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United Nations reform: measures and proposals

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

Proposed programme budget for 2022

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 Secretary-General

Summary

This critical moment for humankind demands a strong United Nations to lead the quest towards a more equitable world and to contain the impact of extreme poverty, hunger and hatred, the climate crisis and protracted conflict. These global challenges have been compounded by the coronavirus disease (COVID-19) pandemic, necessitating increased commitment by Member States to collectively deliver on the promise of safety, prosperity and dignity for all. The United Nations must remain at the centre of multilateral cooperation for the common good, must take steps to ensure that earned gains are not eroded by the pandemic and must continue to deliver its agenda for more inclusive, sustainable and resilient societies and economies.

However, the strength of the Organization is threatened by a deep liquidity crisis resulting from Member States' failure to meet their financial obligations in full and on time, inadequate levels of liquidity reserves, as well as a regulatory framework that constrains effective budget management. To address the liquidity and broader structural issues in budget management, I proposed a set of measures for managing the regular budget and peacekeeping operations in my previous report on improving the financial situation of the United Nations (A/73/809).

The General Assembly, however, did not approve the measures proposed for the regular budget and, during the period since my previous report, the liquidity situation of the regular budget has deteriorated, with record arrears in outstanding assessments

and the deepest cash deficit ever recorded. The Assembly approved some of the measures proposed for peacekeeping operations; while those measures brought some measurable benefits, the liquidity situation of the peacekeeping operations continues to require more solutions.

In the present report, which I have prepared pursuant to General Assembly resolution 73/307, I have again proposed measures to address the liquidity situation, taking note of some of the concerns of Member States on the previous proposals. I again urge Member States to provide solutions to address the poor financial state of the Organization and avert a new normal of systemic underperformance in mandate delivery due to liquidity constraints.

For its part, the Secretariat remains committed to using the resources entrusted to it in a cost-effective and efficient manner to manage the liquidity crisis in a manner that minimizes the impact on mandate delivery and to provide information to Member States with the utmost transparency.

I. Introduction

1. In my previous report on improving the financial situation of the United Nations (A/73/809), issued in March 2019, I expressed concern regarding the deepening liquidity crisis of the United Nations and the risk that the crisis posed to the ability of the Organization to fully deliver its mandates. In that regard, I presented in the report a number of proposals to facilitate management of the liquidity situation of both the regular budget and peacekeeping operations.

2. The General Assembly did not approve the measures that I proposed for the regular budget, which were aimed at increasing the low levels of liquidity reserves and addressing the underlying structural problems undermining effective budget management, thereby ensuring that the Secretariat could deliver more effectively on its mandates. The liquidity situation of the regular budget has since worsened each year, with year-end arrears setting new records. In each of the past three years (2018, 2019 and 2020), despite the measures taken early in the year to align expenditure with liquidity forecasts, both the Working Capital Fund and the United Nations Special Account were exhausted, necessitating borrowing from closed peacekeeping missions to pay salaries and meet vendor obligations. The situation in 2021 has shown some signs of improvement owing to the significant inflow of collections in April and controlled spending from the beginning of the year; nevertheless, the regular budget is projected to be in cash deficit towards the end of 2021.

3. For peacekeeping operations, the General Assembly approved, in its resolution 73/307, two of the four proposed measures. It approved the issuance of assessment letters for peacekeeping operations for the full budget period, including the period for which the mandate has not yet been approved by the Security Council. It also approved, on a three-year trial basis, my proposal to manage the cash balances of all active peacekeeping operations as a pool. These two measures have facilitated efforts to reimburse troop- and police-contributing countries in a timelier manner but have not solved the problem fully.

4. In the present report, which has been prepared pursuant to General Assembly resolution 73/307, I provide an update on the financial situation of the Organization and the implementation of the resolution, highlight the persisting problems and their consequences, including systemic underimplementation of mandates, and urge Member States to find better solutions to address the liquidity crisis that will cripple the Organization progressively if left unresolved.

II. Regular budget

5. The basic principles of the Organization's budgetary process are set out in Article 17 of the Charter of the United Nations, which provides that the General Assembly shall consider and approve the United Nations budget and apportion the expenses among the States Members of the United Nations. The current Financial Regulations and Rules of the United Nations provide for the payment of contributions within 30 days. Article 19 of the Charter provides a deterrent to the accumulation of arrears with respect to payments of financial contributions by Member States.

6. For the efficient and effective delivery of its programme of work, the Secretariat was provided with a liquidity mechanism for the programme budget composed of the Working Capital Fund and the United Nations Special Account. The Working Capital Fund was established in 1946 to provide the advances necessary to finance appropriations, pending the receipt of contributions, and to finance unforeseen and extraordinary expenses pending appropriation action by the General Assembly.

7. The United Nations Special Account was established in 1965, pursuant to General Assembly resolution 2053 A (XX), to record the results of the Secretary-General's appeal to the Governments of all Member States to make voluntary contributions so that the financial difficulties of the Organization might be solved. In its resolution 3049 A (XXVII) of 1972, the Assembly requested the Secretary-General to establish another special account into which voluntary contributions might 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 referred to in the report of the Special Committee on the Financial Situation of the United Nations (A/8729), and to merge into that account the Special Account. Interest earned on the balance in the Special Account is credited back into the account, which thus keeps growing over time.

8. Each year, any regular budget cash deficit is covered by borrowing first from the Working Capital Fund, and then from the Special Account when the Working Capital Fund balance is exhausted. Such borrowings are repaid as soon as cash becomes available for regular budget operations.

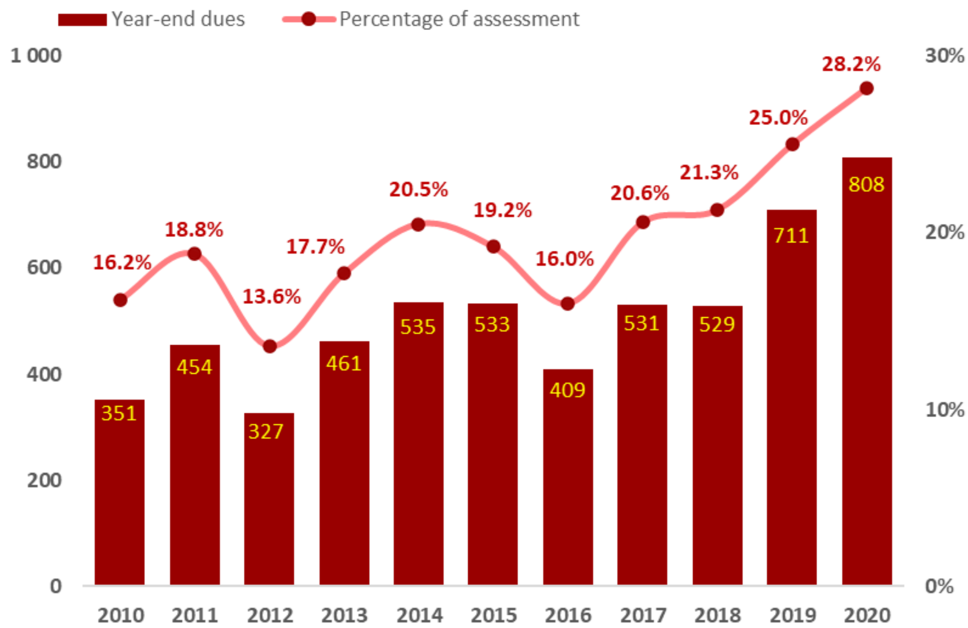
Financial problems undermining budget implementation

9. The Organization has long faced significant liquidity challenges for its regular budget operations. The situation has become grave over the years, with the liquidity situation deteriorating each year, putting at risk the ability of the Organization to fully deliver its mandates. Not all Member States pay in full, leading to arrears in collections that erode liquidity reserves. Many also do not pay on time, leading to intra-year cash shortages that the liquidity reserves are unable to bridge effectively. Furthermore, Member States' payment patterns fluctuate significantly, leading to uncertainties in the timing of cash inflows, which exacerbates planning for cash outflows. Inherent structural weaknesses and rigidities are also faced in the budget methodologies, which amplify liquidity challenges. Cumulatively, these challenges lead to significant constraints in implementing mandates as planned.

Assessments not paid in full

10. The percentage of year-end arrears with respect to the regular budget assessments has been consistently higher since 2017 than at any time from 2010 to 2016. Even worse, the arrears have also been increasing sharply each year, from $529 million at the end of 2018 to $711 million at the end of 2019 and $808 million at the end of 2020. Figure I shows the trend of year-end arrears since 2010, including in relation to the annual assessments. Arrears at the end of 2020 amounted to more than a quarter of the annual assessment and 226 per cent of the liquidity reserves. At such high levels of year-end arrears, each following year begins, for all practical purposes, with little or no liquidity reserve.

Figure I
Year-end outstanding assessments
(Millions of United States dollars)

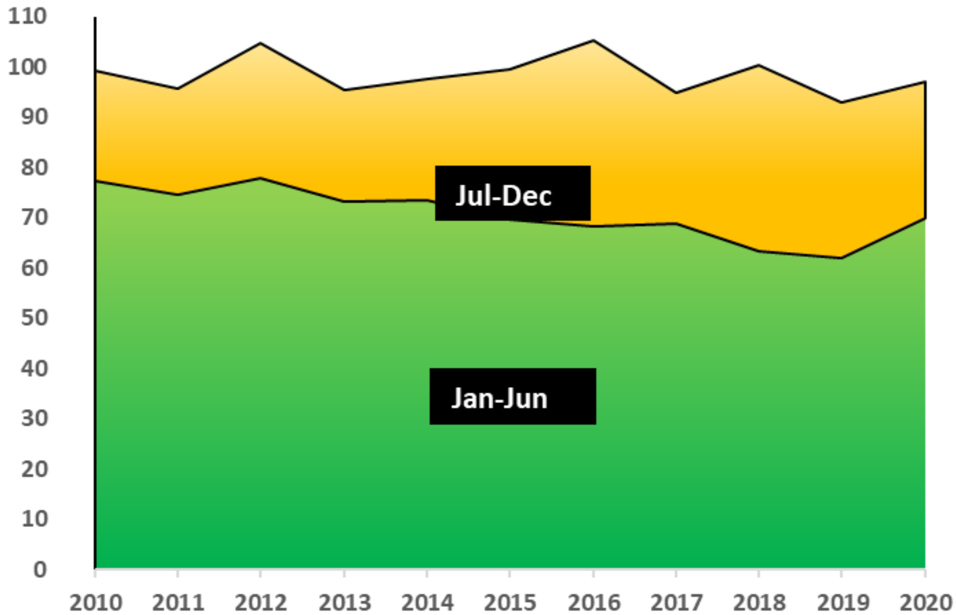


Assessments not paid on time

11. Many Member States do not pay on time, namely within 30 days. Only 41 Member States honoured their obligations in full and on time in 2021, which represents an improvement over the 35 in 2020 and 34 in 2019. I thank these Member States for honouring their obligations. In 2021, 83 Member States paid their contributions in full within the first quarter, compared with 77 in 2020 and 79 in 2019. While these improvements are welcome and necessary, the trend in payments illustrated in figure II is disturbing and problematic. A higher level of assessments, in monetary terms, is being paid later than was the case before, thus increasing the gap between cash inflows and outflows. Such a gap would normally be addressed by liquidity reserves. However, as the reserves are being eroded because of higher arrears, they are no longer capable of bridging the gap adequately. The Organization therefore has to resort to other measures to avoid a complete breakdown in operations owing to a lack of liquidity during critical periods. However, while unavoidable, these measures take time to become effective or to reverse, and the longer-term impact on programme delivery is difficult to predict or manage.

12. Figure II shows that payments within the first six months of the year have been declining steadily, although there was a slight improvement in 2019 and 2020. Fewer collections in the first half of the year and more adverse fluctuations in the second half mean that the Organization is confronted by increasing uncertainties about inflows when making decisions to commit funds.

