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The Financial Reform of the United Nations

The Problem

- 10.1 In one sense, the financial problem of the United Nations is a simple one. The demands of the member states exceed the resources given to the organisation. The solution is equally simple. 'Countries should decide either to reduce their demands on the United Nations, thus giving it a decent chance of carrying out its reduced policies with its existing resources, or they should recognise the necessity of improving its capacities and grant it greater resources, functions and coordinating powers'.¹
- 10.2 The regular budget has been frozen since 1994. For example, in 1998-99, the total UN budget for the biennium was US\$2,527 million. For 2000-01, it will be an estimated \$US2,535 million. This budget is made up of \$US443 million for common support services, \$US315 million on staff salaries, and \$US5.8 million on jointly financed administrative activities.²
- 10.3 However, there are structural problems associated with the UN funding that are unsatisfactory. The United Nations is funded by a system of assessments levied on member states.³ The crisis in the financial system is brought about because significant member states do not pay their dues. This has caused the UN to have to draw on other budgets to pay running costs and to slow payments to countries contributing to peacekeeping operations. If all assessments were paid, in the view of the UN Secretariat in New York, the funding crisis would largely disappear.

1 Exhibit No 59 Kennedy, Paul and Russett, Bruce, Reforming the United Nations, *Foreign Affairs*, v 74(5) September/October 1995, p. 57.

2 DFAT. Submission No. 144, p. 1815.

3 The assessment system is described in Chapter 2.

- 10.4 Therefore, the question must arise as to whether the assessments are too onerous or unfairly imposed. On examination,⁴ the amounts involved for most countries do not seem large. The assessments are in the form of progressive taxation, that is the most wealthy pay the most, although this is distorted by the existence of both a cap and a floor.⁵ The members themselves decide on the assessments and they regularly review⁶ and reaffirm them in the Committee on Contributions and the General Assembly.⁷ Furthermore, the obligation to pay is a legal requirement under the Charter at Article 17(2).
- 10.5 Of the 189 countries in the UN, 94 are on a minimum scale of payments, of less than 0.01. Limitations are also placed on the contributions required of the poorest countries - countries with per capita incomes of less than \$US1000. The 23 wealthiest countries pay 86 per cent of the regular budget. The US, Japan and the EU combined pay approximately 78 per cent. This is a fair reflection of the distribution of the wealth of the world, despite the fudging at the edges.
- 10.6 However, according to the UN, in September 2000, member states owed over \$US3 billion to the organisation – \$US2.5 billion for peacekeeping, \$US533 million to the Regular Budget and \$US54 million for the International Tribunals. Payments to the Regular Budget appear to be more consistent than to the Peacekeeping budget, probably because of Article 19. Under Article 19 of the UN Charter, if at the beginning of the year, a country owes the same or more than its total gross assessments for the previous two years, it automatically loses its right to vote in the General Assembly.

The United States and the Budget

- 10.7 Of the total amount owing, United States owes 81 per cent of arrears to the Regular Budget and 58 per cent of arrears to the Peacekeeping budget. The US debt is \$US1.9 billion - made up of \$US430 million to the regular budget and \$US1.5 billion to peacekeeping and the international tribunals.
- 10.8 It has been the practice of the US not to make its contributions to the regular budget until the last minute to prevent application of Article 19, which would remove its right to vote in the General Assembly. For some years, it has not been paying in full. A percentage is withheld with conditions applied for political reasons. However, the US attitude to the budget is difficult to justify particularly in light of the reduction in the
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4 By way of example, see Tables 2.2, 2.3 and 2.4 in Chapter 2.

5 See note 36 below.

6 Every three years.

7 Australia is a member of this committee.

cap.⁸ On the basis of the strength of its economy, the United States should pay 29 per cent. The cap means that it is only required to pay 22 per cent. (Until December 2000, the cap was set at 25 per cent, but even then the US only paid 20 per cent or 57c in the dollar because of conditionality.) In the last round of negotiations on the scale of assessments, the US persuaded the Fifth Committee (Administrative and Budgetary) to lower the cap from 25 to 22 percent in the Regular Budget and from 29 to 25 per cent in the peacekeeping budget in return for the payment of some of its arrears - \$US926 million over three years.

