Twentieth session

REPORT OF THE AD HOC COMMITTEE OF EXPERTS TO EXAMINE THE FINANCES
OF THE UNITED NATIONS AND THE SPECIALIZED AGENCIES

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* The annexes will be circulated under the symbols A/6289/Add.1 and 2.
26 March 1966

Sir,

In accordance with paragraph 5 of General Assembly resolution 2049 (XX) of 13 December 1965, I have the honour to transmit to you the report of the Ad Hoc Committee of Experts containing the comments on the report of the Secretary-General on the finances of the United Nations (A/AC.124/1).

I should be grateful if you could transmit this report to all Member States.

Accept, Sir, the assurances of my highest consideration.

(Signed) Mario MAJOLI
Ambassador
Chairman of the Ad Hoc Committee of Experts
to Examine the Finances of the United Nations and the Specialized Agencies

His Excellency
U Thant
Secretary-General
United Nations
New York
REPORT OF THE AD HOC COMMITTEE OF EXPERTS TO EXAMINE THE FINANCES OF THE UNITED NATIONS AND THE SPECIALIZED AGENCIES

I. INTRODUCTION

1. The Ad Hoc Committee of Experts to Examine the Finances of the United Nations and the Specialized Agencies was established by General Assembly resolution 2049 (XX) of 13 December 1965 (annex I). The Committee consists of fourteen Member States designated on 21 December 1965 by the President of the General Assembly, namely, Argentina, Brazil, Canada, France, Hungary, India, Italy, Japan, Nigeria, Senegal, Union of Soviet Socialist Republics, United Arab Republic, United Kingdom of Great Britain and Northern Ireland and United States of America. A list of the representatives and alternate representatives is contained in annex II to the present report.

2. The Committee met for the first time on 2 February 1966. It elected Mr. Mario Majoli (Italy) Chairman, Mr. Keroly Csaturday (Hungary) First Vice-Chairman, and Mr. Mencumbé Sar (Senegal) Second Vice-Chairman, and decided that its meetings would be closed.

3. At its session commencing 2 February, the Committee had before it document A/AC.124/1, dated 24 January 1966, entitled: "Analysis of the finances of the United Nations" prepared by the Secretary-General pursuant to operative paragraph 4 of resolution 2049 (XX) which requested the Secretary-General to:

"(a) Draw up an analysis of the finances of the United Nations, showing the actual expenditure by type of activity, including the amount of expenditure committed for the different peace-keeping operations since their inception, the resources utilized to meet them and, where applicable, the debts contracted by the United Nations;"

"(b) Prepare, on the basis of the work mentioned in sub-paragraph (a) above, a complete statement of the financial situation of the Organization as at 30 September 1965;"

"(c) Deliver the document in question to the members of the Ad Hoc Committee, as soon as the experts have been appointed, and transmit it at the same time to other Member States."

4. The Committee made a detailed study of document A/AC.124/1 in the course of which various members of the Committee requested the Secretary-General to furnish
information additional to that already contained in his report and also made certain comments. Some of the questions asked and the observations made in connexion with certain paragraphs of the Secretary-General's report as well as the replies and comments furnished by the Secretariat - on some of which further observations were made - will be found in annex V to the present report. In this context, the Committee wishes to put on record its appreciation to the Secretary-General and his staff for their co-operation and the promptitude with which all necessary information was submitted to the Committee.

5. In considering document A/AC.124/1, the Committee confined its observations to the technical and financial aspects of the matters before it and refrained from commenting on the legal and political aspects involved.

6. It is useful to recall that operative paragraphs 5 and 6 of General Assembly resolution 2049 (XX) containing the terms of reference of the Ad Hoc Committee of Experts read as follows:

"The General Assembly,

....

"5. Invites the Ad Hoc Committee to examine the document delivered to it by the Secretary-General and, after asking, if necessary, for any additional information it considers useful, to transmit its comments, through the Secretary-General, to Member States at the earliest possible date and by 31 March 1966 at the latest;

"6. Further invites the Ad Hoc Committee to:

"(a) Examine, with the assistance of the Advisory Committee on Administrative and Budgetary Questions and in liaison with the Secretary-General and the executive heads of the specialized agencies and of the International Atomic Energy Agency, the entire range of the budgetary problems of the United Nations and the organizations brought into relationship with it, notably their administrative and budgetary procedures, the means of comparing and, if possible, standardizing their budgets and the financial aspect of their expansion, with a view to avoiding needless expenditure, particularly expenditure resulting from duplication;

"(b) Submit to the General Assembly at its twenty-first session, without prejudice to the terms of reference of the Special Committee on Peace-keeping Operations, such recommendations as it may deem appropriate, in order, on the one hand, to secure better utilization of the funds available through rationalization and more thorough co-ordination of the activities of the organizations and, on the other, to ensure that any expansion of those activities takes into account both the needs they are intended to meet and the costs Member States will have to bear as a result."
7. At the start of its work the Committee decided that it should begin by taking up the first part of its terms of reference as laid down in paragraph 5 of the above resolution. Nevertheless, it felt that it should take the following steps regarding the second part of its terms of reference:

(a) It invited the Chairman of the Advisory Committee on Administrative and Budgetary Questions to participate in its deliberations at the stage when the Committee examines the budgetary and administrative problems of the United Nations and of the specialized agencies and the International Atomic Energy Agency.

(b) It authorized its Chairman to send a letter to the heads of the specialized agencies and the International Atomic Energy Agency to establish liaison with them in order to secure their co-operation for the second part of its terms of reference.

(c) In this connexion, it appointed a Working Group composed of Brazil, Canada, Hungary, India and the United Arab Republic to formulate certain preliminary questions which, after being considered by the Ad Hoc Committee, were attached to the aforementioned letter (annex VI).

