Member States return to the question of the peacekeeping working capital fund. He was concerned that the proposals to increase the level of the Working Capital Fund and to establish a peacekeeping working capital fund would create a moral hazard. A deeper buffer might inadvertently lead to debtors falling further into debt to the Organization. Indeed, previous increases in the level of the Working Capital Fund had been outpaced by increases in arrears, which was essentially the reason for the Committee's current deliberations.

73. A small number of well-meaning donors had contributed to the Special Account, which was intended to supplement the Working Capital Fund, only to see the General Assembly use that liquidity to cover short-term budgetary needs in 2013 and 2015. As a minimum, the amount of $63.2 million withdrawn from the Special Account should be replenished through the transfer of unencumbered balances from the regular budget and savings from the cancellation of prior-period obligations. As noted by the Advisory Committee, there were precedents for the suspension by the Assembly of regulations 5.3 and 5.4 of the Financial Regulations and Rules of the United Nations.

74. He called on all contributors to the Special Account to stand firm in demanding that the funds be returned and used exclusively for their intended purpose. Once the Special Account had been fully restored, regular budget credits should be applied against arrears and only returned to Member States that were up to date with their assessments. Credits must be earned.

75. The three delegations supported the Secretary-General's request for greater flexibility within budget sections, which would allow managers to manage and ensure that appropriations continued to be aligned with mandate fulfilment, not only by budget part but by budget section. According to the Secretary-General, budget rigidities combined with serious liquidity problems had already resulted in delays to mandated activities, and the situation was likely to worsen unless the General Assembly took action.

76. Australia, Canada and New Zealand supported efforts to address both the liquidity and the broader structural problems facing the United Nations. In addition, managers should be free to manage, so as to maximize the effective performance of mandated activities.

77. **Mr. Favre** (Switzerland), speaking also on behalf of Liechtenstein, said that, over the previous two years, significant steps had been taken to improve the effectiveness and efficiency of mandate fulfilment at the United Nations. Despite the satisfactory pace of management reform, however, insufficient progress had been made in the area of budgetary processes. Urgent action must be taken to improve the Organization's alarming financial situation and address its worsening cash-flow problems.

78. The budget methodology and regulatory framework of the United Nations were outdated. Structural weaknesses must be addressed. Liechtenstein and Switzerland supported many of the Secretary-General's proposals. As the Organization's chief administrative officer, the Secretary-General should have more leeway to manage the budget, including the authority to transfer resources within budget sections as needed. However, accountability and transparency must be assured.

79. Payment patterns must have tangible consequences for Member States. There should be strong incentives for early payment of contributions and clear disincentives for late payment or non-payment.

80. **Ms. Norman-Chalet** (United States of America) said that the Secretary-General's introduction of his report was part of his broader and sustained efforts to maintain an open dialogue with Member States on organizational priorities, including United Nations reform. Her delegation welcomed the Secretary-General's commitment in that regard and looked forward to learning more about the implementation of the reforms.

81. The United Nations required enhanced budgetary approaches and tools that would make it more effective, nimble, accountable, transparent and efficient. As the largest donor to the United Nations by far, contributing $9.5 billion in assessed and voluntary contributions, the United States remained seized of the Organization's financial situation. The inherent structural weaknesses in the current budget methodologies were significant obstacles to mandate fulfilment.

82. The Secretary-General's proposals for addressing both the liquidity problems and the broader, long-standing and complex structural challenges that constrained regular budget and peacekeeping budget management required careful consideration. The current situation was also an important and long-overdue opportunity to improve fiscal discipline and the management and execution of approved budgets, and to enable managers to better manage the Organization's resources and focus on results.

83. **Mr. Kakanur** (India) said that the current peacekeeping budget cycle would end in less than a month, but Member States had not paid $1.9 billion of peacekeeping budget assessments and $1.5 billion of regular budget assessments. At a recent briefing by the Secretariat on the arrears payable to troop-contributing countries, Member States had been informed that $339 million was owed for troops and $670 million for contingent-owned equipment in active and closed peacekeeping missions. Despite those figures, there was reluctance in some quarters to recognize the Organization's financial problems. The crisis was real, and an effective solution must be found.

84. The current practice of meeting the cash requirements of active missions by delaying reimbursements to troop- and police-contributing countries and by borrowing from the accounts of closed missions had contributed to a false sense of financial soundness. Creative accounting was not an effective means of managing a financial crisis and had, in the current situation, allowed Member States in arrears to avoid facing the impact of their inaction. As the arrears had increased, so had the expectations of the Member States that owed the most. They believed that the Secretariat could somehow maintain the status quo, even if that required recalibrating the reimbursement framework.