- 10.9 Australia, Canada and New Zealand have expressed some dissatisfaction with this arrangement. The representative of Australia said that:

... the ceiling was a political rather than a technical element of the scale. The arrangement involved a bargain: in exchange for the reduction, the major contributor would pay its arrears. She called on that country to fulfil its end of the bargain in order to place the organisation on a sound footing.⁹

- 10.10 In the regular budget, there is a scheme of limitations applied to some countries so their contributions cannot rise. This and the shortfall of money in the regular budget caused by the arrears mean that the assessments of other paying countries have had to be increased to cover it. For example, in past years Japan has paid more than 20 per cent, but its share of world income has fallen to 17 per cent. In the new scale of assessments Japan has been assessed at 19.6 per cent. The countries of the European Union, on the basis of their share of world income, should pay 29 per cent; they pay 36 to 37 per cent. Australia's assessment is about to rise from 1.45 per cent to 1.63 per cent.¹⁰ On the basis of the strength of their economies, the assessments for industrialised countries will go up. The question was put to the committee in New York, 'Are middle powers like Australia willing to increase their assessments even more because of the US default?'
- 10.11 The attitude of the United States towards the United Nations itself appeared to be an issue which could affect its standing among member states. When the committee was in New York and in submissions to the
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8 The cap emerged out of disputes on the scale of assessments. At the end of World War II, given the devastation of so many countries, the US was assessed as having an almost 50 per cent share of world wealth. It objected to this and it was reduced to approximately 40 per cent. However the assessment remained a bone of contention and the US asked for a cap to be placed on contributions. This was adopted by the General Assembly in 1957 and set at 30 per cent. The cap was further reduced to 25 per cent in the 1970s. There is also a floor set at 0.01 per cent. See Luard, Evan. *The United Nations: How it Works and What it Does*. 1994. St. Martin's Press, New York, pp. 129-130.

9 UN press release 23 December 2000.

10 Every point represents an increase of \$10,500.

inquiry, the failure of the United States to pay its dues was often raised. There were complaints that:

- it lacked a sense of being one, albeit a most powerful one, among many;
- it did not seem to believe that international agreements should apply to it in the same degree as to other states;¹¹
- it displayed arrogance in its stand on the budget;
- despite very large payments in dollar amounts, it did not pull its weight in proportional terms;
- it was reluctant to become involved in peace operations controlled by the UN; and
- it failed to understand the need for compromise inherent in international organisations.

- 10.12 The committee believes that the isolationist tendencies of the United States, as evident in the above issues raised during the inquiry, is a matter of concern. From evidence taken during its visit to New York, it appeared to the committee that opposition from within the United Nations to the wishes of the United States, on elections and other matters, was driven by this isolationism.
- 10.13 Given its unrivalled power and its long democratic traditions, the United States could provide positive leadership within the United Nations. By accepting its own responsibilities to participate, to compromise and to fulfil its financial obligations, the US would encourage other member states to fulfil their obligations.

The Peacekeeping Budget

- 10.14 The peacekeeping budget is supported by a separate scale of assessments, somewhat different in its calculations from the Regular Budget. Money owed by the US and others to the peacekeeping budget is in fact owed to other member states. It is owed to states that have contributed to UN peacekeeping operations, but have not been paid. The UN does get money to deal with current peacekeeping needs, but there appears to be past debts that are unlikely to be paid.
- 10.15 In New York, the committee was told that the peacekeeping operations were desperately short of funds. The UN pays for peacekeeping through a standard payment for a battalion. It pays for people, equipment and sustainment at \$US9.00 per soldier per day. These are progressive
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11 In particular, submittees cited the unwillingness of the United States to ratify many of the human rights treaties including the ICC.

payments made over time as the UN has the funds (they are close to the last payments on Cambodia). The UN owes over \$40 million to Australia for peacekeeping. The payments do not cover Australian costs. However, for underdeveloped countries the cost of contributing troops can be more than covered at this rate; it pays for the military in some countries.

- 10.16 Beyond the military components, reconstruction costs following on peacekeeping operations are paid for from pledges made by donor countries.
- 10.17 Australian Volunteers International were concerned that support for peacekeeping and reconstruction was too dependent on a pledging system.

