

**NOTE ON
AN AGENDA FOR PEACE**

Some reflections on Chapter IX – Financing

*Prepared by
Francesco Mezzalama*

Joint Inspection Unit



**Geneva
1993**

NOTE ON

AN AGENDA FOR PEACE

Some reflections on Chapter IX - Financing

Prepared by
Francesco Mezzalama
Joint Inspection Unit

Table of Contents

	<u>Paragraphs</u>	<u>Page</u>
I. INTRODUCTION	1 - 6	1
II. FINANCING	7 - 34	2
III. COST SAVING	35 - 42	7
IV. RECOMMENDATIONS		9

Annex I: An agenda for peace, pp.41-44
IX. Financing

I. INTRODUCTION

1. The financial crisis of the United Nations has reached perhaps an unprecedented dimension. No wonder that the Secretary-General, in his remarkable "An Agenda for Peace", is devoting Chapter IX of the Agenda to this issue.

2. The gravity of the situation commands urgent action and the JIU is willing to give, as it has done in the past, its contribution to the search for possible solutions.

3. It is superfluous to recall that the problem is not new. Constant efforts have been made, throughout the years, to find suitable remedies, but nowadays the crisis appears more alarming than before for several reasons.

4. The first and more important is the radical change in the international context. The United Nations is engaged, much more than in the past, in facing an expanding international turbulence with an enormous increase in its responsibilities. The picture of the insidious grounds in which the Organization is asked to operate is strikingly described in the introductory pages of the Agenda.

5. While the availability of financial resources has not increased, the growth of new activities has sky-rocketed. As a consequence, the old financial malaise is emerging, with renewed evidence. What was a chronic illness is becoming a critical one.

6. The main cause of the crisis must be referred, and rightly so, to the partial or total non-payment of contributions by Member States, and to the delay in payments, but the problem is more complex. In the assessment of the situation, appropriate attention should be given to a non-secondary aspect, that of cost-saving. For this reason, the present Note will address this aspect together with the priority concern, i.e. adequate and timely financing.

II. FINANCING

7. The unpaid contributions and the delay in payments by Member States are the crucial points. The repeated and forceful appeals of the Secretary-General are for payment of the assessed contributions in full and on time. The Agenda for Peace states: "Failure to do so puts (Member States) in breach of their obligations under the Charter".

8. It should be observed that compliance is, first of all, a moral obligation. International ethics require that commitments be scrupulously observed.

9. However, juridical international implications are equally relevant. By the acceptance of the Charter, a Member State is bound by an international obligation which, according to a widely shared principle of the international law demands adjustment to it, if necessary, of the existing domestic law. The main reason given by some governments to justify late payments is that their fiscal year differs from the calendar year in force at the United Nations.

10. If that is the case and if there is a discrepancy between the UN Charter and a domestic rule, according to the above-mentioned principle of the international law, it is the latter which has to be amended. It is the only way for a Member State to avoid being accused of violating international obligations.

11. Invoking domestic legislature and appropriation procedures to justify late payments is a controversial issue. Member States should try to remove internal obstacles in order that contributions be paid on time. As a matter of fact, several Member States have taken the necessary steps in order to be able to satisfy promptly their international obligations stemming from the ratification of the Charter.

12. As the difficulties to change domestic budget legislation cannot be ignored, an alternative could be found by recourse to the practice of appropriating the UN contributions due by a Member State in advance of the Organization's financial year, rather than during the course of it and therefore late vis à vis the established obligation.

13. No organization can profitably work with a "beggar-like" mentality. Uncertainty in its funding is the negation of any sound and credible management which, on the contrary, requires predictability of resources and punctuality of payments.

14. A revised efficiency of the UN bodies, including, inter alia, the elimination of obsolete or duplicated programmes, has been invoked as a resolving cure for the financial crisis. It is certainly an important remedy, but should not be confused with the different problem of non-payment or late paid assessments. No palliative can have resolving and lasting effects to fill the gap of non-fulfilled financial obligations.

