United Nations A/73/891

General Assembly

Distr.: General
30 May 2019

Original: English

Seventy-third session
Agenda items 126, 135, 136, 138 and 150

United Nations reform: measures and proposals

Review of the efficiency of the administrative and financial functioning of the United Nations

Programme budget for the biennium 2018–2019

Improving the financial situation of the United Nations

Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Improving the financial situation of the United Nations

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on improving the financial situation of the United Nations (A/73/809). During its consideration of the report, the Committee met with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 11 May 2019.

II. Report of the Secretary-General and general observations

2. In paragraph 3 of his report, the Secretary-General indicates his concern about "the deteriorating financial health of the Organization". He states that the Organization is facing deepening liquidity problems in the regular budget and that several peacekeeping missions are also facing severe liquidity problems that force the Organization to withhold payments to troop- and police-contributing countries for their personnel and equipment in order to avoid the disruption of field operations. He also indicates that a major cause of that deterioration is the increase in arrears in assessed contributions from Member States. His report contains information on the challenges with respect to the regular budget and peacekeeping budgets (sects. II and III) and proposals to address the challenges and actions to be taken by the General

Assembly (sects. IV and V). Information on the outstanding contributions from Member States is contained in annexes I and II to his report.

3. The Secretary-General also states that in 2018, the Organization faced significant cash flow problems and was forced to use resources from closed peacekeeping missions to meet payroll obligations under the regular budget as the deficit dipped to $488 million, completely using up the balances in both the Working Capital Fund and the Special Account (ibid., para. 24). The Advisory Committee notes from information provided to it upon request that the cash ratio (cash plus short-term investments vs. current liabilities) of the regular budget was negative at the end of August, September and October of 2018. The Committee also notes that, in the context of its consideration of the report of the Secretary-General on the updated financial position of closed peacekeeping missions as at 30 June 2018 (A/73/604), an amount of $151.7 million was loaned to the regular budget and that the loan was repaid as at 30 November 2018 (A/73/888, para. 12).

4. Upon enquiry, the Advisory Committee was informed that during 2018, non-post expenditures for regular budget operations had to be delayed in order to manage the liquidity problem, with over $80 million of expenditures postponed by the end of the year. At the beginning of 2019, it was necessary for the Secretariat to control post expenditures by adjusting recruitment in order to ensure adequate liquidity throughout the year to pay the salaries of personnel and invoices of vendors for services rendered.

5. **The Advisory Committee notes the efforts of the Secretary-General to manage the recent liquidity problems experienced by the Organization due to the increase in arrears in assessed contributions from Member States. The Committee recalls that the General Assembly has 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.** The observations and recommendations of the Committee on the respective proposals of the Secretary-General are set out in sections II and III of the present report.

6. The Advisory Committee recalls the Board of Auditors' conclusions that the overall financial positions of the audited entities, including those of the United Nations and peacekeeping operations, remained sound (see, for example, A/73/430, para. 10, and A/73/755, para. 25). The Committee has also noted the sound capital structure ratios of peacekeeping missions included in the report of the Board (A/73/5 (Vol. II), chap. II), which presents the financial performance and cash flows of the missions as at 30 June 2018 in accordance with the International Public Sector Accounting Standards (A/73/888, para. 12).

7. The Advisory Committee has noted the considerable fluctuation in cash balances for the United Nations and most of the other entities from one year to the next (A/73/430, para. 13). With respect to peacekeeping operations, the Committee has also noted that the Board of Auditors indicated that a delay in the payment of assessed contributions led to challenges with regard to cash management, in particular for two missions (A/73/755, para. 25).