A further disappointing aspect of many UN operations is their reliance of the pledging system that sees countries indicating what they are going to contribute to an operation amidst much fanfare and media coverage, only to see many of those same countries renege on this commitment. The pledging session for Cambodia held in Japan resulted in some \$800 million being offered for reconstruction and rehabilitation in Cambodia, whereas a year later it was reported that only \$90 million had been received. It appears that a similar situation may occur in East Timor.¹²

Maintenance and Infrastructure at the UN

- 10.18 The financial crisis and the frozen budget have led to a significant decline in UN infrastructure. It is the view of the committee, confirmed during its visit to New York, that the UN facilities are in a poor state and that the rate of deterioration is shocking. The Secretary General has prepared a Capital Master Plan. It was estimated that it will require \$US1 billion to rehabilitate the building alone. In 1994, the US introduced a zero growth strategy as part of its conditionality. Since then, there has been no increase in income; the budget has been frozen. This is a real reduction in funding. Therefore, there is no funding for capital expenditure. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) has been requesting additional funding for capital expenditure and it is hoped that the Secretary-General's Capital Master Plan will be accepted.

12 Australian Volunteers International. Submission No. 67, p. 553.

Assured Sources of Income

- 10.19 It is clear that the United Nations needs more assured sources of income than it presently has. Some contributors to the inquiry saw the sanction of a loss of voting rights in the General Assembly, but not simultaneously in other organs of the UN, as insufficient. Certainly, it is a loss of rights in the 'least valuable type of vote that a member wields'.¹³ One submission to the inquiry suggested that, 'Perhaps membership of the Security Council and the power of veto could be denied to nations defaulting on their contributions'.¹⁴ Given that the Charter would need amendment to achieve this sanction, it is unlikely to occur; however, it represents the strength of feeling on the matter. Perhaps a more immediate sanction might be the charging of interest on late payment.¹⁵
- 10.20 UNYA called for the Australia Government to support the suggestions of the independent advisory group convened by the Ford Foundation at the request of the Secretary-General, namely that:
- Member States be required to pay their dues in three installments instead of once a year;
 - Interest be charged on the late payment of dues;
 - The establishment of a \$400 million revolving fund for peacekeeping, financed by Member States to ensure funding for crucial first-phase operations; and
 - The financing of peacekeeping operations from Member States' defence budgets rather than foreign affairs budgets.¹⁶
- 10.21 The United Nations Association of Australia (UNAA) addressed the problems of the Peacekeeping Budget in particular. The association considered that such dues should be seen as mandatory. They supported the efforts of the UN Secretary-General to improve the operation of peacekeeping work through such things as:
- a revolving capital fund to finance start-up costs of peacekeeping;
 - early payment by member states of part of their assessed contributions to peacekeeping;
 - maintaining a reserve stock of basic peacekeeping equipment; and
 - urging member states to pay their peacekeeping dues on time.¹⁷

13 Luard, Evan. *The United Nations: How it Works and What it Does*. 1994. St. Martin's Press, New York, p. 129.

14 Williams, Heather. Submission No. 68, p. 570.

15 See paragraph 6.37 below.

16 UNYA. Submission No. 47, pp. 327-8.

17 UNAA. Submission No. 71, p. 597.

Commercial Sponsorships

10.22 The committee was told during its visit to the United Nations that the UN was considering corporate sponsorship as a possible source of income in some areas, although not for core functions of the secretariat. Some UN institutions, such as UNICEF, have always raised funds privately. In the light of the financial crisis facing the United Nations, some companies had contacted the UN to offer support. The Secretariat saw these offers in line with a tradition in the United States of foundation funding. They believed that they were offers worth exploring and commented that, whereas there has been a long tradition of NGO contact with the UN, there is less of a tradition of business contact. The committee appreciates these arguments; however, it believes that there is, potentially, a conflict of interest in the acceptance of financial support from business and that this is a matter about which the UN would need to remain vigilant.