15. Among the suggested incentives, the following should be taken into consideration: Member States applying to the Security Council and soliciting its intervention when directly involved in a dispute or controversy, should not disregard the consideration of their records of contributions. Of course there are cases of extreme distress - political, economic or social - in which a country may find itself involved with inevitable consequences in complying with its obligations. These are situations that require special consideration and may justify exceptions.

16. If only for the sake of food for thought, one may also ask if the aspiration and pressure of Member States in soliciting situations with managing higher echelons of the Organization and of the participating bodies at different levels should be totally independent from an evaluation of the regularity in meeting their financial obligations under the Charter.

17. The Agenda for Peace contains several proposals to remedy the financial difficulties of the UN. It is perhaps not useless to recall that some of the measures listed therein have been the object of in-depth consideration by JIU in their pros and cons. In particular, reference is made to two reports: Cash Management in the United Nations and four Specialized Agencies (JIU/REP/86/6), and Budgeting in Organizations of the UN System (JIU/REP/89/9, Vol. 1). These reports may have offered proposals and recommendations that if, when issued, they had been given some attention (we are in the late eighties), would perhaps have limited the gravity of the financial crisis in the UN.

18. For the sake of brevity, only the paragraphs related to the Agenda's suggested measures are quoted.

19. Apart from the pertinent observation that if Member States were more disciplined in meeting their obligations the expensive collection machine and the complicated bureaucratic effort and waste of energies could be reduced or even spared, the first report deals with the problem of encouraging prompt payments.

20. While the charging of interest rates or of penalties against defaulters is considered scarcely practicable because it would be "unpopular" the provision of incentives to abiding members is recommended.

21. One possible solution is a special scheme for crediting surpluses based on the scale of contributions and the timing of their receipt to encourage prompt payment by Member States.

In dealing with the treatment of surpluses, it should be recalled that they constitute a debt of the Organization in regard to contributing members.

22. Another possible remedy is the introduction of a "contingency margin" to meet liquidity difficulties. A percentage to be established of the appropriations should be kept in reserve pending receipt of the assessed contributions. The size of the margin could be determined on the basis of the average long-standing late and non-payment of contributions over a certain period of years. The above procedure would also have the advantage of making it possible to fix a welcome order of priorities, for instance in the implementation of programmes through the suspension or the elimination of obsolescence and duplication.

23. Another alternative might be to establish two separate parts within the budget, one for administrative or ordinary house-running expenses and the other for special operational activity. The former would be sure to keep the structure of the Organization's life at the indispensable level and would be funded by assessments from all members. The latter would include UN programmes, special conferences and committees, international years and alike, and would be funded through the contributions of those Member States which voted for them. In the case of the funding being only partial, despite the favour of the vote, the implementation of a given programme will be limited to the effective percentage of the paid assessments.

24. A proposal worthy of being pursued concerns the establishment of a United Nations Peace Endowment Fund to be financed through reserve sums, without excluding the private sector and the individuals. If the inflow to the fund also includes, but not exclusively, voluntary contributions, several paths could be explored in addition to those mentioned in the Agenda.

25. Developed countries, for example, could envisage the levy of an extraordinary limited increase of the domestic income tax or similar type. If the percentage is kept to a low level and imposed "una tantum", the decision is less likely to be opposed by the national tax payer, especially if the destination of the money is properly publicized and the purpose illustrated, directly linked as it is to the maintenance of peace and security.

26. Another proposal may concern the issue by Member States of a special series of stamps based on the theme "United Nations and peace". If all the 180 members accept the idea, based on the well-known universal philatelic interest, on the condition that the revenue be turned over to the Organization, a substantive flow of cash should reach the Fund.

27. It has been suggested, inter alia, that Member States be allowed to pay their dues in several instalments during the year. This procedure can certainly ease the difficulties of certain

governments, but there is a risk that it will become a double edge tool. It will also impose a new bureaucratic burden on the Secretariat, already encumbered by the intricacies of the collecting machine.