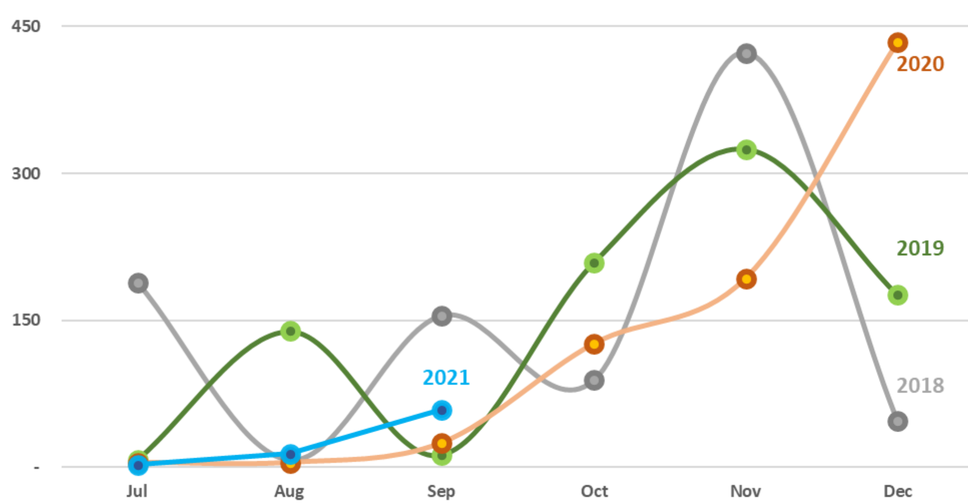
Figure II
Trend of delayed payments of contributions
(Percentage of assessments collected)



Shifting payment patterns

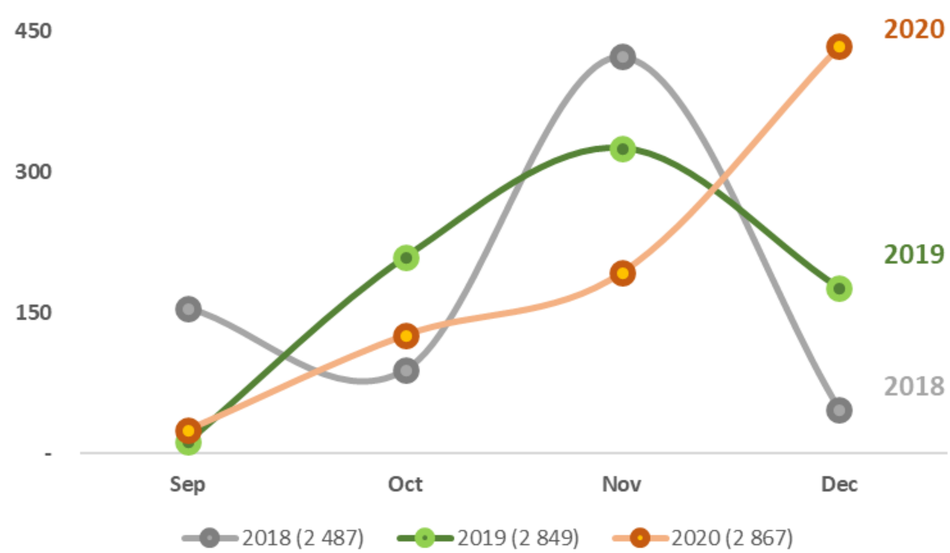
13. Not only are Member States collectively paying less and later each year, but the volatility of their payment patterns within each year presents an additional challenge in ensuring that the Organization has adequate liquidity to meet its obligations to personnel and third-party entities throughout the year. Figure III shows the volatility in the second half of the year since 2018, which exacerbates the impact of the high level of arrears, making it very risky to commit funds in anticipation of inflows.

Figure III
Fluctuating payment pattern in the second half of the year
(Millions of United States dollars)



14. These shifting patterns affect the Organization's ability to effectively plan and implement activities owing to uncertainties about liquidity, even towards the end of the budget period. Delaying expenditure to the fourth quarter increases pressure to balance the risks of defaults and budget underperformance. Figure IV highlights another disturbing trend towards increasingly larger contributions being paid in the last month of the year. For example, in December 2020, nearly $330 million was received in the last 10 days and collections for the year still fell short of estimates by $167 million; even by mid-December, it was too risky to commit funds for non-post expenses that had already been delayed.

Figure IV
Shifting payment pattern in the last four months of the year
(Millions of United States dollars)



15. Given the scale and breadth of the Organization's worldwide operations, planning and implementation of programmes become extremely challenging to manage with such high levels of uncertainty in inflows, which cannot be reliably managed without adequate liquidity reserves. Programme managers spend valuable time in regularly adjusting their spending to the levels of available cash rather than on programme delivery. Challenges in complying with the regulatory framework, as a result of late fourth-quarter payments, are explained in more detail below.

Structural problems

16. The liquidity problems long experienced in regular budget operations due to inadequate reserves are also exacerbated by structural problems. Member States are, by default, assessed for less than the budget that they approve because they receive credits, inter alia, for unspent funds from previous periods, even if they have not paid all their dues for the previous period. Therefore, the Organization has to return funds that it has not even collected, thereby aggravating the liquidity gap. In addition, the Organization has to find cash for unforeseen and extraordinary expenses that the Secretary-General can incur on his own authority or with the concurrence of the Advisory Committee on Administrative and Budgetary Questions, or for commitment authorities approved by the General Assembly without an assessment. The recosting

methodology can also create liquidity pressures, when Member States use unrealistic vacancy rates to reduce the budget while directing the Secretary-General to expeditiously fill vacant posts. Furthermore, currency fluctuations, inflation, variances against standard costs and other costing parameters result in additional expenditure that is only assessed after it has already been incurred. When funds are not spent fully because of liquidity constraints, they are nevertheless required to be returned to Member States in the form of credits against future assessments, even if the Member States have not paid their contributions. This creates a vicious circle of liquidity shortages whenever Member States do not pay in full and on time.

17. The General Assembly authorizes me to enter into commitments to meet unforeseen and extraordinary expenses of up to a total of $8 million per year for peace and security without the concurrence of the Advisory Committee on Administrative and Budgetary Questions, $362,500 per annum for the International Court of Justice, and $500,000 per annum for security measures pursuant to resolution 75/255. In addition, the Assembly allows me, with the concurrence of the Advisory Committee, to enter into commitments relating to the maintenance of peace and security of up to $10 million for each relevant decision of the Security Council. Although these measures allow me to enter into commitments to meet urgent requirements, they do not include the authority to issue assessments for such expenditure to Member States during the budget period, and the costs have to be financed from the existing cash pool. These measures, while making it possible for the United Nations to implement the mandates, unfortunately exacerbate liquidity challenges in the short term, in particular if the liquidity reserves are low. In addition, as necessary, the Assembly authorizes subventions for entities such as the Residual Special Court for Sierra Leone and the Extraordinary Chambers in the Courts of Cambodia, for which appropriation and assessments occur only after the expenditure has been incurred. The trend of these expenses/commitment authorities is shown in table 1.

Table 1
Unforeseen and extraordinary expenses/commitment authorities
(Millions of United States dollars)

Year	*Approved amount*
2021	22.6
2020	17.3
2019	28.6
2018	23.4
2017	37.8
2016	20.9
2015	34.6
2014	22.8
2013	43.3
2012	5.1

18. Furthermore, additional mandates are sometimes approved by the General Assembly and the Security Council after the approval of the budget, yet they are assessed only at the beginning of the following year. Table 2 shows the amounts that were approved in the first and second resumed sessions but not assessed until the following year, since 2014.

Table 2
Additional resources appropriated during the resumed sessions but assessed only in the following year
(Millions of United States dollars)

Resumed session of the General Assembly	*Amount assessed in the following year*
Seventy-fifth (2021)	16.6
Seventy-fourth (2020)	–
Seventy-third (2019)	61.9
Seventy-second (2018)	0.5
Seventy-first (2017)	6.1
Seventieth (2016)	6.9
Sixty-ninth (2015)	87.4
Sixty-eighth (2014)	8.2

19. When a budget is approved before the commencement of the budget period, it is based on several costing parameters that are estimated, such as vacancy rates, standard salary costs, currency fluctuations and inflation. These parameters can cause significant variances between budgeted and actual expenditure if the initial estimates are not borne out during budget implementation. Such variances are presented in performance reports and approved partly or fully by the General Assembly and assessed in the following year. This aggravates the liquidity challenge by increasing the lag between cash outflows and related inflows. Table 3 shows the lag for the last few budget periods.

Table 3
Lag between expenditure and assessments
(Millions of United States dollars)

Budget period	*First year*	*Second year*
2010–2011	125.8	49.2
2012–2013	142.9	169.5
2014–2015	82.1	154.8
2016–2017	61.7	68.7
2018–2019	147.9	61.9
2020	0.0[a]	Not applicable

[a] The General Assembly has not made a decision on the performance report for 2020.

20. The Financial Regulations and Rules[1] provide that if the actual expenditure is lower than the budget, the difference must be returned to Member States. This is currently done as an offset to the overall amount assessed for the regular budget one year after the end of the budget period, which means that Member States proportionally benefit from the credit offset and pay only the net amount based on the scale of assessments. In addition, the Financial Regulations and Rules allow for funds to be held as commitments for a year before the legal obligation is discharged. At the end of that year, any unliquidated obligations are surrendered and any residual legal

[1] Financial regulations 3.2, 5.3 and 5.4.

obligations are met from the current budget. Surrendered funds are also adjusted as offsets to the amount assessed for the regular budget.

21. The amounts of such credits are shown in table 4.

Table 4
Credits to Member States for unspent funds
(Millions of United States dollars)

Budget period	*Unencumbered balance*	*Cancellation of prior-period commitments*[a]
2010–2011	2.2	23.1
2012–2013	40.2	33.0
2014–2015	120.0	45.2
2016–2017	28.6	25.2
2018–2019	0	32.2
2020	57.9	Not applicable

[a] Cancellations of prior-period commitments occur in the year following the end of the budget period.

22. The above credit offsets occur even if a Member State does not contribute its portion of the assessment, and even if the Organization is going through a challenging cash situation. Therefore, on the one hand, the United Nations cannot spend that money on programmatic activities because it did not receive it. On the other, the Organization is forced to give that same non-existent money back to Member States because, not having received it, the Organization could not spend it.

23. The combined effect of these discrete problems can be quite significant. When the Organization commences a year with a high level of arrears, it usually means that it starts that year with little or no liquidity reserves. If it has large credit returns from the prior year, it then issues assessments for less than the approved budget. Therefore, it has to brace itself for a higher level of cash outflows to execute the full budget than expected inflows even if all Member States pay in full. If it does not have adequate liquidity reserves, it has to try to control expenditure by prioritizing it. However, the lack of guidance from the General Assembly for prioritizing among approved mandates means that the Organization has to use blunt planning instruments such as a uniform budget implementation rate across budget sections. This does not work well, owing to structural rigidities such as the inability to transfer resources between budget sections or even between post and non-post budgets, as well as the inherent limitations in managing post costs owing to currency fluctuations and inflation. A uniform budget implementation target rate owing to liquidity constraints also does not take into account the different needs or constraints of different programmes, as well as the different impacts that it may have on their individual mandate delivery efforts. As a result of all these factors, any unexpected reductions in the amount and pace of collections during the year can be crippling when layered on top of the existing problems.

Erosion of liquidity reserves

24. A strong liquidity reserve can be a buffer against unpredictable inflows. However, as illustrated below, the current levels of the Working Capital Fund ($150 million) and the Special Account (approximately $207 million) are demonstrably and woefully insufficient to overcome the challenging trends of fluctuating and unpredictable cash inflows, intra-year payment delays and the notable increase in year-end arrears.