An International Transaction Tax (The Tobin Tax)

- 10.23 In 1972, Professor James Tobin, a Nobel prize winning economist proposed a tax on foreign exchange transactions as a means of stabilising the international currency markets and discouraging short term speculation. The intention was that the rate would be low, possibly 0.1 per cent or less. In 1994, at the World Summit for Social Development in Copenhagen, the Tobin Tax was raised, not for the purpose of stabilising the international money markets, but as a means to raise money for international organisations.
- 10.24 It would appear that the amounts of money that might be raised by these methods would be substantial. Set at a rate of 0.1 per cent, annual revenue estimates vary from \$US56 billion to \$US312 billion, although most estimates are close to \$US150 billion.¹⁸
- 10.25 The advantages of the Tobin tax are claimed to be:
- A reduction in speculation in the international currency market;
 - The generation of a large amount of revenue for a relatively minor imposition;
 - Applied to support of international organisations, it would give them financial independence;
 - Political appeal to domestic taxpayers.

18 Exhibit No 64, Yamada, Masaaki, *Global Financial Architecture: An Alternative Proposal - Tobin Tax?*, Joint Standing Committee on Treaties, May 1999, pp. 23-24.

10.26 Opponents of the tax suggest that:

- It would distort economic activity by reducing liquidity on the foreign exchange markets and inhibiting cross border investments;
- It would be difficult to enforce in that transactions would migrate to tax-free jurisdictions and therefore it would need to be 'universal';
- Establishing the mechanism for the tax would require a multilateral agreement brokered by an international financial organisation encompassing all those states that are significant in international transactions, possibly the IMF.¹⁹

10.27 There was little enthusiasm amongst most committee members for the proposed Tobin Tax.

10.28 At the preparatory session for the Special Session of the General Assembly, held in Geneva in 2000, the Assembly decided to establish a working group that would, *inter alia*, examine the advantages, disadvantages and other implications of proposals for developing new and innovative sources of funding, both public and private, for dedication to social development and poverty eradication programs. The committee endorses this decision.

Probit in the UN's Financial Operation

The Budget Process

10.29 The Secretary-General prepares a short outline in six to eight pages of the two year budget for the General Assembly. This is a statement of the broad priorities for the UN indicating the quantum of the expenditure over the two years.

10.30 The Advisory Committee on Administrative Budgetary Questions (ACABQ) looks at the statement and comments on it. This committee was established in 1946 to assist the General Assembly to examine, for their budgetary implications the proposals of the Secretary General. It looks at both the regular budget and the peacekeeping budgets. However, budgets of the funds and programs of the specialised agencies are reported to their executive boards.

19 Exhibit No 64, Yamada, Masaaki, *Global Financial Architecture: An Alternative Proposal - Tobin Tax?*, Joint Standing Committee on Treaties, May 1999, pp. 28-29.

- 10.31 It has 16 members, geographically selected but sitting in their individual capacities. The Chair is elected, but not changed too frequently. The view was put to the committee that continuity, experience and corporate knowledge are important if that committee is to be successful. The current Chairman is Ambassador CSM Mselle, the 4th chair since 1946.
- 10.32 The General Assembly must approve this general basis for the budget. It is accompanied by a plan of action. However, it should be noted that, as it is difficult to predict the activity of an organisation such as the UN, at the end of the first year in the two year cycle, there is a performance report.
- 10.33 ACABQ then receives detailed budgets from the Secretary-General. For example, in the year 2000, there was a request for \$US2.3 billion in 2000 pages of explanation. This was reduced by ACABQs analysis to a more digestible 160 pages for the Fifth Committee, which deals with Administrative and Budgetary matters. ACABQ makes recommendations on specific budget items in the budget most of which, particularly on larger items, are accepted by the Fifth Committee. For example, on East Timor, a budget request for \$US486 million was reduced to \$US350 million. The rationale for the reduction was based on the Fifth Committee's assessment of the rate of deployment and therefore likely need for dispersal of the funds. In the end, the committee was told, they still spent \$US30 million less than allocated.
- 10.34 There is also a board of auditors elected by the General Assembly, which audits all activities of the UN. If audit reports are qualified then this defers acceptance of those items or programs.
- 10.35 From 1974 to present, budgeting was program based. Now it is results based – although this has limitations as there are many UN activities that cannot be measured. The UN has no territory, no population, no jurisdiction. For Peacekeeping Operations, for example, the UN does not reimburse everything.
- 10.36 It should also be noted that currency movements affect the budgets of the UN. It is an organisation that operates in a number of countries; however, since 1975, the US dollar is the currency of account and in recent years the strength of the dollar has protected the UN budget. There has been no requirement for additional appropriations because of currency movements.