28. But other more pertinent inconvenience can be seen. The possibility of authorized fragmented payments could discourage disciplined payers who may see the advantage of withholding substantial amounts of money for given periods of their fiscal year instead of putting the full amount of money at the disposal of the Organization thus depriving it of the benefit of the entire availability of the assessments.

29. Furthermore, a legalization of partial payments would interfere with the possibility of application of the sanctions to systematic violators under Article 19 of the Charter by way of interrupting the defaulting without making sure that their first instalment will be followed by the others.

30. Let us turn now to the peace-keeping activities of the UN: It is a subject which because of its importance has already been given attention by the JIU. A Note has recently been published on the theme (JIU/NOTE/92/1) and the problem, under its diversified facets, is under consideration by the Unit which is devoting an ad hoc study to it.

31. While more details can be gained from the perusal of the recently issued Note, it is deemed useful to quote here one of the recommendations specifically referring to the financing of the operations (quote):

"Recommends that the Secretary-General propose to the General Assembly that the revolving Peace-keeping Reserve Fund he has recommended be capitalized out of existing and prospective peace-keeping surpluses (e.g. UNTAG and UNIIMOG) and supplemented by the net payments of all presently existing arrears (peace-keeping and regular budget), after the Working Capital Fund has been replenished and existing obligations discharged." 1/

32. Several ideas have been expressed and are reproduced for debate in the Agenda. One more can be added to the list based on the linkage between peace and development. Incidentally, the issue of development has received increased emphasis in the recent assignment of competences at the top echelons of the Secretariat and the new impetus will find the appropriate frame in an improved atmosphere of peaceful international co-operation.

33. Having said this, it happens that programmes of co-operation to developing countries are suspended when the situation does not guarantee sufficient security. In a number of these countries

1/ The recommendation has since been partially implemented (see note of the Secretary-General A/47/898).

peace-keeping operations are under way. The re-establishment of acceptable conditions of security is a precondition for resumption of the aid to development. According to the rules in force in quite a number of countries, when funds allocated in the budget planning are not utilized, they are reintegrated into the treasury at the end of the fiscal year. Countries distributing aid to development could be asked to switch funds, frozen because of critical situations in receiving countries, to peace-keeping operations in order to help the return to normality and the resumption of the aid to development. These amounts could constitute voluntary contributions or be treated as advance payments to be later credited against peace-keeping operations financing.

34. Be that as it may, Member States should always keep in mind that contributions to peace-keeping operations will result in the long run in savings of defence spending. In this respect, the suggestion of the Secretary-General that peace-keeping contributions be funded, at least partially, from the defence budget of Member States is appropriate and deserves support.

III. COST SAVING

35. It is needless to recall that any improvement of the financial situation involves cost-saving. It is a permanent challenge for the Organization and needs to be faced again with renewed energy. The JIU has been, and is, conscious of cost-saving importance, so much so that it has devoted several reports to this specific matter and in other reports of a wider and more general scope, has kept in mind that necessity and formulated recommendations "à propos".

36. However, the reactions of the different branches of the Organization and of the specialized agencies participating in the JIU, as well as their comments to the recommendations of the Inspectors, are often late or partial. An attempted contribution to the solution of the problems falls thus short of its scope.

37. It would not, therefore, be useless to recall some reports and studies of the JIU on the question, starting, for the sake of brevity, from the middle of the eighties and covering about an eight year period. There is a series of reports containing recommendations that could result in definite cost-savings if the specific recommendations are accepted and implemented.

38. The reports are the following:-

1. Follow-up report on organization and methods for official travel (JIU/REP/85/13);
2. Publications of the International Court of Justice (JIU/REP/86/7);
3. Problems of storage and its costs in organizations of the United Nations system (JIU/REP/86/9);
4. Examination of the activity and structure of UNICEF (JIU/REP/86/11);
5. Representation of organizations of the United Nations system at conferences and meetings, Part A - the United Nations (JIU/REP/88/3);
6. Representation of organizations of the United Nations system at conferences and meetings, Part B - the specialized agencies (JIU/REP/88/7);
7. Budgeting on organizations of the United Nations system (JIU/REP/89/9);

8. From the optical disc pilot project at UNOG to an optical disc system for the United Nations (JIU/REP/89/11);
9. Transport Operations of the United Nations Children's Fund (Programming and management issues) (JIU/NOTE/91/1).