8. **The Advisory Committee notes that the overall financial situation of the Organization is sound; however, it recognizes the existence of liquidity challenges and stresses that the liquidity situation of the Organization needs to be closely monitored (A/73/430, para. 13 and A/73/625, para. 30).**

9. In its recent reports on the budget proposals for peacekeeping operations, the Advisory Committee has expressed its concern regarding the cash positions in those missions where cash balances were not sufficient to cover three-month operating reserves, excluding payments to the troop- and police-contributing countries (see

A/73/755/Add.1, A/73/755/Add.4, A/73/755/Add.6, A/73/755/Add.13, para. 11; A/73/755/Add.5 and A/73/755/Add.8, para. 7). In his report, the Secretary-General notes that the total balance owed to troop- and police-contributing countries in active missions amounted to $264.7 million at the end of March 2019 (A/73/809, para. 66). **The Advisory Committee notes with concern the situation with respect to reimbursements to troop- and police-contributing countries in a number of peacekeeping missions and underscores the need for further efforts to ensure that the Organization's financial obligations to troop- and police-contributing countries are settled in a timely manner.**

10. The Secretary-General indicates that the information contained in his report on payments to troop- and police-contributing countries with respect to active peacekeeping missions does not include an amount of $81.4 million payable to troop- and police-contributing countries with respect to closed peacekeeping missions (ibid., para. 67). The Advisory Committee notes that the report of the Secretary-General contains no proposals to address long-standing matters relating to the closed peacekeeping operations. The Committee was informed, upon enquiry, that over a number of years, the Secretary-General had submitted proposals to reimburse troop- and police-contributing countries in several closed peacekeeping missions with cash deficits, such as those contained in his reports A/66/665, A/67/739 and A/68/666. The observations and recommendations of the Committee with respect to closed peacekeeping missions are contained in its report A/73/888.

III. Measures proposed by the Secretary-General

11. Proposals to address challenges relating to the regular budget and the budget for peacekeeping operations are presented in section IV of the report of the Secretary-General (A/73/809), with related actions to be taken by the General Assembly submitted in paragraph 103 (a) to (i) of the report. According to the Secretary-General, the measures proposed address both the liquidity and broader structural problems that constrain budget management (ibid., summary).

A. Measures relating to the regular budget

12. **The Advisory Committee notes that part of the analysis provided in the report of the Secretary-General is based on the processes of the current biennial regular budget cycle, which does not include the impact of the decision of the General Assembly in its resolution 72/266 A to change from a biennial to an annual budget period on a trial basis, beginning with the programme budget for 2020.**

Increasing the level of the Working Capital Fund

13. The General Assembly is requested to increase the Working Capital Fund to $350 million effective 1 July 2019 (ibid., para. 103 (a)). In paragraphs 76 to 80 of his report, the Secretary-General indicates, inter alia, that increasing the Working Capital Fund from $150 million to $350 million, using the current scale of assessment for the regular budget, would improve liquidity with the aim of overcoming intra-year delays in contributions and would bring the Fund's level to about six weeks of expenditure. The Secretary-General further indicates that in view of the critical cash situation experienced in recent years, he has twice requested the Assembly – in October 2017 and again in November 2018 – to increase the Working Capital Fund to $350 million, but that those proposals were not endorsed by Member States.

14. The Advisory Committee notes the liquidity challenges experienced by the Organization during the biennium 2018–2019, including measures undertaken by the Secretary-General to curtail expenditures during budget implementation and borrow temporarily from the accounts of the closed peacekeeping operations (see paras. 3 and 4 above). However, the Committee considers that, in terms of the level of the Working Capital Fund required for managing cash flow, the fund balance of the Fund and the Special Account[1] should be considered together. The Working Capital Fund and the Special Account in 2018–2019 would together provide 6.8 weeks of operational expenses. The Committee notes that, for the first time in recent years, the Secretary-General needed to resort to temporary borrowing from closed peacekeeping mission accounts for non-peacekeeping purposes on only one occasion, in 2018 (A/73/809, para. 24).

15. **While recognizing the recent liquidity challenges of the regular budget experienced by the Organization, the Advisory Committee does not note a sustained pattern of such challenges. The Committee is therefore not convinced of the proposal to increase the level of the Working Capital Fund and recommends against the proposal.**

Replenishing the Special Account

16. The General Assembly is requested to replenish the Special Account[2] up to an amount of $63.2 million (ibid., para. 103 (b)). Background information is provided in paragraph 81 of the report of the Secretary-General. The Secretary-General proposes again that unspent funds, both unencumbered balances and cancellation of prior-period obligations, be transferred each year to the Special Account until the Account is fully replenished by the amount of $63.2 million that was withdrawn.[3]