25. The level of the Working Capital Fund has not kept pace with the level of authorized appropriations. In 1946, the Working Capital Fund was established at $20 million, representing almost 30 weeks of expenditure at that time. In the decades since, the period of coverage provided by the Fund has decreased significantly. The Fund was last increased to $150 million, effective 1 January 2007, representing about four weeks of expenditure (see resolution 60/283, sect. IV, para. 4). Over the past six years, the level of the Fund has provided less than three weeks of coverage.

Table 5
Evolution of the Working Capital Fund
(Millions of United States dollars)

	1946	*1963*	*1982–1983*	*2006–2007*	*2016–2017*	*2018–2019*	*2020*	*2021*
Budget level	35	94	1 506	4 189	5 683	5 874	3 074	3 208
Annual portion	35	94	753	2 094	2 841	2 937	3 074	3 208
Working Capital Fund level	20	40	100	150[a]	150	150	150	150
Coverage (weeks)	29.7	22.1	6.9	3.7	2.7	2.7	2.5	2.4

[a] Effective 1 January 2007.

26. Unfortunately, the liquidity buffer provided by the Special Account was also partially eroded by two separate decisions of the General Assembly, in 2013 (see resolution 68/245 A) and 2015 (see resolution 69/274 A), to use some of those funds to finance the regular budget. The Special Account balance peaked in 2013 at approximately $264 million, shrank to about $197 million in 2015 and grew gradually to $207 million at the end of 2020, owing to the interest earned for a part of the year when its funds were not used for regular budget operations.

Liquidity management in recent years

27. When year-end arrears spiked from $409 million at the end of 2016 to $531 million at the end of 2017, I decided to conserve cash for 2018 expenditure by blocking the release of some funds in 2018 to delay or stop expenditure in areas that it was believed would have less of an impact on programme delivery. Despite these initial measures, the cash deficit reached a record $488 million in October 2018, requiring borrowing of cash from closed peacekeeping missions for the first time in 14 years to avert defaults on payments.

28. The 2018 experience forced me to introduce further cash conservation measures for 2019. In addition to preventing some expenses by blocking funds as in 2018, it was decided in January to release funds only gradually, to align cash outflows with the projected, yet unpredictable, incoming cash receipts. By March, as the liquidity forecast for the year deteriorated, there were concerns that the existing measures would not sufficiently mitigate the risk of defaulting on payments to staff and vendors. Therefore, programme managers were advised to manage their hiring carefully to contain staffing costs within existing appropriation levels; in other words, it would no longer be possible to comply with the General Assembly resolutions to fill vacancies expeditiously or respect the approved vacancy rates. Furthermore, to reduce the impact on programme delivery, negotiations were initiated with United Nations system partners to defer payments, and just-in-time cash transfers were introduced to subsidiary funds that rely on funding from the regular budget.

29. Despite these additional measures, the deficit reached another new record of $520 million by mid-November 2019, bringing the Organization alarmingly close to

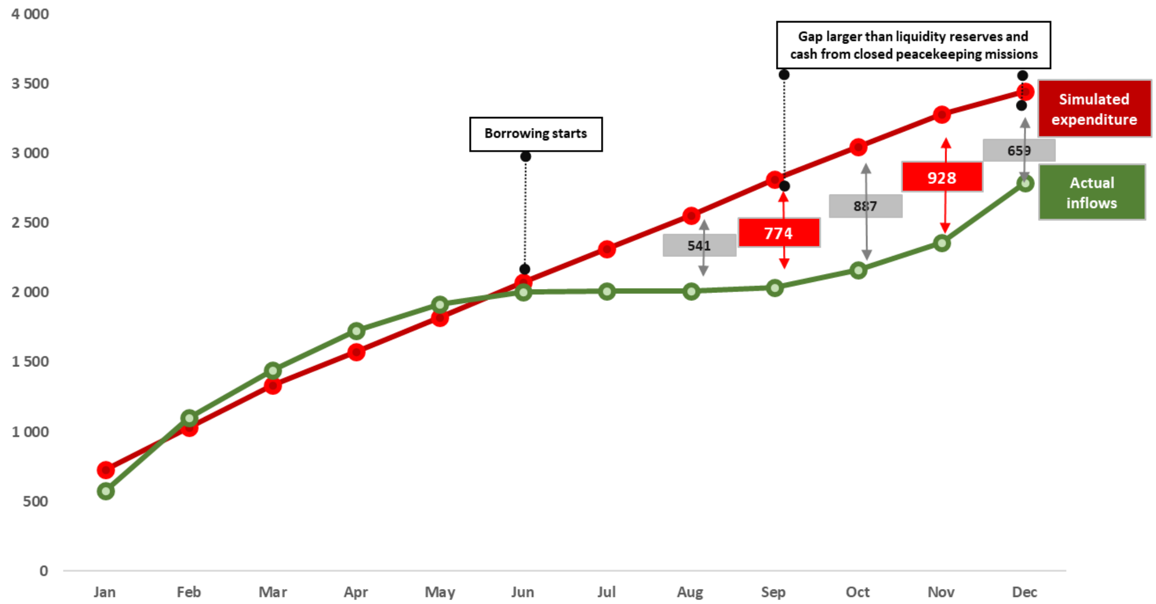
depleting not only the regular budget reserves but also the resources of the closed peacekeeping missions. The situation was so severe that it was necessary to borrow, from closed peacekeeping missions, a part of the cash that was supposed to be reserved for covering outstanding liabilities that could become payable at any point in time; normally, such borrowing should have been limited to only the (net) cash that is not needed for settling liabilities. This severe deficit also compelled the Organization to immediately impose additional cost-saving measures to contain non-post costs, further detrimentally affecting service provision in several areas towards the end of 2019. Without active management of the liquidity from the beginning of the year, all available reserves of the Organization, including the closed peacekeeping reserves, would have been exhausted by October 2019, potentially resulting in defaults on payments, including salaries.

30. The year-end arrears for 2019 reached a new record of $711 million, an increase of 34 per cent from 2018, and close to double the level of the liquidity reserves. Despite all the cash conservation measures throughout the year, the year-end cash deficit still amounted to $332 million, a deterioration compared with the $323 million deficit in 2018 with fewer restrictions.

31. The year 2020 began with only $24 million in liquidity reserves and outstanding cash demands of $269 million to cover prior-period commitments that had been delayed by the cash shortages in 2019. The pressure on liquidity was therefore high for 2020 from the outset. As Member State payments continued to trend below the anticipated levels during the first quarter of 2020, the Organization was compelled to intensify restrictions for both post and non-post expenditure. Programme managers were advised to limit their activities on the basis of only 90 per cent of their budget to ensure that the Organization would be able to accommodate both prior-period and current-period commitments within the anticipated liquidity for 2020. Effective April 2020, hiring was suspended against vacant posts to contain staff costs and to manage both the immediate and longer-term liquidity requirements associated with a larger workforce.

32. If these steps had not been taken, the effect in 2020 would have been as shown in figure V. Regular budget cash would have been exhausted in June, rather than in September. All regular budget liquidity reserves would have been exhausted in August. Even the cash from closed peacekeeping missions would have been exhausted in September. In November, the deficit would have reached approximately $928 million, corresponding to 250 per cent of the regular budget reserves. The liquidity measures that were implemented averted a default on payments by extending the regular budget cash until September. The year-end cash deficit also did not exceed the overall liquidity reserves, even though $100 million was borrowed from closed peacekeeping missions in December to avoid a potential default on salary payments. The $100 million loan was returned by the end of the year using large contributions received very late in December. The 2020 experience confirmed that closed peacekeeping mission reserves had become a lifeline for regular budget operations. Without this liquidity buffer, programme delivery would have been more seriously affected.

Figure V
2020 budget implementation without liquidity management, which would have resulted in the disruption of operations owing to cash shortages
(Millions of United States dollars)



33. The stringent cash conservation measures enabled the Organization to stave off the disruption of operations but inevitably forced all managers to try to mitigate the impact on mandate delivery even as they responded to the additional demands of the coronavirus disease (COVID-19) crisis. Programme managers were forced to curtail non-post spending more drastically in order to align expenditure with liquidity forecasts. These measures hindered the Organization's work at a critical time, and it had little choice but to pursue such extra discipline in the face of fiscal uncertainty. To mitigate the impact on programme delivery, the Organization found it necessary to allow more flexibility for programme managers to commit funds towards the end of the budget period, even if the activities could not be fully implemented before the end of the budget period. Had this not been done, programme implementation would have suffered further and, even worse, a return of the unused funds would have exacerbated the precarious liquidity situation in later budget periods. Even with such measures, the Organization surrendered $57.9 million against the 2020 budget despite absorbing nearly $15 million for other approved activities for which no assessments had yet been issued. Such underperformance reflects the impact of the rigidity of the budget when cash conservation measures become unavoidable. Filling vacant posts takes time and it is only possible to spend the additional monies received in the last few days on mostly non-post resources.

34. The hiring suspension was largely instrumental in containing the deepest deficit for 2020 at $334 million but could not avert a temporary borrowing from closed peacekeeping missions. Though the year ended with yet another new record of $808 million in arrears, the year-end cash deficit was only $160 million compared with $332 million in 2019, because much non-post expenditure was delayed to the very last days of the year to align spending with inflows; this late commitment of funds postponed the resulting cash demands to the next year. This resulted in an increase, compared with 2019, of over $103 million in the commitments and payables carried forward to the following period. These year-end commitments became necessary to mitigate budget underperformance and also reduce the erosion of

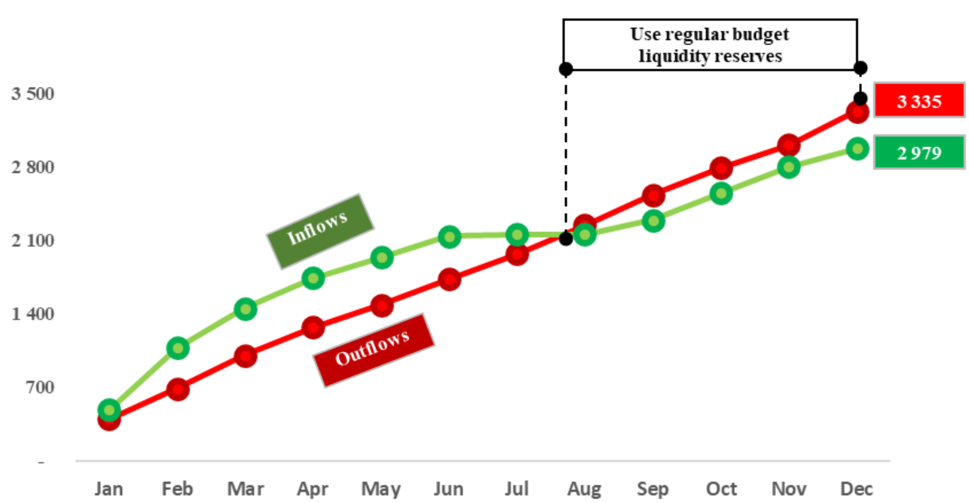
liquidity for a future period when credits are returned for unused funds. Large receipts in the last days of the year, coupled with inadequate liquidity reserves, make it very difficult to implement the General Assembly directions to contain the level of unliquidated commitments. If the underlying problems remain unresolved, this may become a new normal.

Prognosis for the future if liquidity problems are not addressed

35. The following illustrations of 2021 budget implementation provide a glimpse of the future reality for regular budget implementation if the liquidity challenges, including the associated structural problems, are not adequately and holistically addressed.