A report on management of buildings in the UN system has just been issued (JIU/REP/92/9).

39. Some useful suggestions can still be found, despite the lapse of time, in the recommendations of the report "Staff costs and some aspects of utilization of human and financial resources in the United Nations Secretariat" (JIU/REP/84/12).

40. As the above records show, periodic attention by the Inspectors has been devoted to cost saving. An examination and perusal of the recommendations contained therein could result beneficially to the consideration of the financial constraints of the Organization.

41. The present Note does not pretend to cover the entire spectrum of the problems related to the financing of the United Nations. It is rather a partial contribution to the effort exercised by different sources and from several directions in order to make the mechanism of financing more efficient. The Agenda for Peace has been a powerful incentive to this search and the Joint Inspection Unit deemed it most useful to participate in the resulting lively exercise.

42. The Note of the JIU purposely refrained from going too deeply into predominantly technical aspects which the Unit has covered in several JIU reports dealing with this and related subjects. Several references to these studies are made in the course of this exposé and are indicative of the permanent interest of the Unit to a long-time debated topic. Timely considerations, the opportunity to seize the momentum of the discussion, while underway, the ample circulation of the Agenda and the attention it has received world-wide, constitute the background of the format and character of the present Note, somewhat different from other reports of the Joint Inspection Unit.

IV. RECOMMENDATIONS

RECOMMENDATION 1: Consequential to the ratification of the Charter of the United Nations is the assumption of an international obligation by Member States, including the financial obligation, to pay contributions in full and on time. It is necessary that governments act to adjust accordingly their national legislations when there are obstacles to the satisfaction of the obligation, favouring as far as possible correspondence between their fiscal year and the calendar year in force at the United Nations. The practice of appropriating the United Nations assessments due by a Member State in advance of the Organization's financial year may offer an alternative solution.

RECOMMENDATION 2: The attribution of political posts in the higher echelons of management of the Organization and Agencies should not ignore the consideration, nor the professionalism, of the record of payment by the proposing Member State.

RECOMMENDATION 3: Among incentives in favour of prompt payers, a system for crediting surpluses based on the scale of contributions and the timing of their receipt might be helpful.

RECOMMENDATION 4: The introduction of a "contingency margin" determined on the basis of the average long-standing late payments over a certain period of years could alleviate liquidity difficulties and allow, in addition, for the possibility of fixing an order of priority in programmes and reducing duplications.

RECOMMENDATION 5: The replenishment of the proposed United Nations Peace Endowment Fund could take advantage by way of extraordinary una tantum fiscal measures from developed countries or through initiatives, like the issuance of special stamps by Member States, with the revenue turned over to the Organization.

RECOMMENDATION 6: Countries distributing aid for development and technical assistance could envisage the possibility to switch to peace-keeping operations funds earmarked for developing countries in which the existing critical situation is an impediment to the utilization of the said funds. Pending the resumption of the assistance, these available amounts would be considered as voluntary contributions or as advance payments to be later credited against peace-keeping operations financing.

RECOMMENDATION 7: In parallel with financing, cost-saving is indispensable to alleviate the financial constraint of the Organization. Suggestions ranging from storage to transport, from the adoption of an optical disc system to the management of buildings, from staff costs and human resources in the Secretariat to travel expenses have been made by the JIU on different occasions as a contribution to fight waste and reduce expenses.

IX. Financing

ACHASM has developed between the tasks entrusted to this Organization and the financial means provided to it. The truth of the matter is that our vision cannot really extend to the prospect opening before us as long as our financing remains myopic. There are two main areas of concern: the ability of the Organization to function over the longer term; and immediate requirements to respond to a crisis.