17. The Advisory Committee recalls its recommendation against the proposal to approve the transfer of the unencumbered balances from the regular budget for the biennium 2016–2017 to the Special Account (A/73/625, para. 31), which was endorsed by the General Assembly (resolution 73/279, sect. XI, para. 3). **Recognizing that the Special Account serves as an important additional liquidity tool to complement the Working Capital Fund in managing regular budget cash flow, the Advisory Committee considers that the Special Account should continue to be used to complement the Working Capital Fund. The Committee is of the view that a decision concerning whether or not to replenish the Special Account is a matter within the purview of the General Assembly.**

Suspending the surrender of unspent appropriations

18. The General Assembly is requested to temporarily suspend the surrender of appropriations for the regular budget until “the financial situation has improved” (A/73/809, para. 103 (c)). More information relating to this proposal is provided in paragraphs 46–49, 82 and 83 of the report of the Secretary-General. It is also proposed in paragraph 91 of the report that any underexpenditures at the end of the budget

[1] At the end of 2018, the Special Account had a balance of $203 million (A/73/809, para. 15).

[2] The General Assembly, in its resolution 3049 (XXVII), requested the Secretary-General, inter alia, to establish a special account into which voluntary contributions may be paid and used for the purpose of clearing up the past financial difficulties of the United Nations and especially for resolving the short-term deficit of the Organization.

[3] The Secretary-General indicates that the Special Account balance peaked in 2013 to approximately $264 million but shrank to roughly $197 million in 2015 after two separate decisions by the General Assembly in 2013 (see resolution 68/245 A) and 2015 (see resolution 69/274 A) (A/73/809, para. 15).

period would be transferred temporarily to the Special Account until "the financial situation became satisfactory".

19. With respect to the temporary nature of the measure proposed, the Advisory Committee was informed, upon enquiry, that the duration would depend on the amount of the unspent appropriations to be surrendered each year. On previous occasions, the General Assembly determined the duration of the suspension. With respect to the proposal contained in paragraph 91 of the report to transfer unspent funds to the Special Account, the Committee was informed that a total of $63.2 million in transfers would restore the level of the Special Account to its previous level (see para. 16 above and footnote 3). Thereafter, as proposed by the Secretary-General, unspent balances would be used to finance the increase in the level of the Working Capital Fund. The same approach was followed in 2007 when the level of the Fund increased from $100 million to $150 million.

20. As for the timelines envisaged for the implementation of the proposal, the Advisory Committee was informed that it could take effect from 1 January 2020 for the next annual assessment under the regular budget. Within such an arrangement, owing to the suspension of the surrender of unspent appropriations, Member States would not be given any credits against their assessments starting from 2020 until the amount of $63.2 million has been returned to the Special Account as envisaged by the Secretary-General.

21. The Advisory Committee notes from table 8 of the report of the Secretary-General that for the biennium 2016–2017, the unspent funds totalled $53.6 million, including $28.6 million from unencumbered balance offset as credits against the assessments for 2019 in January 2019 and $25 million from the cancellation of prior-period obligations, which would be available as credits against the assessments for 2020 in January 2020.[4]

22. The Advisory Committee recalls that in addressing the acuteness of the Organization's financial difficulties in 1981, as described by the Secretary-General at that time, it recommended that the relevant financial regulations be suspended in respect of regular budget surpluses arising at the end of the bienniums 1980–1981 and 1982–1983 (A/36/701, para. 10), which was endorsed by the General Assembly (resolution 36/116, part B, para. 1 (b)). The Committee is of the view that suspending the surrender of the unspent appropriations of the regular budget for a limited duration would help to address issues related to liquidity and mitigate the risk against a further deterioration. Upon enquiry, the Committee was informed that this would require the suspension of financial regulations 5.3 and 5.4 by the Assembly. **The Advisory Committee recommends that the General Assembly approve the suspension of the surrender of the unspent appropriations of the regular budget, with the suspension of the relevant financing regulations, for a trial period of one year in 2020 (see also para. 21 above), and requests the Secretary-General to provide updated information on the impact of this measure to the Assembly during its seventy-fourth session.**

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[4] The unencumbered balance for 2016–2017, presented in the financial statements for 2017 which were finalized by 31 March 2018 and audited by the Board of Auditors thereafter, were offset as credits against the assessments for 2019 done in January 2019. Obligations from the funds for the biennium 2016–2017 are required to be cancelled only at the end of 12 months after the end of the biennium (end of 2018), if they are not discharged by that time. Accordingly, savings from the cancellation of prior-period obligations, reported in the financial statements for 2018 which were presented in March 2019 and audited thereafter, would be offset as credits against the assessments for 2020 in January 2020 (A/73/809, para. 47).