36. Figure VI shows that the Organization started 2021 with a plan to implement only about 90 per cent of the budget. The implementation target would be lower as year-end arrears are higher and prior-period commitments are larger. At the start of 2021, the arrears of $808 million were more than double the liquidity reserves, and prior-period commitments were higher than in the past. In January, setting the spending level at 90 per cent was optimistic as it meant collecting 100.8 per cent of the assessments. The Secretariat had concluded that a 100.8 per cent collection rate was possible on the basis of detailed analysis and outreach to, and assurances from, Member States. However, such a decision was not without risk, as previous experience suggested a likely collection rate of around 96 per cent only. A 96 per cent collection scenario would have provided liquidity only for 86 per cent implementation of the 2021 budget, leading to a return of over $400 million of unspent funds for 2021. Such unspent funds would then have to be offset against the assessment of 2023, thereby converting a 2021 budget problem into a liquidity problem for 2023. Unspent funds caused by cash conservation measures are not efficiencies or savings; they are the result of active decisions to delay expenditure, most notably by delaying recruitment, and uncontrollable non-delivery of several activities that have a wide-ranging impact for Member States and the people that the United Nations serves.

Figure VI
January 2021: budget implementation planning constrained to only 90.5 per cent
(Millions of United States dollars)

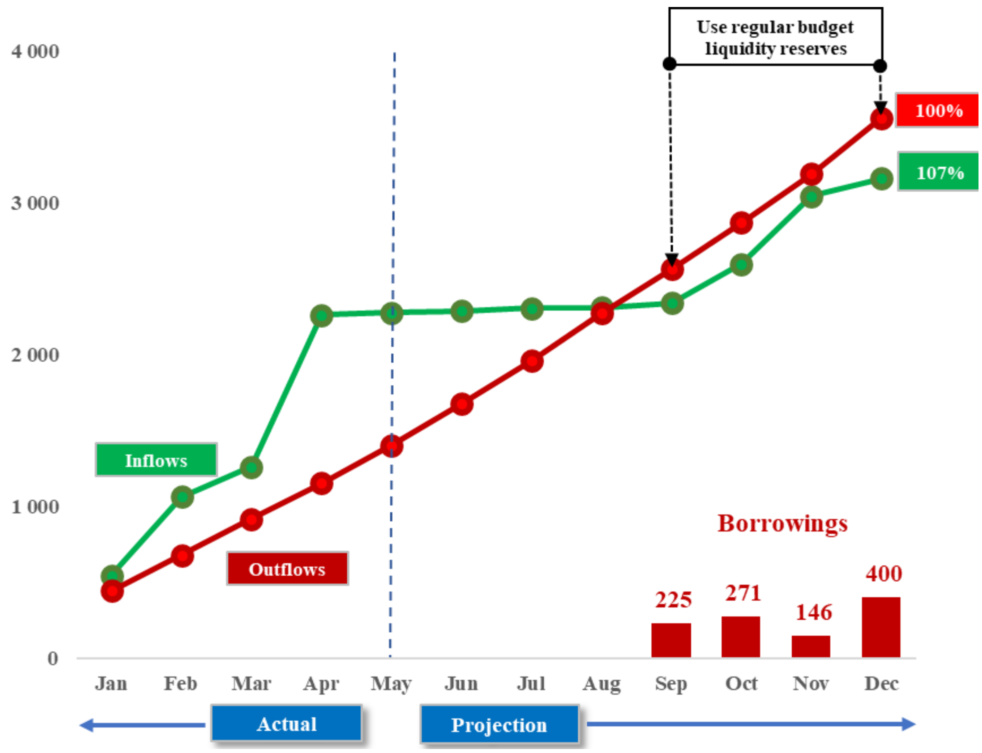


37. Since staff costs, which constitute a major part of the budget, cannot be adjusted up or down rapidly on the basis of the evolving liquidity situation, and the timing of inflows within the year entails considerable uncertainty, hiring restrictions had to be continued in 2021 on the basis of lessons learned in 2020. Managers had to deal with not only a 90 per cent overall ceiling on their spending but also hiring restrictions; even worse, they were also required to continually adjust their non-post spending on the basis of global monthly liquidity forecasts. This additional constraint on adapting non-post spending is necessary to reduce the risk of defaulting on payments if collections do not materialize as estimated; unlike post expenditure, the timing of cash needs is more difficult to estimate for non-post spending, as such needs are dependent on the delivery of goods and services and their acceptance by requisitioners. In short, all managers have to operate in a highly unstable environment not driven by planning that therefore is not conducive to effective programme delivery or cost-effective operations. Since the Organization cannot control inflows and has structural impediments to more effective liquidity management, it is forced to control outflows using blunt planning instruments and not in a target or efficient manner. Greater certainty in inflows or better liquidity reserves to bridge gaps between inflows and outflows could have improved the effectiveness and efficiency of the Organization's work.

38. The evolution of the situation during 2021 also has important lessons for the future of budget implementation. The first quarter of 2021 did not end well; collections trailed estimates by $199 million, conjuring images of more severe restrictions on all spending to avert a default on payments. Fortunately, following my appeal to Member States in March, outlining the urgency and seriousness of the situation, a record collection of about $1 billion was received in April. I wish to thank all the Member States that responded to my call to avert another financial crisis.

39. On the basis of the new inflows and additional assurances from Member States that had not paid in full, the collection forecast was revised in May to 107 per cent ($3,161 million) and a revised spending plan was communicated to programme managers. The revised plan relaxed the 90 per cent ceiling on spending and many of the hiring restrictions. However, not all restrictions could be relaxed because, as shown in figure VII, even a 107 per cent collection rate would not have been enough to fully implement the budget without borrowing from closed peacekeeping missions. As figure VII also shows, a significant amount was still expected to be collected only in the fourth quarter, with all the attendant uncertainties in both the timing and the amount of contributions. Therefore, spending had to be cautious and gradual to avoid disruptions in operations.

Figure VII
May 2021: 100 per cent budget implementation not possible even at 107 per cent collection rate
(Millions of United States dollars)

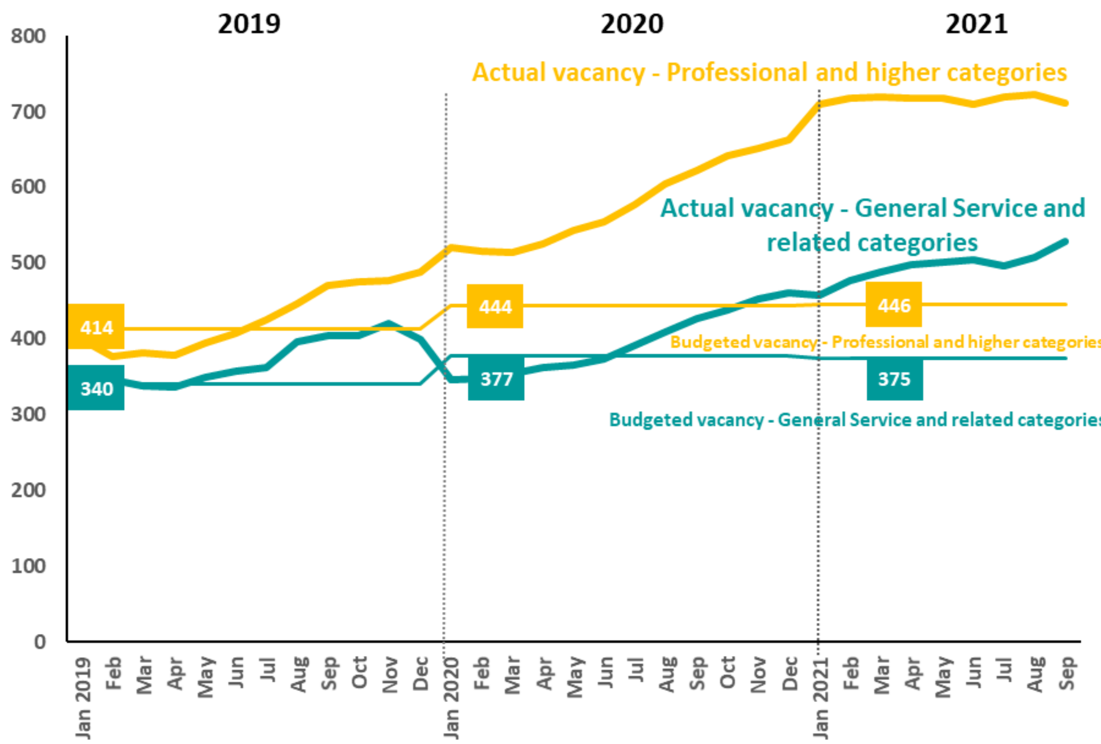


40. The planning in May showed that, even with higher collections until that point in time, it would have been too risky to remove all hiring restrictions. Therefore, entities with higher than average vacancy rates were allowed to hire more than those that were already below the approved vacancy rates, in an effort to comply at least partially with General Assembly resolution 75/252 (para. 26). In that resolution, the Assembly noted with concern that the current overall single vacancy rate by staff category for all sections was inflated and might have an impact on mandate delivery, and requested the Secretary-General to bring the actual vacancy rate in the budget sections to the approved vacancy rate before applying it. While relaxing some of the hiring restrictions, programme managers were nevertheless instructed that they should not exceed the total budget approved for each budget section. This was necessary to ensure sufficient cash for all obligations for the regular budget as a whole, as well as to minimize transfers across budget sections, which are recorded only after the end of the budget period. It is important to note that, when such restrictions are imposed, some managers have more flexibility than others in spending for both post and non-post costs, since the proportion of post and non-post budgets is not the same for all budget sections.

41. The cumulative impact of the hiring restrictions from 2019 and the trend of regular budget vacancies, excluding special political missions, over the past three years can be seen in figure VIII. The vacancies in figure VIII have been computed on the basis of the number of days for which posts were vacant each month divided by the number of days that each post could have been used, then converted into full-time equivalents. Such a computation reflects the financial impact and resource availability better than the number of vacant posts at the end of each month; a post vacant for only a part of the month requires more funds and cash than a post vacant for the whole

month. The important conclusion here is that the Organization could not have managed the liquidity crisis without high levels of vacancies above the approved rates. Furthermore, as post costs in each budget section cannot be adjusted quickly in response to an overall cash surplus or deficit, a conservative approach will inevitably entail hiring restrictions from the beginning of the budget period. Delaying hiring restrictions until later in the year would risk disrupting operations in August or September, closer to the start of the main session of the General Assembly each year.

Figure VIII
Trend of regular budget vacancies, excluding special political missions
(Vacant posts (full-time equivalent))



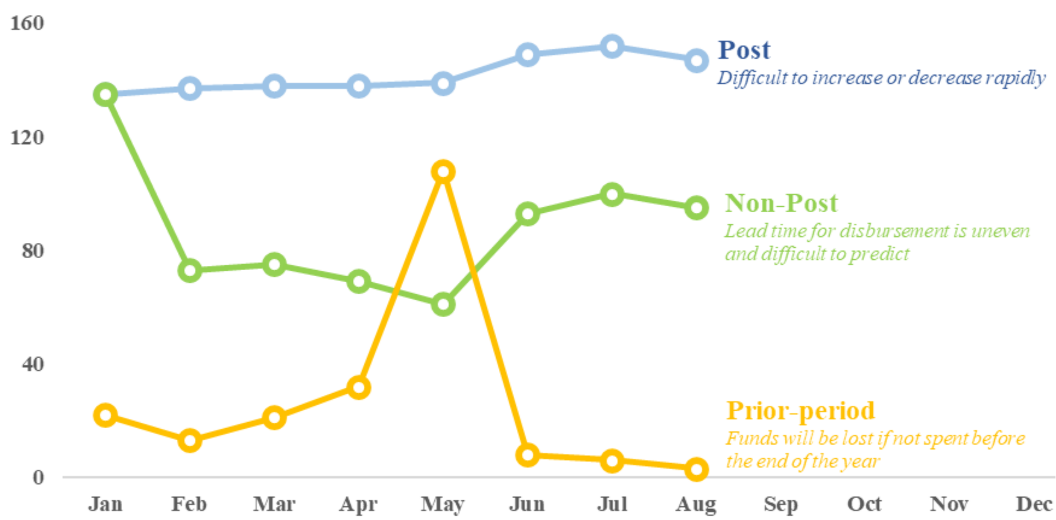
42. The hiring restrictions and the increasing number of vacancies have added further pressure on programme managers to continue to deliver under increasingly difficult circumstances during the pandemic, resulting in unreasonable levels of additional responsibilities for many staff, triggering work-life imbalance, burnout and mental health concerns.