The Office of Internal Oversight Services (OIOS)

- 10.37 Accountability for planned expenditure is monitored in the budget setting procedures of the General Assembly, the Fifth Committee and the Advisory Committee on Administrative and Budget Questions.

Accountability for the proper implementation of budget proposals is monitored by the Office of Internal Oversight Services, (OIOS). This office, established in 1994, has sections dealing with internal audit, evaluation and inspections. The mandate is wide and a large amount of information is at the disposal of the organisation. It reports to the Secretary-General on the use of all UN resources. The focus is on the secretariat departments rather than the specialised agencies; however, these agencies do seek advice. This office is one of the significant agents of change within the UN.

- 10.38 The investigations are into fraud. Fraud is defined not just as a matter of procurement fraud but includes conflict of interest, abuse of power and staff entitlement fraud. Complaints made to the OIOS are fully examined to establish whether there is a *prima facie* case and the complainant is not just a disgruntled bidder for a contract. This is followed by a formal assessment.
- 10.39 Quotes for services must represent value for money and include life cycle costing, not just the lowest price. While the organisation is often learning on the run, nevertheless the specifications are increasingly stringent. There is a substantial increase in the quality of the processes. There is no country quota system for procurement but there is an expectation that it will operate as broadly as possible.
- 10.40 There are annual reports and specific periodic reports. Not all specific reports are published as the organisation does not want to overburden the General Assembly with paper. However, all reports are brought to the attention of the program manager concerned. Any systemic problems are brought to the attention of the General Assembly.
- 10.41 The OIOS also provides a management consulting role advising the organisation on better practice. This is limited by resources but is seen as a value added service that can pre-empt problems. The service seeks to get managers to focus on risk.
- 10.42 The office is independent, mandated by the General Assembly. Therefore, it has direct access to the General Assembly and does not need to go through the Secretary-General.
- 10.43 However, while the scope is wide, the resources are limited and OIOS must be selective. It focuses, therefore, on the critical issues.
- 10.44 Instances of fraud arise from the letting of contracts in such a large multicultural organisation. The opportunity is always there. The press makes much sensational copy of any instances it comes across. The UN has 189 bosses and the pressure for expenditure by each in their area of interest is intense.

Sanctions

10.45 The sanctions available to the OIOS include:

- report to the GA; and
- sanctions on the individual including prosecution through the UN judicial system.

Savings

10.46 Assessment of the success of the OIOS is made on the basis of its savings on actual wastage not on notional savings. In 1999, the saving was estimated at \$US23.5 million. The recovery figure pays for the office: the budget for OIOS in that year was \$US15 million. The Office has a staff of 135 people, of whom 30 per cent are in the field. Half of the focus is extra budgetary on peacekeeping and other areas. It reviews the operation of 30,000 to 35,000 people. The Fifth Committee reviews the work of OIOS itself.

10.47 The committee is of the view that the perception that the UN is a bloated, corrupt bureaucracy is unfair.

Conclusion

10.48 The committee was encouraged by the extent of the reform of both the administrative framework and the financial controls that were being applied to the UN Secretariat. It is clear that reform of institutions where that involves the distribution of power within the world body are significantly more difficult to achieve. And the committee has no illusion that an entirely efficient process in decision making can ever be achieved where there needs to be an accommodation of the interests of all 189 member states. Even in domestic jurisdictions efficiency gives way to democratic process and this is entirely in the long term interests of good governance; the alternative is dictatorship. Therefore, the committee urges the Australian Government to remain supportive of and involved in the UN reform process, despite the slow pace of structural reform.

10.49 Equally, it was clear to the committee that the UN has reached a critical stage where inefficiency can be attributed to too few resources. This was clear in every area of the UN's work. More assured sources of income are necessary. In particular the member states must be encouraged to take their financial obligations to the organisation more seriously. In addition, the committee believes that the zero growth policy has achieved its effect

of forced reform and the committee believes that it is time to reconsider the zero growth principle.

Recommendation 16

The committee recommends that the Australian Government urge the United Nations to:

- Set an incremental growth factor into its budgeting;**
- Develop more assured and diversified sources of income; and**
- Develop more effective penalties for the non payment of assessments.**