To remedy the financial situation of the United Nations in all its aspects, my distinguished predecessor repeatedly drew the attention of Member States to the increasingly impossible situation that has arisen and, during the forty-sixth session of the General Assembly, made a number of proposals. Those proposals which remain before the Assembly, and with which I am in broad agreement, are the following:

- *Proposal one.* This suggested the adoption of a set of measures to deal with the cash flow problems caused by the exceptionally high level of unpaid contributions as well as with the problem of inadequate working capital reserves:
 - (a) Charging interest on the amounts of assessed contributions that are not paid on time;
 - (b) Suspending certain financial regulations of the United Nations to permit the retention of budgetary surpluses;
 - (c) Increasing the Working Capital Fund to a level of \$250 million and endorsing the principle that the

level of the Fund should be approximately 25 per cent of the annual assessment under the regular budget;

- (d) Establishment of a temporary Peace-keeping Reserve Fund, at a level of \$50 million, to meet initial expenses of peace-keeping operations pending receipt of assessed contributions;
- (e) Authorization to the Secretary-General to borrow commercially, should other sources of cash be inadequate.

- *Proposal two.* This suggested the creation of a Humanitarian Revolving Fund in the order of \$50 million, to be used in emergency humanitarian situations. The proposal has since been implemented.

- *Proposal three.* This suggested the establishment of a United Nations Peace Endowment Fund, with an initial target of \$1 billion. The Fund would be created by a combination of assessed and voluntary contributions, with the latter being sought from Governments, the private sector as well as individuals. Once the Fund reached its target level, the proceeds from the investment of its principal would be used to finance the initial costs of authorized peace-keeping operations, other conflict resolution measures and related activities.

In addition to these proposals, others have been added in recent months in the course of public discussion. These ideas include: a levy on arms sales that could be related to maintaining an Arms Register by the United Nations; a levy on international air travel, which is dependent on the maintenance of peace; authorization for the United Nations to borrow

from the World Bank and the International Monetary Fund— for peace and development are interdependent; general tax exemption for contributions made to the United Nations by foundations, businesses and individuals; and changes in the formula for calculating the scale of assessments for peace-keeping operations.

As such ideas are debated, a stark fact remains: the financial foundations of the Organization daily grow weaker, debilitating its political will and practical capacity to undertake new and essential activities. This state of affairs must not continue. Whatever decisions are taken on financing the Organization, there is one inescapable necessity: Member States must pay their assessed contributions in full and on time. Failure to do so puts them in breach of their obligations under the Charter.

In these circumstances and on the assumption that Member States will be ready to finance operations for peace in a manner commensurate with their present, and welcome, readiness to establish them, I recommend the following:

- (a) Immediate establishment of a revolving peace-keeping reserve fund of \$50 million;
- (b) Agreement that one third of the estimated cost of each new peace-keeping operation be appropriated by the General Assembly as soon as the Security Council decides to establish the operation; this would give the Secretary-General the necessary commitment authority and assure an adequate cash flow; the balance of the costs would be appropriated after the General Assembly approved the operation's budget;
- (c) Acknowledgement by Member States that, under exceptional circumstances, political and opera-

tional considerations may make it necessary for the Secretary-General to employ his authority to place contracts without competitive bidding.

74 Member States wish the Organization to be managed with the utmost efficiency and care. I am in full accord. I have taken important steps to streamline the Secretariat in order to avoid duplication and overlap while increasing its productivity. Additional changes and improvements will take place. As regards the United Nations system more widely, I continue to review the situation in consultation with my colleagues in the Administrative Committee on Coordination. The question of assuring financial security to the Organization over the long term is of such importance and complexity that public awareness and support must be heightened. I have therefore asked a select group of qualified persons of high international repute to examine this entire subject and to report to me. I intend to present their advice, together with my comments, for the consideration of the General Assembly, in full recognition of the special responsibility that the Assembly has, under the Charter, for financial and budgetary matters.