43. Figure IX illustrates the complexity of managing expenditure (and budget performance) in a cash-strapped environment. It shows three main types of spending competing for limited cash. Post costs tend to be largely linear and relatively stable, with seasonal cycles for education grant and other entitlements that can be estimated reasonably. Such expenditure does not increase abruptly but also cannot be reduced rapidly. Since salaries and entitlements have to be paid on time for all personnel already on board, competition for the remaining cash is between non-post expenditure for the current budget period and non-post expenditure for the prior period that was committed only very late in the prior year owing to late payments by Member States. The Organization has to continuously and carefully balance these competing demands in a volatile liquidity situation to mitigate the adverse impact on mandate delivery. Spending too quickly could risk defaults on payments; spending too slowly would

result in poorer budget implementation and the surrender of funds, leading to further liquidity problems.

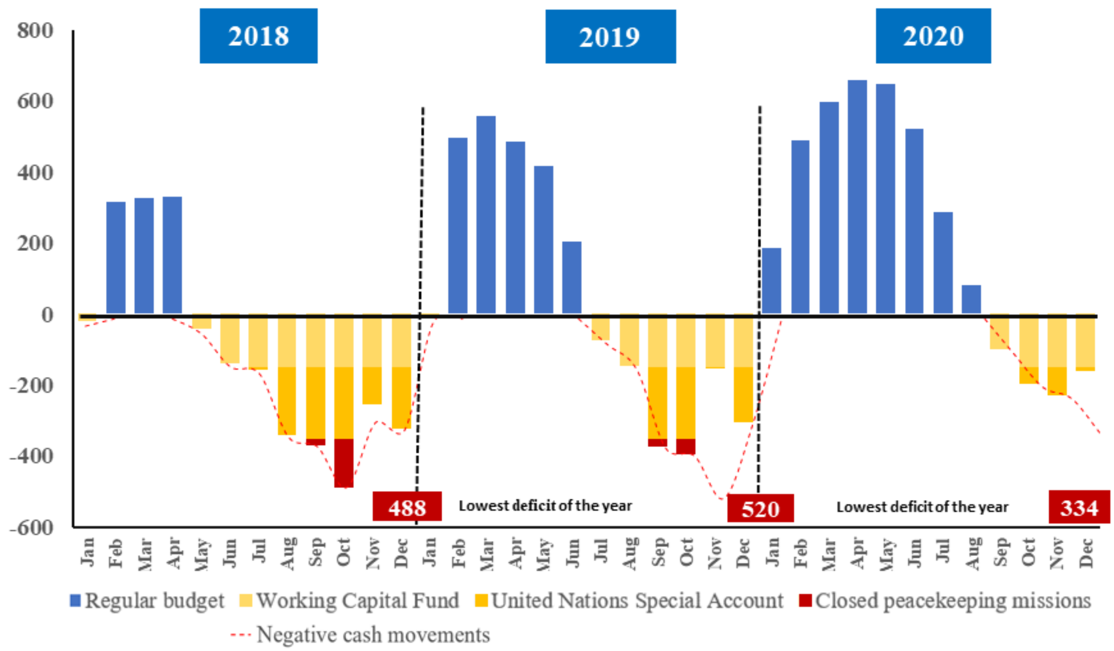
Figure IX
Competition for limited cash (during 2021)

(Millions of United States dollars)



44. Figure X illustrates both the need for and the impact of stringent liquidity measures throughout the year. The incremental cash conservation measures in both 2018 and 2019 were not adequate to avert a potential default as the cash deficit came perilously close to exhausting all cash reserves, including those of closed peacekeeping missions. During 2020, far more sustained and aggressive restrictions, especially on hiring, were successful in deferring the cash deficit to September, compared with May in 2018 and July in 2019. These measures also contained the maximum cash deficit within the regular budget liquidity reserves, notwithstanding very short-term borrowing of $100 million in December from closed peacekeeping missions as a precautionary arrangement. However, such liquidity management measures still require the Organization to manage the effect of late collections in December by carrying over cash needs for the current year's budget to the next budget period. More importantly, this kind of liquidity management can avert disruptions in operations but cannot avoid the negative impacts on mandate implementation and compliance with the regulatory framework.

Figure X
Impact of liquidity management on month-end cash balances
(Millions of United States dollars)



Impact on programme delivery

45. The growing intra-year deficits experienced over the past three years have made it clear that, while the resources from closed peacekeeping missions can provide some temporary and short-term relief, this mechanism cannot sufficiently cushion the Organization against the effects of the increasing arrears and the growing unpredictability of cash inflows. With staffing costs alone in the range of $140 million per month at current staffing levels, the liquidity provided by the closed peacekeeping missions can provide cover for less than one month of post and non-post expenses.

46. While delaying other expenditure has enabled the payment of salaries, that practice is unsustainable. The deferral of certain expenditure and payments has provided only temporary relief by transferring today's problems to tomorrow. Eventually, the postponement of expenditure will effectively become budget reductions when time to commit and then disburse the funds runs out. Such budget reductions are not the result of efficiencies or the types of fiscal discipline called for by Member States. They are the result of a lack of adequate, predictable and timely receipt of contributions, compounded by the rigidities of the regulatory framework; together, they make it impossible for the Organization to work in an effective and efficient manner and comply fully with the regulatory framework. This leads to suboptimal use of resources and also undermines efforts to focus on results.

47. Without General Assembly authorization to prioritize the approved programmatic activities for the period, spending restrictions are generally applied uniformly. Uniform spending caps, such as the 90 per cent ceiling established in both 2020 and 2021, represent a disproportionate impact on the different regular budget entities owing to the disparity in the distribution of post and non-post resources for each section and owing to the non-linear nature of their execution within the budget period. For some entities, the introduction of a 90 per cent spending cap meant a

complete hiring freeze or a complete suspension of non-post spending, leaving them unable to cater even to non-discretionary requirements such as rent and utilities.

48. In my previous report, I presented a number of proposals to facilitate management of the liquidity situation of the regular budget. My proposals included increasing the level of the Working Capital Fund, replenishing the United Nations Special Account, temporarily suspending the surrender of credits for unspent appropriations, and adjustments to the regular budget methodology. The General Assembly did not approve any of those proposals, apart from endorsing the need to augment the Special Account, although it did not agree to my proposal on how to augment it. In the meantime, the liquidity situation of the regular budget has continued to deteriorate, with year-end arrears setting new records and growing volatility in payment patterns, making collection forecasts more difficult and less reliable. I have brought the situation to the attention of Member States in a series of direct communications, including most recently in my letter of 17 March 2021.

49. The challenging financial environment has affected the progress of several Organization-wide priorities, including the promotion of gender parity and balanced geographical representation, as well as efforts to advance multilingualism. Programmes had to reduce the support provided to national Governments in the development of local policies and agreements. Research, development, outreach and advocacy efforts aimed at advancing critical issues affecting vulnerable populations had to be scaled down. New political missions with time-sensitive activities were unable to ramp up their activities as planned. Maintenance work and infrastructure upgrades, including the replacement of obsolete equipment, had to be postponed, affecting the Organization’s ability to operate effectively and potentially escalating costs as existing infrastructure becomes costlier to run as it falls into an increasing state of disrepair. The wide-ranging impact is captured in more detail in the various programme budget reports.

50. The solution therefore lies not only in ensuring that all Member States pay in full and on time, but also in putting tools in place that enable the United Nations to manage the expenditure levels in a manner that would support programme delivery. The Organization is facing a true catch-22 situation for which, in the present context, it has no remedy. Without much-needed structural adjustments, most notably an infusion of liquidity, systemic underperformance in mandate delivery will become the new normal for regular budget operations. This could potentially have unintended consequences owing to the limitations on redeploying funds across budget classes or budget sections, or rolling over funds across budget periods to align commitments with the fourth-quarter rush of collections. Unless liquidity is increased, this will be a vicious circle of declining programme delivery and artificial, accidental and unpredictable budget reductions.

51. I have regularly drawn the attention of Member States to the deepening crisis experienced over the past several years, while appealing for solutions to put the United Nations on a sound and stable financial footing, to allow it to focus on the mandates that it is meant to deliver and ensure that the people that it serves are never exposed to the impacts of its financial uncertainties. I am again proposing some practical measures in the present report that I trust can be approved urgently by the General Assembly to break out of the looming vicious circle of low collections, low budget implementation and return of unspent funds.

III. Peacekeeping budget

52. Peacekeeping budgets are prepared on the basis of mandates from the Security Council. Each peacekeeping operation has its own budget, and those budgets are

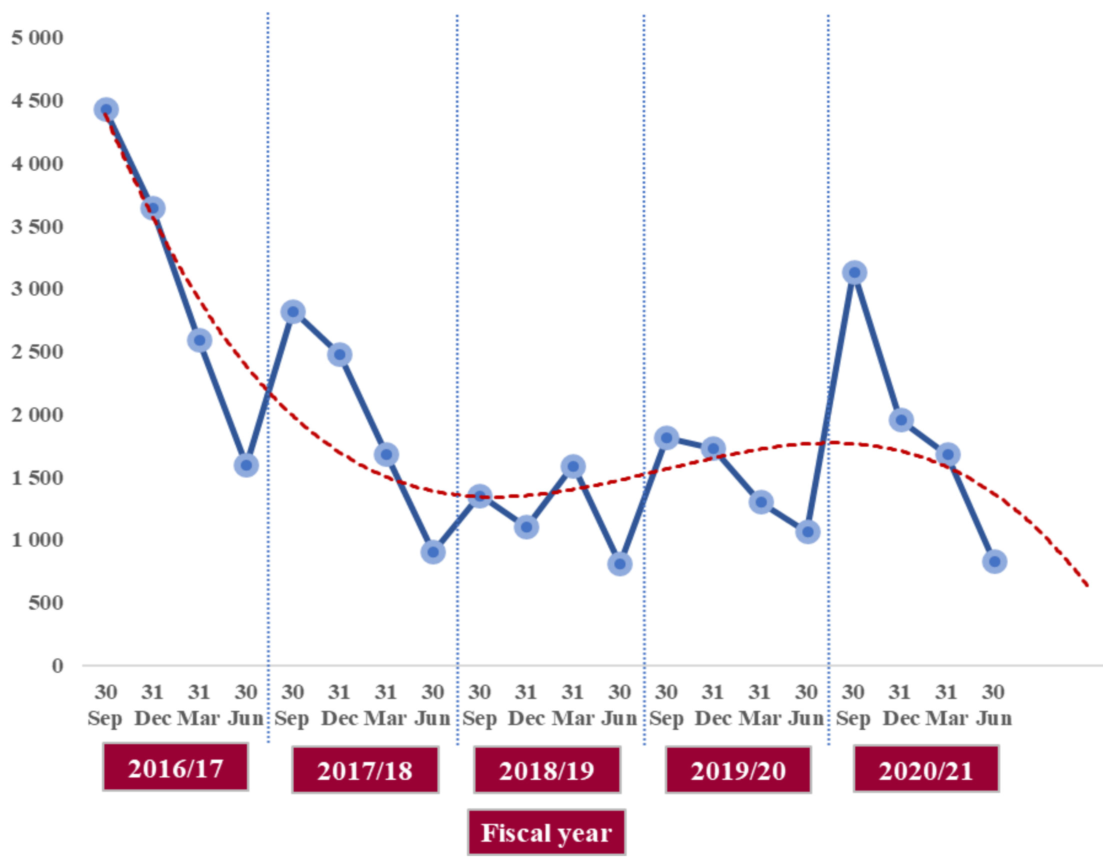
individually approved by the General Assembly, usually for a full year, on the basis of the peacekeeping budget cycle (1 July to 30 June, as reflected in financial regulation 1.2).