Revised regular budget methodology

23. The General Assembly is requested to approve a revised regular budget methodology based on (i) the approval of a budget level based on realistic costing parameters, including "realistic vacancy rates" and "a high-level staffing table"; (ii) budget implementation based on the management of resources within the overall approved budgetary ceiling, with authorization to transfer resources between posts and non-post resources within budget sections, as the need arises; and (iii) the approval of a revised framework for regular budget assessments consisting of an initial assessment at the start of the calendar year, with an optional midyear assessment of all approved add-ons for revised estimates and programme budget implications and unforeseen and extraordinary expenses (A/73/809, para. 103 (e)). More detailed information is provided in paragraphs 88 to 92 of the report of the Secretary-General.

24. The Advisory Committee requested clarification concerning the proposals to revise the regular budget methodology and was informed of the following: (a) the current vacancy rates are determined on the basis of the actual experience in different budget sections but are then converted into an average for the Secretariat; in the view of the Secretariat, a well-defined methodology for establishing vacancy rates would have to be developed taking into consideration (i) the existing vacancy situation of each budget section as a base for the calculations; and (ii) the anticipated variation of each budget section's incumbency based on their strategic plans and priorities; (b) as for a high-level staffing table, the General Assembly would approve, for each section, the number of posts at the category level (such as Professional and Director levels) without a further breakdown of grades within a category; and (c) the proposed redeployment between post and non-post resources would provide a tool for a programme manager to transfer resources, while remaining within the budgetary ceiling. In addition, concerning the proposal contained in paragraph 103 (e) (iii) on a revised framework for regular budget assessments, the Committee was informed, upon enquiry, that the Secretary-General's proposal is to comprehensively review and assess regular budget appropriations in a timely manner (including commitment authorities and unforeseen and extraordinary expenses), on an optional basis in the middle of the year, if needed, depending on the liquidity situation.

25. The Advisory Committee recalls that the General Assembly has reaffirmed that no changes to the budget methodology, established budgetary procedures and practices or the financial regulations may be implemented without prior review and approval by the Assembly in accordance with established budgetary procedures (resolution 72/266 A, para. 13). The Committee is also of the view that the proposals relating to a revised regular budget methodology are not well substantiated in the report of the Secretary-General and that their connection to the liquidity challenges is not well explained. The Committee also recalls that, in the context of his management reform proposals (A/72/492/Add.1, para. 73 (b) and (c)), the proposal to redeploy up to a level of 20 per cent of post-related financial resources to non-post resources within a budget section was not endorsed by the Assembly (resolution 72/266 A, para. 14). The proposals set out in A/73/809 to redeploy between post and non-post resources within budget sections entail even greater budgetary flexibility than those set out in A/72/492/Add.1. **Taking into account the lack of clarity and insufficient justification provided, the Advisory Committee recommends against the approval of the proposals contained in paragraph 103 (e) of the report of the Secretary-General.**

B. Measures relating to budgets of peacekeeping missions

A "cash pool" for active peacekeeping operations

26. The General Assembly is requested to approve the management of the cash balances of all active peacekeeping operations as a pool while maintaining the balances in separate funds for each mission (A/73/809, para. 103 (f)). Information and justification are provided in paragraphs 94 and 95 of the report of the Secretary-General. According to the Secretary-General, allowing cash loans across active peacekeeping operations would alleviate the liquidity problems of some of the peacekeeping operations and improve the timely settlement of payments to troop-contributing countries. In his view, the management of cash in a pool would not allow the Secretariat to spend beyond the level approved by the Assembly for each mission (ibid., para. 94).