85. The practice of delaying payments to troop-contributing countries, even as similar contractual obligations to others were met, had an impact on the Organization's ability to maintain honest agreements with troop-contributing countries on other aspects of peacekeeping. The Secretary-General's report was useful in that it acknowledged the persistence of the problem and had prompted the current long-overdue discussion of the issue.

86. There should be sufficient cash in the accounts of closed peacekeeping missions to reimburse troop- and police-contributing countries, in accordance with the agreements signed with them. However, that cash had been diverted to mitigate the liquidity crisis faced by active missions and, at times, the regular budget, thereby deferring the resolution of the pressing problem of payments to those countries.

87. He thanked the Secretary-General for highlighting the structural difficulties that had aggravated the Organization's financial crisis, but said that a sustainable solution would be found only if Member States began to honour their budgetary obligations in full and on time. If Member States continued to disregard those obligations, the management of peacekeeping operations' cash as a pool would not suffice to ensure that troop- and police-contributing countries were reimbursed on time. Peacekeeping missions would close with cash deficits and without fully reimbursing those countries.

88. Many troop- and police-contributing countries, including India, had been waiting for a long time to receive reimbursements from closed peacekeeping missions. He trusted that the problem would be discussed and addressed comprehensively.

89. **Mr. Rivero Rosario** (Cuba) said that the Secretary-General's proposals would not be necessary if the United States paid its outstanding contributions of more than $2.202 billion. No agreement reached on those proposals by the Member States would have a positive and sustainable outcome if the largest financial contributor continued to flout its obligations under the Charter. The permanent members of the Security Council must also fulfil their financial obligations, given their special responsibility to contribute to the financing of peacekeeping operations and special political missions. Any proposals to modify the budgetary methodology and the financial architecture of the United Nations should be closely examined in order to avoid hasty decisions that might adversely affect mandate implementation. The Financial Regulations and Rules must be respected, and any changes to them must be carefully considered and ensure more transparent management and greater accountability within the Organization.

90. **Mr. Gafoor** (Singapore) said that the Organization's growing cash deficits and the non-payment of amounts owed to troop- and police-contributing countries had not significantly affected mandate implementation. While the efforts made to impose stricter budgetary discipline across all duty stations and departments were commendable, they did not represent a sustainable solution to the liquidity problems facing the Organization. The United Nations could not be expected to fulfil its ever-expanding mandates if Member States did not pay their assessed contributions in full, on time and without conditions.

91. Although flexible budget management and liquidity were related, not all proposals to improve flexibility would result in greater liquidity. The highest priority must therefore be given to addressing the liquidity issues that had resulted in the current crisis. While his delegation was open to suspending the surrender of unspent regular budget appropriations on a temporary basis, as had previously been done to address financial difficulties within the Organization, the duration of any such suspension must be clearly specified. Singapore was also open to replenishing the

Special Account so that it could be used alongside the Working Capital Fund to address liquidity problems in the regular budget. To that end, an adequate cash buffer must be maintained in the Special Account, which should be replenished following significant withdrawals. In particular, the amount of $63.2 million that had been withdrawn from the Account since 2013 should be replenished.

92. The proposal to manage the cash balances of active peacekeeping operations as a pool, while maintaining the balances in separate funds for each mission, should be closely examined. Such an arrangement would not impose an additional financial burden on Member States and would offer a partial solution to the selective and deliberate withholding of contributions for specific missions, a practice that was at variance with the General Assembly's position that all peacekeeping missions should be given equal and non-discriminatory treatment in respect of financial and administrative arrangements. It was unfair to expect troop- and police-contributing countries to continue to provide contingents when they were not reimbursed in a timely manner. Measures to address the Organization's financial situation must be taken at the earliest opportunity, before that situation worsened.

93. **Mr. Chumakov** (Russian Federation) said that the financial situation of the United Nations was complex. The current problems were the result of a lack of payments from various Member States, which were known to all. His delegation supported the Secretary-General's work with those Member States to ensure that countries that had conscientiously paid their contributions should not be forced to subsidize States in arrears. While all four indicators used to assess the Organization's financial situation in accordance with International Public Sector Accounting Standards were sound, liquidity problems had recently worsened, requiring the Secretary-General to take innovative measures. The payments owed to troop- and police-contributing countries in respect of peacekeeping missions that had long been closed, as well as the delayed reimbursement of those countries by the United Nations, also posed major challenges.

94. The Committee should reach decisions on the Secretary-General's proposals by consensus. Most of those proposals were designed to address the symptoms of the Organization's financial difficulties rather than their root cause, namely the huge arrears of a number of Member States. The Russian Federation was not convinced that the Advisory Committee's recommendations would enable the Organization to develop long-term solutions to address that cause.