53. The General Assembly appropriates the amount for the financial period, subject to the extension of the mission's mandate by the Security Council. Member States are issued letters of assessment for each individual peacekeeping mission separately. Before the Assembly adopted resolution 73/307, such letters of assessment had been issued up to the end of the mandate period; additional letters of assessment were issued after each mandate extension. Since the adoption of resolution 73/307, letters of assessment have been issued for the full budget period, subject to the availability of rates of assessment for applicable years. Member States are required to pay their contributions separately for each mission in full, for the period for which the mission's mandate has been approved, within 30 days of issuance of the assessment letter. If a mission's mandate is extended by the Council, the contribution is considered due within 30 days of the effective date of the extension of the mandate.

A. Liquidity challenges undermining peacekeeping operations

54. Like regular budget operations, peacekeeping operations regularly face liquidity challenges owing to a number of factors. Figure XI shows the overall trend of decreasing quarterly aggregate cash balances of active peacekeeping missions. There has been a slight improvement in the past two years.

Figure XI
Quarterly aggregate cash balances of active peacekeeping missions
(Millions of United States dollars)



55. It should be recalled that the costs related to military and police personnel constitute the largest share of every peacekeeping mission's budget; they were approximately 47.3 per cent of the resource requirements for peacekeeping missions for 2021/22. Those costs include payments to troop- and police-contributing countries as reimbursements for personnel and for contingent-owned equipment (major equipment and self-sustainment). Those reimbursements are paid in accordance with rates established by the General Assembly.

56. Troop- and police-contributing countries are usually paid on a quarterly basis, in March, June, September and December, subject to the availability of cash at the specific peacekeeping mission. Payments to all troop- and police-contributing countries are made on the same day in respect of each peacekeeping mission. Ad hoc payments are released when a backlog of outstanding balances is high and cash becomes available.

57. Unlike the regular budget, peacekeeping operations do not have a working capital fund. The Peacekeeping Reserve Fund, which was established by the General Assembly in its resolution 47/217 at the level of $150 million, is available only to support new missions and the expansion of existing missions. Furthermore, until it adopted resolution 73/307, the Assembly had included paragraphs in its resolutions on the financing of peacekeeping operations emphasizing that no peacekeeping mission shall be financed by borrowing funds from other active peacekeeping missions. Therefore, while some missions had more cash than they immediately needed for operations, such cash could not be utilized for missions that had cash shortages in relation to their operational needs.

58. In the absence of a working capital mechanism for peacekeeping operations, it has been the practice to maintain a three-month operating cash reserve for each mission. Until the cash-pooling arrangement approved in resolution 73/307, which is explained in detail below, whenever a peacekeeping mission had less than three months of cash reserves, payments to troop- and police-contributing countries would be delayed to ensure adequate cash to pay salaries to staff and individual contractors and to pay bills to commercial vendors in order to avoid disruptions in services.

59. The United Nations was thus effectively borrowing for prolonged periods from troop- and police-contributing countries to keep operations running smoothly. The troop- and police-contributing country that would or would not be paid used to depend on the cash position of the individual missions to which they contributed and was not determined by their individual capacity to shoulder this unfair burden. Given that many of them were low-income countries, this imposed a significant financial burden. Such delays in payments also created an impediment to attracting countries to deploy new units to peace operations, including those with much-needed, highly specialized capabilities, such as aviation, explosive ordnance disposal and de-mining. Delays are a particular disincentive for developing countries.

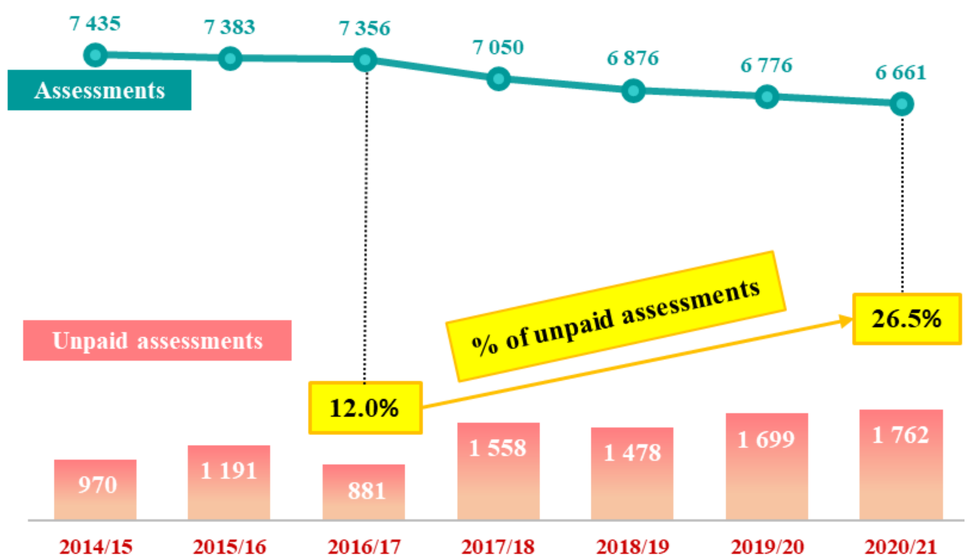
60. Given that the Organization could not borrow from active missions, its practice had been to borrow from closed peacekeeping missions in order to address temporary shortages for critical operations in specific missions. However, such borrowings were not used for settling payments to troop- and police-contributing countries.

61. In my previous report, I had explained in detail the trend of increasing unpaid contributions. Since then, unpaid contributions to active peacekeeping operations have continued to trend upward notwithstanding decreasing assessments. As at 30 June 2019, the total unpaid contributions to active peacekeeping operations amounted to $1.5 billion, accounting for 21.5 per cent of the budget approved and assessed for peacekeeping. By the end of June 2020, the unpaid amount increased to $1.7 billion, reaching a quarter of the approved budget. At the end of June 2021, the unpaid amount totalled $1.76 billion, hitting a new high of 26.5 per cent. Somewhat

similarly to regular budget assessments, the outstanding amounts in the past four fiscal periods have consistently been above 21 per cent compared with a previous high of 16 per cent. Worse, they are trending continuously upward.

62. Figure XII shows the trend of increasing unpaid contributions relative to the amounts of assessments in recent years.

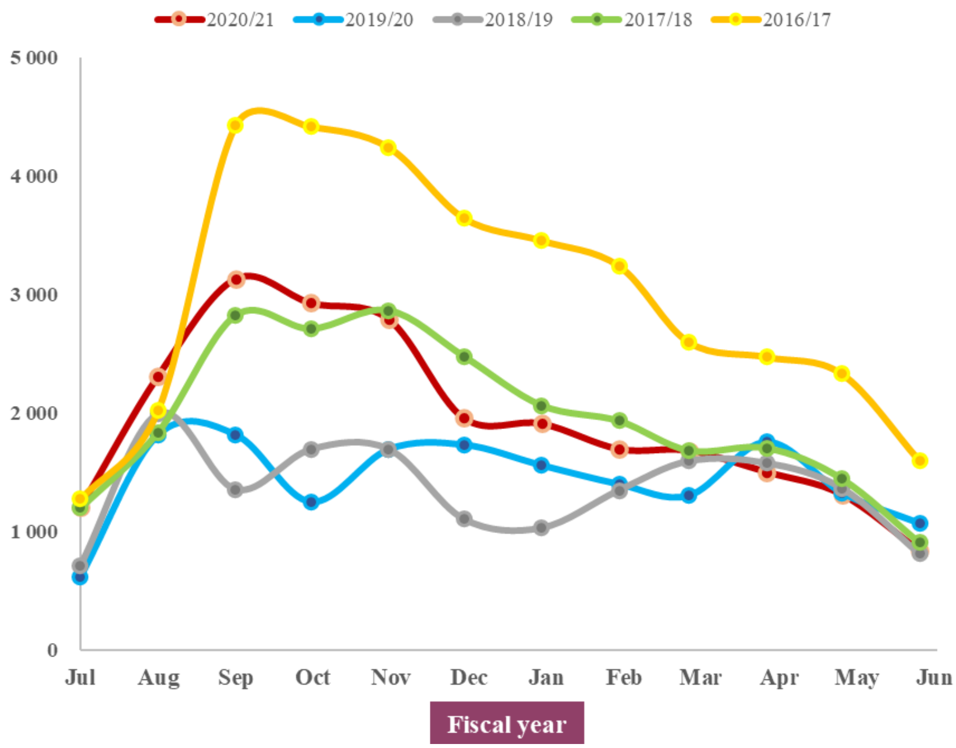
Figure XII
Increase in unpaid contributions relative to assessments
(Millions of United States dollars)



63. Owing to the comparatively consistent payment patterns for peacekeeping assessments, the aggregate cash balances of active peacekeeping operations show consistent patterns, with cash levels typically trending upward during the first quarter of the period (July to September) and downward in the second quarter (October to December), hitting their lowest levels towards the end of the fiscal period. An exception to the patterns would be the fiscal periods, once every three years, that involve a change in the scales of assessment in January. In those cases, assessments are issued only for the period for which assessment rates are available; the balance of assessments is issued when the applicable rates become available. In such years, the payment patterns and, in turn, the cash balances, tend to be different.

64. Figure XIII shows the monthly trend for aggregate cash balances of active peacekeeping operations for the five fiscal periods beginning in 2016/17. Fiscal year 2018/19 was a "scale" year, with new scales becoming effective in January 2019.

Figure XIII
Aggregate monthly cash balances of active peacekeeping missions
(Millions of United States dollars)



65. As in the case of regular budget operations, unspent funds and cancellations of prior-period commitments in peacekeeping missions are to be credited back to all Member States proportionally according to the scale of assessments, including to those Member States that have not yet contributed in full. Such credits are offset against assessments even when the Organization has not settled legally due and payable commitments to troop- and police-contributing countries. Effectively, the return of credits is being prioritized over the settlement of legal obligations to troop-and police-contributing countries that have been delayed primarily because some Member States have not paid their dues in full and on time. Table 6 shows credits returned to Member States since 2013/14.

Table 6
Credits to Member States for unspent funds
(Millions of United States dollars)

	2013/14	*2014/15*	*2015/16*	*2016/17*	*2017/18*	*2018/19*	*2019/20*	*2020/21*
Unencumbered balance	312.9	279.1	279.2	109.0	73.4	40.7	99.2	211.7
Cancellation of prior-period commitments[a]	96.1	157.1	218.1	130.6	86.8	102.7	84.9	140.0
Total	**409.0**	**436.2**	**497.3**	**239.6**	**160.2**	**143.4**	**184.1**	**351.7**

[a] Relate to the fiscal year in which the cancellation occurred, not the budget period to which the original commitment relates.

66. In my previous report, I offered four proposals specifically to address the cash constraints experienced by the peacekeeping operations. In its resolution 73/307, the

General Assembly approved only two of the proposals. The impact of the two approved measures is discussed below.

B. Impact of the measures approved in 2019

1. Issuance of assessment letters for the full budget period

67. In its resolution 73/307, the General Assembly requested that assessment letters for peacekeeping operations be issued for the full budget period approved by the Assembly, subject to the availability of rates of assessment for applicable years. The Assembly also requested that the assessment letters include the estimated budget for the period for which the mandate had not yet been approved by the Security Council and that the amount be considered due within 30 days of the effective date of the extension of a peacekeeping operation's mandate.