27. The Secretary-General indicates that the current inability of the Secretariat to manage the cash balances of all peacekeeping operations stems from both the decision of the General Assembly to maintain separate accounts for each mission and the fact that the Assembly specifies, in each peacekeeping financing resolution, that no active peacekeeping mission should be financed by borrowing funds from other active peacekeeping missions. The Secretary-General also indicates that, to facilitate pooled cash management, the Assembly would need to exclude the paragraph prohibiting the borrowing of funds in its future financing resolutions, and also explicitly authorize him, in future, to manage the cash balances in the accounts of active peacekeeping missions as a single pool (ibid., para. 95).

28. Upon request, the Advisory Committee received further clarification concerning the concept and management of a potential cash pool for active peacekeeping missions. The Committee was informed that the cash pool is more of a concept for liquidity purposes only, rather than a distinct and separate account. With respect to the management of a cash pool, the Committee was informed that under such a scenario, active peacekeeping operations would be allowed to cross-borrow cash to address a lack of liquidity, but all management of funds and accounting would remain distinct as at present, with no mission able to spend beyond the level approved by the General Assembly. In addition, every transaction would be recorded in both missions' accounts. Such cash borrowings would be kept to the minimum, both in terms of amount and duration, based on liquidity needs of both the lending and borrowing missions. It was indicated to the Committee that the cross-borrowings would be managed centrally by the Controller as is currently done for borrowings for active missions from the closed peacekeeping operations. Furthermore, there would be no transaction fee or interest charged for such borrowings among active peacekeeping missions.

29. Concerning risks associated with such a cash pool for active peacekeeping missions, the Advisory Committee was informed, upon enquiry, that the primary risk in such an arrangement of cross-borrowings is the possibility that delays in repaying a cash loan could potentially adversely affect the lending mission's operations when it has its own liquidity challenges. However, the availability of an aggregate amount of approximately $1 billion of cash across all active missions, which is the equivalent of nearly eight weeks of operating costs, including dues to troop- and police-contributing countries, would mitigate the risk. The Committee was further informed that lending to missions that are likely to close would be minimized or avoided.

30. The Advisory Committee sees merit in the proposal of having a "cash pool" for active peacekeeping missions, while managing the separate funds and accounts for each mission, as a means to address the liquidity challenges experienced by some

missions. However, the Committee is of the view that there is still a lack of clarity in terms of the modalities for such a mechanism, including the determination of criteria for choosing specific lending or borrowing missions and whether one mission could borrow from more than one active mission on a prorated basis at the same time. **The Advisory Committee trusts that further information on the specific operating modalities for the proposed "cash pool" will be provided to the General Assembly at the time of its consideration of the present report.**

31. **The Advisory Committee recommends that the General Assembly approve the introduction of a "cash pool" mechanism, which would allow cross-borrowing among active peacekeeping missions while maintaining separate fund balances and accounts, on a trial basis, for the 2019/20 budget period from 1 July 2019 to 30 June 2020. The Committee also recommends that the Assembly request the Secretary-General to report to the Assembly for further consideration, during its seventy-fourth session, of the implementation of the temporary mechanism, including lessons learned and whether or not its implementation has a positive impact on the prompt settlement of financial obligations of the Organization relating to peacekeeping missions, including payments to troop- and police-contributing countries. Furthermore, the Committee stresses that measures need to be put in place to mitigate any potential risks arising from the implementation of such a mechanism.**

Issuance of assessment letters

32. The General Assembly is requested to approve the issuance of assessment letters for peacekeeping operations for the full budget period approved by the Assembly, subject to the availability of rates of assessments for applicable years (ibid., para. 103 (g)). Information on the proposal and an explanation of the existing practice are provided in paragraphs 96 to 98 of the report of the Secretary-General.

33. The Secretary-General states that to allow the Secretariat to issue assessment letters for the full budget period, the General Assembly should, in future peacekeeping financing resolutions, decide to apportion among Member States the full amount of the appropriation for the full financial period, with the exception of financial periods during which there is a change in the scale of assessments (ibid., para. 96). Upon enquiry, the Advisory Committee was informed that since assessments are issued on the basis of financing resolutions for both regular budget and peacekeeping operations, changes in the current process of assessments would require changes in the financing resolutions by the Assembly. It was indicated to the Committee that, while peacekeeping budgets are prepared for the full budget period irrespective of the date of expiration of the mandate, the anticipated date of termination of a mandate and the planning assumptions related to the drawdown and liquidation of a mission are factored into the proposed budget at the time of the budget formulation. As such, the proposal is unlikely to result in a build-up of reserves; rather, it is intended to ensure the timely availability of funds for peacekeeping operations.