95. **Mr. Hilale** (Morocco) said that Member States must take exceptional measures to tackle the serious, unprecedented financial situation facing the United Nations in order to enable peacekeeping forces and troop- and police-contributing countries to fulfil their responsibilities. Indeed, just as the Secretary-General had requested greater flexibility in managing resources, the Committee must demonstrate flexibility in its deliberations on his proposals, including by taking decisions by a simple-majority vote rather than by consensus, as necessary. While the Secretary-General was accountable to Member States, Member States were responsible for providing him with the resources necessary to manage the Organization.

96. **Mr. Munir** (Pakistan) said that collective and urgent action must be taken to address the financial crisis facing the United Nations, since the expectation that the Organization do more with less was untenable. The successful implementation of the Secretary-General's reforms would require predictable and adequate financial contributions. Peacekeeping operations faced severe cash shortages, forcing the Organization to withhold payments to troop- and police-contribution countries. Indeed, as at 31 March 2019, $265 million had been owed to those countries, effectively making them major financers of peacekeeping operations. Those delayed payments hampered the deployment of new units to peace operations; deprived missions of highly specialized assets and capabilities, including helicopters, hospitals with appropriate medical equipment, engineering, explosive ordnance disposal and demining; and discouraged developing countries from contributing troops.

97. The United Nations was well-positioned to advance the ideals of peace, security and prosperity in a context of intensifying conflicts and challenges. Member States must therefore pay their assessed contributions in full and on time. In addition, the management of the cash balances of active peacekeeping operations as a pool would help to address the Organization's liquidity problems and to ensure the timely settlement of payments to troop- and police-contributing countries. Pakistan also supported the proposal to issue assessment letters for peacekeeping operations for the full budget period approved by the General Assembly. Unspent funds in the accounts of peacekeeping operations should be returned in full to Member States, and the amounts owed to Member States in respect of closed peacekeeping missions should be paid in full. His delegation also expected that the transition to an annual budget period would result in a more effective budgetary methodology, enabling more

accurate costing owing to the use of more realistic vacancy rates and higher levels of staffing.

98. **Mr. Hoshino** (Japan) said that Member States attached great importance to the financial health of the United Nations. Japan would seek clarification of, inter alia, the Secretary-General's proposal to allow borrowing among active peacekeeping missions, while maintaining balances in separate funds for each mission. Given the limited time allotted for the second part of the resumed session, the Committee should focus on the proposals relating to the financing of peacekeeping operations.

99. **Mr. Feldman** (Brazil) said that, as a long-time advocate of the Secretary-General's reforms, Brazil believed that the United Nations must be made fit for purpose. His delegation had supported the introduction of an annual regular budget period in the interest of strengthening budgetary discipline. It had also endorsed the Secretary-General's proposals to enhance the structure and procedures of the Secretariat in order to tangibly improve the effectiveness and efficiency of the Organization.

100. While the General Assembly had supported the Secretary-General's administrative and budgetary reforms, several of which had now been implemented, the Assembly had made it clear that such reforms must not impinge on the prerogatives of Member States. Indeed, in its resolution 72/266, the Assembly had categorically decided not to change the mechanisms and levels of discretionary managerial authorities available to the Secretary-General. Rather, it had requested that an assessment of those mechanisms and levels be presented for consideration at the seventy-third session, bearing in mind that mechanisms enabling the Secretary-General to exercise limited budgetary discretion were already in place. In his report (A/73/809), the Secretary-General both disregarded and overstepped that mandate: instead of providing an assessment of existing budgetary discretion mechanisms, he sought full budgetary discretion for the Secretariat. That proposal went beyond the request for limited authority to redeploy resources between and within sections of the regular budget, contained in his report on shifting the management paradigm in the United Nations: improving and streamlining the programme planning and budgeting process (A/72/492/Add.1). Under the system proposed in the current report, Member States' responsibility would be limited to establishing an overall budgetary ceiling; they would have no authority to determine the level of resources for individual budget lines. Such an arrangement would undermine the time-honoured oversight system enshrined in Article 17 of the Charter by granting virtual budgetary autonomy to an entity rife with inadequate transparency and inequitable geographic representation. Contrary to the Secretary-General's claims, the Organization's budgetary methodology and regulatory framework were not outdated, and the Charter was not the cause of structural weaknesses in the budgetary methodology, but was rather a source of strength to the United Nations.