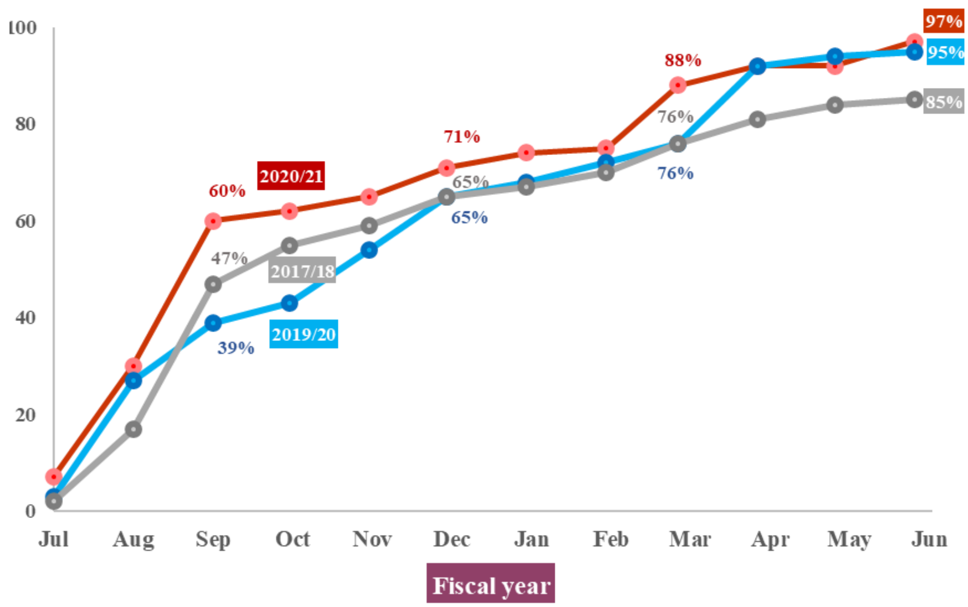
68. In accordance with resolution 73/307, since 1 July 2019, assessment letters have been issued for the full peacekeeping fiscal year, including the estimated budget for the period for which the mandate has not yet been approved, subject to the availability of rates of assessment for applicable years. Under that approach, if the Security Council decides to extend a mission's mandate, subsequent assessment notifications are issued to Member States for the mandate period approved by the Council.

69. Assessments in the amount of $6.78 billion were issued for the full 2019/20 budget period, including $2.37 billion for the period for which the mandate extension had not yet been approved by the Security Council. During that period, 67 Member States paid their contributions in advance to one or more operations, totalling $323 million, or about 13.6 per cent of the advance assessments and 5 per cent of the total peacekeeping assessments.

70. For the 2020/21 budget period, assessments in the amount of $6.66 billion were issued for the full budget period, including $2.47 billion for the period for which the mandate extension had not yet been approved by the Security Council. During that period, 76 Member States paid their contributions in advance, totalling $482 million, or 19.5 per cent of the advance assessments and 7 per cent of the total peacekeeping assessments.

71. Figure XIV illustrates the improved collection, in particular during 2020/21, when more Member States were able to plan for and process the advance payments at the beginning of the financial period.

Figure XIV
Total contribution trend for peacekeeping assessments[2]
(Percentage)



72. I express my sincere appreciation to the Member States that have paid contributions in advance and urge others to do so.

2. Management of cash balances of all active peacekeeping operations as a pool

73. In my previous report, I had proposed that the cash balances of all active peacekeeping operations be managed as a pool, while maintaining the balances in separate accounts, to take advantage of surplus cash at some missions and to assist other missions with their liquidity problems. While approving the proposal on a trial basis for three budget periods, the General Assembly requested that I ensure that proper oversight and controls were in place and that mandate implementation by the lending mission was not negatively impacted.

74. Following the adoption of resolution 73/307, the Organization began to manage the cash balances of active peacekeeping operations as a pool, which enabled cross-borrowing among active missions. In that regard, in line with the General Assembly request, the United Nations has been exercising prudent cash management to ensure that mandate implementation by the lending mission is not negatively affected. The Organization has been providing annual updates through reports of the Secretary-General on the overview of the financing of the United Nations peacekeeping operations (see annex IX to A/74/736 and annex IX to A/75/786). The Department of Operational Support has been providing quarterly briefings to the Fifth Committee, as requested by the Assembly.

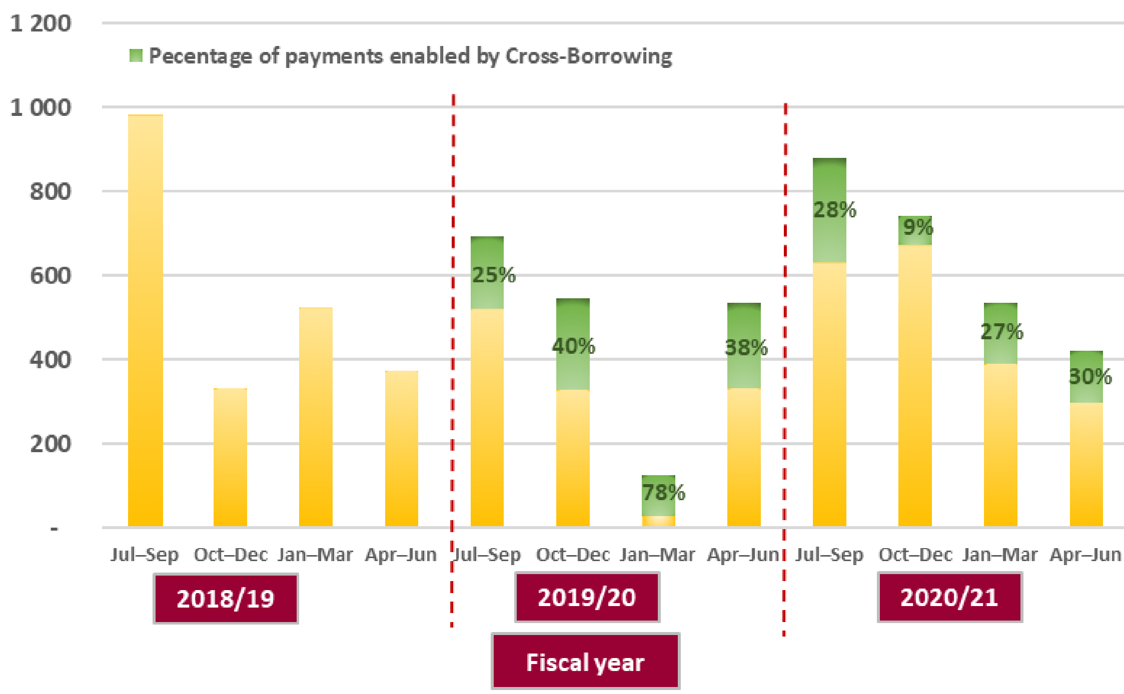
75. Under the cash-pooling mechanism, a mission's capacity to lend is determined on the basis of a number of parameters, including its cash position at the time of the lending, the number of months of operating reserve and its cash requirements for the remainder of the period, as well as the status of outstanding contributions from Member States, future assessments and estimates of the timing of incoming

[2] The year 2018/19 is not included because it is a fiscal year with two different scales, for July to December and for January to June.

contributions. With respect to the borrowing mission, the mechanism factors in projections of the timing of cash shortfalls and the mission's ability to repay the loan. When borrowing is necessary, cash is lent by the missions with the healthiest cash position after those factors are taken into consideration.

76. The ability to borrow among missions has enabled payments to troop- and police-contributing countries that could not otherwise have been possible for missions with cash constraints. As a result, the timing of the settlement of arrears to troop- and police-contributing countries has improved, as shown in figure XV. About 36 per cent of $1.9 billion settled during 2019/20 and 23 per cent of $2.6 billion settled during 2020/21 were enabled by the cash-pooling arrangement, which has enabled borrowing for the more timelier settlement of dues to troop- and police-contributing countries.

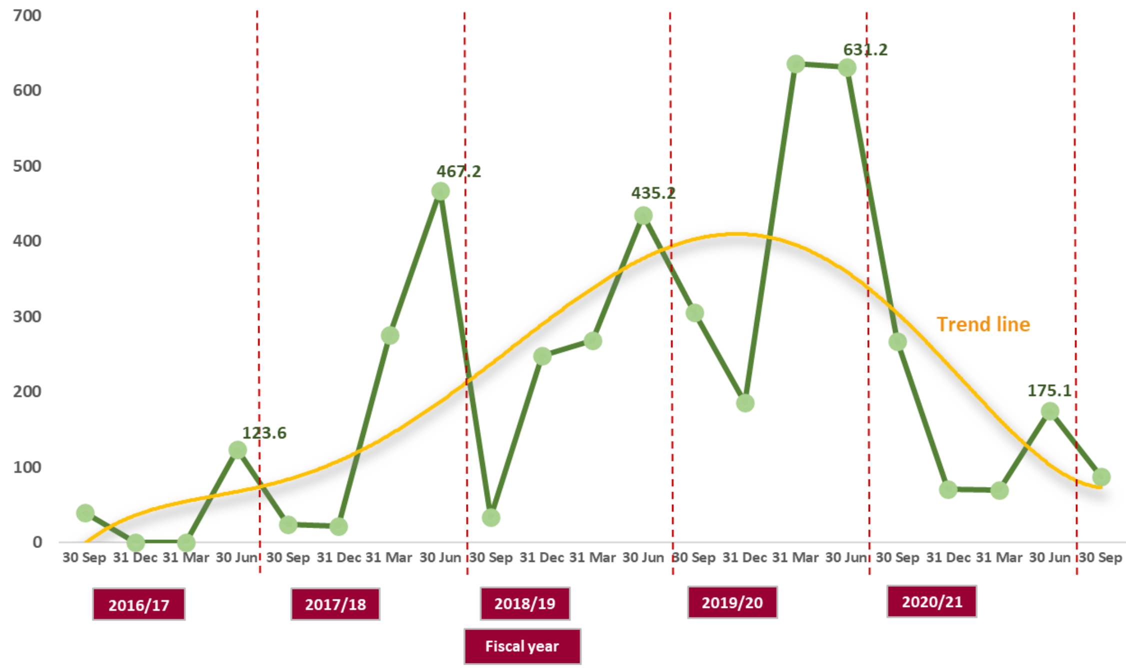
Figure XV
Payments of troop- and police-contributing countries enabled by cash pooling
(Millions of United States dollars)



77. The trend of outstanding payments to troop- and police-contributing countries over the past five peacekeeping fiscal years is shown in figure XVI. The outstanding dues to those countries amounted to $467 million at the end of June 2018. A total of $2.2 billion was paid to troop- and police-contributing countries by the end of June 2019, leaving $435 million outstanding. In 2019/20, $1.9 billion was settled, ending the fiscal year with $631 million outstanding. In 2020/21, $2.6 billion was settled, leaving $175 million outstanding as at 30 June 2021.

78. Typically, outstanding payments are highest in June of each year, that being the end of the fiscal year. The effect of cash pooling is more visible in 2020/21 as well as in the trend line; the increases in March and June 2020 are attributable in part to uncertainties regarding the payments of assessments following the disruptions caused by the COVID-19 pandemic.

Figure XVI
Trend of outstanding payments to troop- and police-contributing countries, 2016/17–2020/21
(Millions of United States dollars)



79. Each quarter, the decision to pay to troop- and police-contributing countries takes into account the ability to borrow from another mission if estimated inflows do not materialize as anticipated and if the mission's cash reserve is not sufficient for operations for the following three months. However, an actual borrowing occurs only when the amount of cash is very low and there is a risk of default in payments if the United Nations does not replenish the cash with a borrowing. As a result, the ability to cross-borrow has enabled the settlement of far more arrears to troop- and police-contributing countries than the actual borrowing among missions. This is an inherent feature of liquidity management whereby decisions that will affect cash outflows have to be taken in conditions of uncertainty regarding the status of cash inflows, and liquidity reserves provide greater insurance against defaults and encourage greater risk-taking in such decisions.

IV. Proposals to address regular budget and peacekeeping budget liquidity problems

80. I have taken significant steps to improve the effectiveness of the United Nations and to manage the deteriorating financial situation over the past few years using the limited tools at my disposal. However, internal efforts can only take the Organization so far and, as illustrated in the present report, failure to address the problems holistically can have unintended consequences. I had set out nine proposals in my previous report, only two of which were approved, that I believed would help to address the financial situation of the United Nations. Most of the problems outlined in that report remain. While my proposals do not diminish the obligation of Member States to fulfil their financial obligations to the Organization in full and on time, the United Nations must consider, as a matter of urgency, effectiveness and its very credibility, what it can do to restore its financial health.