34. **While recognizing that the decision as to whether to apportion among Member States the full amount of the appropriation for the full budget period approved by the General Assembly in future peacekeeping financing resolutions would be a matter for the Assembly to determine, the Advisory Committee sees merit in inviting Member States to pay assessments for a full budget period, with a view to addressing the liquidity challenges of peacekeeping missions. The Committee stresses that any such invitation to Member States should clearly indicate the amounts of the financial contributions corresponding to the current mandate period and an estimation for the remaining part of the budget period, subject to extension of the mandate of a mission.**

Establishment of a Peacekeeping Working Capital Fund

35. The General Assembly is requested to create a Peacekeeping Working Capital Fund of $250 million and authorize its use to address the liquidity challenges of active peacekeeping operations (ibid., para. 103 (h)). It is indicated in the report of the Secretary-General that such a Fund could provide active missions with a liquidity reserve. The establishment of the Fund could be financed through one or more ad hoc assessments on Member States, the transfer of the balance of unspent funds in the special accounts of peacekeeping missions (subject to the temporary measures proposed in A/73/809, para. 103 (i)) or a combination of both (ibid., para. 100).

36. The Secretary-General indicates that the cumulative cash balances of peacekeeping operations are decreasing owing to increasing arrears and late payments, as shown in figure III of his report (ibid., para. 58). While recognizing the recent liquidity challenges experienced by some peacekeeping operations, the Advisory Committee considers that there is not a sufficiently-demonstrated pattern of sustained liquidity challenges to justify the establishment of a Peacekeeping Working Capital Fund of $250 million. Moreover, the Committee is of the view that, subject to approval by the General Assembly, the proposed "cash pool" mechanism for cross-borrowing among active peacekeeping operations would provide a buffer for the operations of those missions currently facing extremely low operating reserves and potentially improve the timely settlement of payments to troop- and police-contributing countries. **The Advisory Committee therefore recommends against the approval of the creation of a Peacekeeping Working Capital Fund.**

Suspending the return of unspent funds

37. The General Assembly is requested to temporarily suspend the return of unspent funds for peacekeeping operations (ibid., para. 103 (i)). The Secretary-General indicates that such a temporary suspension[5] would allow the Organization to improve its liquidity situation and meet its obligations to troop- and police-contributing countries in a more timely manner (ibid., para. 101). As of the end of the 2017/18 peacekeeping fiscal year in June 2018, outstanding contributions to peacekeeping operations amounted to almost $2 billion (or 28 per cent of the peacekeeping assessment), well above the $1.3 billion unpaid as at 30 June 2017, as shown in table 9 of the report of the Secretary-General (ibid., para. 59).

38. The Advisory Committee is again of the view that, subject to approval by the General Assembly, the proposed "cash pool" mechanism for active peacekeeping operations would address the resource needs of those missions currently facing extremely low operating reserves and potentially improve the timely settlement of payments to troop- and police-contributing countries. **The Advisory Committee does not therefore consider that the proposed temporary suspension of the return of unspent funds of peacekeeping operations is necessary.**

C. Measures relating to the regular budget and budgets of peacekeeping missions

Other measures

39. The General Assembly is requested to consider the implementation of other incentives for early payment of contributions, including the lowering of the threshold for the application of Article 19 of the Charter of the United Nations (ibid., para. 103 (d)). More information is provided in paragraphs 84 to 87 of the

[5] See financial regulations 5.3, 5.4 and 5.5.

report of the Secretary-General. The Advisory Committee was informed, upon enquiry, that the proposal concerning Article 19 of the Charter of the United Nations in paragraph 103 (d) of the report applies to all assessed contributions. **The Advisory Committee is of the view that these are policy matters within the purview of the General Assembly.**

IV. Conclusion

40. The proposals of the Secretary-General are set out in paragraph 103 (a) to (i) of his report (A/73/809). The observations and recommendations of the Advisory Committee on actions required of the General Assembly are contained in sections II and III of the present report.