101. The Secretary-General's selective approach to reform of the Charter was regrettable. Brazil wished to know whether and how he considered that other Articles, including Articles 23 and 53, should be reformed. Brazil also wished to know why the Secretary-General did not address, in the current report, one of the root causes of the Organization's financial difficulties, namely the share of regular budget resources allocated for the funding and backstopping of special political missions, which had increased to over 20 per cent in the previous 20 years. The proposals in the report would likely do more harm than good to the Organization. His delegation looked forward to engaging with Member States, in particular fellow troop- and police-contributing countries, on measures to improve the financial situation of the United Nations.

102. **Mr. Fu** Daopeng (China) said that financial resources were the foundation of United Nations governance. A sound financial situation was essential to enabling the Organization to fulfil its duties and functions, and to ensuring the implementation of reforms. China commended the Secretary-General for his efforts to improve the financial situation of the United Nations.

103. Lack of liquidity, the main challenge facing the United Nations budget, could be addressed only if Member States fulfilled their obligations under the Charter by paying their assessed contributions on time and in full. Even the most effectively designed reforms would not solve the problem if Member States, particularly those with significant arrears, did not pay their dues on time. China called on all Member States, especially those with the capacity to do so, to pay their assessed contributions on time, in full and without conditions as a gesture of support for the United Nations and the reforms.

104. Initiatives to improve the Organization's financial situation should be strictly in line with the spirit of the Charter and should be driven by Member States, without imposing an additional financial burden on States. In particular, reforms of the methodology for the preparation of the regular budget should fully take into account the implications of the annual budget period, to be introduced in 2020 on a trial basis. Reforms should

be holistically planned and prioritized, should aim to address existing problems without introducing new ones, and should strengthen financial discipline and improve overall budget performance.

Agenda item 136: Programme budget for the biennium 2018–2019 (*continued*)

Estimates in respect of special political missions, good offices and other political initiatives authorized by the General Assembly and/or the Security Council (*continued*)

Thematic cluster III: regional offices, offices in support of political processes and other missions (*continued*)

United Nations Mission to Support the Hudaydah Agreement (*continued*) (A/73/352/Add.9 and A/73/498/Add.9)

105. **Mr. Ramanathan** (Controller), introducing the Secretary-General's report on estimates in respect of special political missions, good offices and other political initiatives authorized by the General Assembly and/or the Security Council under thematic cluster III: regional offices, offices in support of political processes and other missions, for the United Nations Mission to Support the Hudaydah Agreement (A/73/352/Add.9), said that, as requested by the General Assembly in its resolution 73/279 B, the report contained a full budget proposal for the Mission, taking into consideration the most recent developments in the Mission area and superseding previous requests for commitment authorities made for the Mission.

106. The estimated requirements for the Mission for the period from 21 December 2018 to 31 December 2019 amounted to $57.9 million, comprising estimated expenditures of $171,600 for 2018 and proposed requirements of $57.7 million for 2019. The proposed requirements for 2019 provided for the deployment of up to 75 United Nations monitors, 69 international and 69 national staff positions, five government-provided personnel, one fixed-wing aircraft and one rotary-wing aircraft; the acquisition and maintenance of armoured vehicles; medical services; and the acquisition of information and communications technology equipment. The proposed requirements for 2019 also included resources for the rental of a marine vessel to provide short-term office and living space, and for rental, renovation and security enhancements of ground facilities once long-term accommodations were found.

107. **Mr. Terzi** (Chair of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/73/498/Add.9), said that, given the slow pace of deployment of the Mission and the challenges affecting the recruitment of personnel, the Secretary-General should expedite deployment. Moreover, in view of the slower-than-anticipated pace of the start-up period for the Mission, as reflected in the actual level of expenditure, the Advisory Committee recommended a reduction of 2 per cent, or approximately $1 million, in the proposed requirements under operational costs. The Advisory Committee intended to reassess staffing requirements and operational costs in the context of subsequent budget submissions. In addition, the Advisory Committee was concerned that the proposal to carry forward to 2019 an unutilized portion of the $8 million of commitments authorized in General Assembly resolution 72/264 to meet unforeseen and extraordinary expenses in 2018 was not in alignment with that resolution. The Advisory Committee therefore recommended that the Assembly request the Secretary-General to observe the limits and provisions established by the Assembly.

Other matters

108. **The Chair** said that the Committee had, at its 32nd meeting, agreed by consensus to defer further consideration of the global service delivery model for the United Nations Secretariat to the Assembly's seventy-fourth session (see A/C.5/73/SR.32, paras. 4–5 and 9), and that the Bureau would decide, following inclusive consultations with Member States, whether to defer such consideration to the main part of the seventy-fourth session or to the first part of the resumed seventy-fourth session. Delegations should inform the Bureau of their view on the matter by 30 June 2019.

The meeting rose at 4.45 p.m.