81. As the chief administrative officer of the United Nations, I am committed to the effective and efficient use of its resources to fulfil its mandates. At the same time, the Organization must be able to operate within a cash-strapped environment. The Secretariat needs measures to ensure that mandates are not disrupted by unpredictable cash flows and that programme delivery is guided by liquidity considerations.

A. Regular budget measures

Increasing the level of the Working Capital Fund

82. The critical cash situation experienced with regard to the regular budget in recent years demands urgent action to address the inadequacy of regular budget liquidity reserves. In that regard, I requested the General Assembly – in October 2017, in November 2018 and again in March 2019 – to increase the Working Capital Fund to $350 million. Unfortunately, those proposals were not approved by Member States and, consequentially, mandate implementations have continued to suffer. Some Member States expressed concerns about subsidizing those who do not pay in full and on time. It is clear that Member States must meet their financial obligations to the Organization; however, it is also clear that Member States must address the liquidity challenges facing the Organization, or mandates will continue to suffer.

83. The current level of the Working Capital Fund does not provide sufficient coverage for an operation of the magnitude of the regular budget. Currently, the level of the Working Capital Fund, at $150 million, corresponds to just about 2.4 weeks of expenditure, or 4.7 per cent of the regular budget appropriation for 2021. That position reflects a significantly weaker liquidity position when compared with January 2007, when the Fund was increased to $150 million. At that time, the Fund had a coverage of four weeks of expenditure, or 7.9 per cent of the budget for 2007.

84. In that regard, it is pertinent to note that, in 1981, when the Organization faced similar financial challenges, the Advisory Committee on Administrative and Budgetary Questions stated in its report on the analysis of the financial situation of the United Nations (A/36/701) that it would be prudent to set the level of the Fund at approximately two months of current net expenditure, which at the time corresponded to $100 million. The General Assembly, in its resolution 36/116 B, made the recommended increase to the Fund and acknowledged that a partial or interim solution of parts of the problem could enhance the liquidity of the Organization and might facilitate the achievement of further progress towards a comprehensive settlement, desired by all Member States.

85. The Working Capital Fund must be set at a level that covers the time lag between appropriation and assessment and between assessment and the receipt of contributions. It must provide the liquidity necessary to finance unforeseen and extraordinary expenses and commitment authorities pending appropriation action by the General Assembly. This is in line with the original intent of the Fund set out by Member States. As is illustrated in the present report, the widening gap between assessment and receipt of contributions, as well as steadily increasing arrears, requires a larger liquidity reserve to bridge the gap.

86. The experience of managing the liquidity crisis in the past three years reinforces the proposal in my previous report to increase the Working Capital Fund from $150 million to $350 million. Without adequate liquidity reserves, the Organization will inevitably slide into a spiral of underperformance on budget implementation, which will trigger the return of unspent funds and have a cascading impact on the liquidity of future budgets. I therefore reiterate my earlier proposal and request that the Working Capital Fund be increased to $350 million effective from 2022.

Replenishing the Special Account

87. The Special Account provides additional liquidity to complement the Working Capital Fund. The General Assembly decisions in 2013 and 2015 to utilize $63.2 million from the Special Account to finance the appropriations for the regular budget and the capital master plan project depleted the liquidity reserves for the regular budget.

88. In order to restore the Special Account and allow the Organization to use the funds in the Special Account for the original purposes for which the account was established, I had requested in November 2018 the transfer of the unencumbered balance of $28.7 million for the biennium 2016–2017 to the Special Account to begin to replenish that account; that proposal was not approved by the General Assembly. In my previous report, I again proposed that unspent funds, both unencumbered balances and cancellation of prior-period commitments, be transferred each year to the Special Account until the account was fully replenished by the amount of $63.2 million that was withdrawn. The Assembly, in its resolution 73/307, communicated its support for the replenishment of the Special Account to improve the financial situation of the United Nations, but did not approve my specific proposal for the replenishment of the Special Account and requested me to explore replenishment options.

89. In that regard, I reiterate my earlier proposal to replenish the Special Account by at least $63.2 million, that being the amount that was transferred to finance the regular budget and the capital master plan project instead of through appropriations. The unspent appropriations for 2020 and the cancellation of prior-period commitments for 2018–2019 amount to $91.1 million. After offsetting reduced incomes of $14.0 million, the credits to Member States against their 2022 assessments will be $77.1 million. I propose that at least 50 per cent of that amount be transferred to the Special Account. I appeal to Member States to make voluntary contributions to the Special Account for the remainder of the amount, as they did when the Special Account was created to deal with similar financial difficulties.

Delaying the return of credits

90. As explained above, when budgets are not spent fully owing to a lack of liquidity, unspent funds are required to be returned to Member States, even if those funds have not been collected in full. The crediting of unspent funds to Member States as offsets to their assessments erodes the liquidity for a future budget. Because that creates a vicious circle of liquidity challenges, constraining spending and leading to further liquidity problems, I had proposed in my previous report to suspend the return of credits to Member States for unspent appropriations and the cancellation of prior-period commitments until the Organization's liquidity situation improved. The Advisory Committee on Administrative and Budgetary Questions supported that proposal for a trial period of one year, but the General Assembly did not approve it. In addition, I had proposed that, once the financial situation improved and the Working Capital Fund and the Special Account were large enough to overcome liquidity challenges, the suspension of credits could be limited to those Member States that had regular budget arrears, which would address the lack of incentives for the timely payment of contributions. That proposal was not supported.

91. When faced with similar challenges in the past, the General Assembly took appropriate exceptional action. For example, by its resolution 36/116 B, the Assembly suspended the provisions of various financial regulations related to the return of surpluses arising at the end of the biennium 1980–1981 and the biennium 1982–1983. In its resolution 60/283, the Assembly resolved to offset the surplus balance of the

programme budget for 2004–2005 against the advances for the Working Capital Fund when it was increased from $100 million to $150 million effective 2007.

92. In view of the persistent liquidity crisis, and in order to prevent additional depletion of liquidity, I propose that credits be returned only if outstanding assessments are less than the liquidity reserves when the General Assembly approves the return of credits. Furthermore, I propose that the amount of credits to be returned be limited to the difference between the liquidity reserves and the outstanding assessments. For example, if the outstanding assessments are $300 million and the liquidity reserves are $357 million, the return of credits must be capped at $57 million.

B. Peacekeeping operations measures

93. I had proposed four measures in my previous report for improving the financial situation of peacekeeping operations, two of which were approved, including one on a trial basis for three budget periods.

94. The General Assembly decided in resolution 73/307 to approve the proposal in my previous report to manage the cash balances of all active peacekeeping operations as a pool, but on a trial basis for three budget periods. As is illustrated in the present report, that temporary measure has been very helpful in improving the timeliness of payments to troop- and police-contributing countries and in providing liquidity for operations for some missions.

95. Similarly, the issuance of assessments for the full budget period, subject to the availability of scales of assessment, has improved the liquidity of peacekeeping operations. I request Member States to acknowledge the positive impact of those measures on liquidity for peacekeeping operations, and I note the continuation of the measures beyond June 2022.

96. While the two measures have eased liquidity pressures for peacekeeping operations, they have not fully addressed the liquidity problem or the timely settlement of all dues to troop- and police-contributing countries. While the United Nations is unable to meet its legal obligations in full owing to liquidity problems, the Peacekeeping Reserve Fund has not been used since 2014 and has been used only for a maximum of $40 million, as far back as 2007/08.

97. The level of the Peacekeeping Reserve Fund as at 30 June 2021 was $154.2 million, comprising the reserve of $150 million and an accumulated surplus of $4.2 million. No new loans were made to active peacekeeping missions during the financial year ended 30 June 2021. Because the United Nations Mission in the Central African Republic has not yet repaid an amount of $12.8 million, which has remained unpaid since February 2000 owing to insufficient cash resources, the actual cash available in the Fund is only $137.2 million in addition to the above-mentioned surplus of $4.2 million.

98. The balance of the Peacekeeping Reserve Fund in excess of the authorized level of $150 million is used to meet the financing of the support account for peacekeeping operations. An amount of $3.7 million, representing the excess of the authorized level of the Fund in respect of the financial period ended 30 June 2020, was approved by the General Assembly in its resolution 75/293, to be applied to the support account for the period from 1 July 2021 to 30 June 2022.

99. In my previous report, I had proposed a peacekeeping Working Capital Fund of $250 million to provide active peacekeeping operations with a much-needed liquidity reserve. That proposal was not approved by the General Assembly. However, the need for such funding remains valid, as shown by the inability to fully settle the dues to

troop- and police-contributing countries. My current proposal is, therefore, to allow the use of the Peacekeeping Reserve Fund as a liquidity mechanism for the operations of active peacekeeping missions. Such a proposal would eliminate the need for any new assessments of Member States to finance a working capital fund for peacekeeping operations. The use of the Peacekeeping Reserve Fund for such liquidity would not have an impact on the funding for the start-up phase of new peacekeeping operations or the expansion of existing ones, or for unforeseen and extraordinary expenditure relating to peacekeeping, because the pooling of the cash of active missions will provide an additional safeguard for facilitating the start-up or expansion of any mission.

100. Given that the Peacekeeping Reserve Fund has only $137.2 million of liquidity compared with its fund balance of $150 million, I propose that the General Assembly authorize the retention of interest earned in that fund until the available cash reaches the amount of $150 million.

101. Given that timely payments for troop- and police-contributing countries have been hindered for many years by the lack of liquidity, and have not been fully resolved, even with the two measures approved by the General Assembly in its resolution 73/307, I propose that the return of credits for unspent funds or cancellations of prior-period commitments be suspended for any active peacekeeping mission in which the troop- and police-contributing country payments that are due and payable have not been settled in full at the time that the Assembly takes a decision to return such credits. That would allow the United Nations to settle its obligations to troop- and police-contributing countries from funds from that financial period in the same manner in which the Organization would first settle vendor obligations before returning the credits.

IV. Conclusion

102. As part of recent reforms, the United Nations has made significant efforts towards improving transparency in its budgeting and reporting. However, efforts to focus more on results and to improve mandate delivery have been undermined by the unpredictability and tardiness of the Organization's cash inflows from Member State assessments. It is therefore crucial that Member States meet their financial obligations in full and on time and that the underlying structural rigidities in budget management that exacerbate the deepening financial crisis be addressed. The focus must be on programme delivery and results rather than on financing. The United Nations must allow its managers to manage and must hold them accountable for the results.

103. It is in that context that I am again making proposals to urgently address the liquidity crisis. I reiterate my call to Member States to provide solutions to address this unsustainable situation.

104. **The General Assembly is, therefore, requested:**

(a) **To increase the Working Capital Fund by $200 million to $350 million from January 2022;**

(b) **To replenish the Special Account by at least $63.2 million by transferring to the account 50 per cent of the credits, to be offset against the 2022 assessments, and the remainder through voluntary contributions;**

(c) **To approve the return of credits for the regular budget only if outstanding assessments are less than the regular budget liquidity reserves, and to limit the amount to the difference between the liquidity reserves and the outstanding assessments;**

(d) **To note that the continued management of the cash resources of the active peacekeeping missions as a pool is beneficial for the timely settlement of payments to troop- and police-contributing countries;**

(e) **To relax the restrictions on the use of the Peacekeeping Reserve Fund in order to allow its use as a liquidity mechanism for the regular operations of active peacekeeping operations;**

(f) **To authorize the retention of the interest earned in the Peacekeeping Reserve Fund up to the amount necessary to bring the cash balance of the Fund, including interest, to $150 million;**

(g) **To approve the return of credits for any active peacekeeping operation for unspent funds and cancellations of prior-period commitments only if all payments to troop- and police-contributing countries due and payable in that operation have been settled at the time that the Assembly takes a decision on the return of credits.**