(d) On 24 March 1966, the Ad Hoc Committee held a meeting with the Directors-General of FAO, UNESCO, WHO, the Deputy Director-General of UPU, the Secretaries General of ICAO, WMO and IMCO, and the representatives of the ILO and IAEA and heard statements by these officials. Practical arrangements were agreed upon for the work to be undertaken at Geneva in April.

8. In view of the importance of the questions relating to the United Nations regular budget and the budgets of the specialized agencies and the International Atomic Energy Agency, and bearing in mind the limited period of time fixed for the presentation of the first report, the Committee decided to devote its meetings to be held from April onwards in Geneva and later in New York to the consideration of the problems mentioned in operative paragraph 6 (a) and (b) of General Assembly resolution 2049 (XX).

9. After a first series of fourteen plenary meetings, from 2 to 15 February, the Ad Hoc Committee decided to appoint a drafting committee consisting of representatives of all its members. This drafting committee also functioned under the chairmanship of Mr. Mario Majoli, and held eleven meetings. The Ad Hoc Committee held another thirteen plenary meetings from 15 to 25 March and adopted the present report on 25 March 1966.
10. In the course of the first session the members of the Committee directed their attention mainly to two subjects:

(a) Analysis of the finances of the Organization, and

(b) Statement of the financial situation of the Organization as at 30 September 1965.

In their discussion of these subjects, the members of the Committee had before them the report of the Secretary-General (A/AC.124/1).

11. In a preliminary analysis of the financial situation of the Organization, which showed that during the period from 1956 to 1965 the expenditures of the Organization have more than doubled, some members drew the attention of the Committee to a number of factors which, in their opinion, are responsible for the rise in the budgetary expenditure of the Organization causing concern to those Member States which stressed the idea that any expansion of the activities of the United Nations must take into account both the needs intended to be met by the activities in question "and the costs Member States will have to bear as a result" (paragraph 6 (b), resolution 2049 (XX) of the General Assembly). Other members laid emphasis on different factors.

12. All these factors presented by one delegation or another could however be summarized in the following manner: the increase in the number of organs and conferences, the marked increase in the size of the United Nations Secretariat, the rising expenditure for Secretariat salaries, the higher cost of living in the countries in which the main agencies of the United Nations are located, expansion in membership, the growing need for increase in developmental activities in view of the ever-widening gap between industrialized and developing countries in so far as their respective rates of economic growth are concerned.

13. It was felt desirable, however, that any savings resulting from more effective utilization of resources and improved co-ordination should be used as additional resources for the benefit of developing countries.

14. It was mentioned by some delegations that technical assistance activities financed from the regular budget might be more effective if included in the United Nations Development Programme. They considered that financing such activities in the regular budget prevents certain States from rendering technical assistance to developing countries in the form most acceptable to the donors. While the
Committee did not consider this question, a number of delegations held a different view. They indicated that, in any case, it was essential that no reduction should be brought to the aggregate total of funds destined to developmental needs. At the same time, they expressed the hope that these funds may continue to increase, always bearing in mind the needs of developing countries as well as the costs. Member States will have to bear as a result thereof.

15. Some members of the Committee also expressed the view that only those categories of expenditure should be kept under the regular budget which are necessary for servicing and maintaining the activities of the organs of the United Nations, especially as the financial situation of the United Nations can be improved only if there is strict observance of the Charter of the United Nations as they interpret it, in the execution and financing of all United Nations operations including those connected with the maintenance of peace and security.

16. It was felt by several members that the report of the Secretary-General (A/AC.124/1) did not fulfill their needs for certain financial information about the Organization, because it concentrated on the analysis of the deficit caused by the United Nations operations in the Middle East and the Congo. They desired, in addition, a detailed analysis of the expenses of the Organization showing actual expenditure by type of activity, and, therefore, the Secretary-General was requested to produce a report on this point.

17. The members of the Ad Hoc Committee were agreed that their participation in the work of the Committee in establishing a clear picture of the finances of the United Nations did not alter their Governments' political and legal views in connexion with peace-keeping activities of the United Nations and the different chapters of the regular budget. Some members stated that no calculations or explanations set forth in this report create any obligations on their Governments in view of their positions of principle concerning peace-keeping operations.
II. ANALYSIS OF THE FINANCIAL SITUATION OF THE UNITED NATIONS

18. The analysis of the finances of the United Nations as submitted to the Committee by the Secretary-General in his report (A/AC.124/1) included financial data relating primarily to the regular budget and to the two peace-keeping operations in respect of which the General Assembly had assessed contributions on Member States separately from those for the regular budget, namely, the United Nations Emergency Force (UNEF) and the United Nations Operation in the Congo (ONUC). The Secretary-General indicated in paragraphs 6 and 7 of his report that the long-term indebtedness of the Organization, of which the United Nations bond issue is the largest element, was to be borne in mind.

19. To understand the problem currently faced by the United Nations in balancing its finances, the following three essential facts must be recalled:

(a) In 1956 and 1960, the Organization undertook two peace-keeping operations - UNEF and ONUC - in whose financing certain Member States (the list is not exactly the same for the two operations) abstain, because of their positions of principle, from participating. The costs relating to these two operations are entered in special accounts.

(b) The Organization financed part of the UNEF and ONUC costs by assessments on Member States separate from those for the regular budget, plus voluntary contributions from certain Member States. At the end of 1961, however, it decided to issue long-term bonds and, from time to time, part of the costs of UNEF and ONUC were covered out of the proceeds of this bond issue.

(c) The annual payments needed for servicing the loan mentioned in sub-paragraph (b) above were included in the regular budget. Most of the countries which refuse to participate in the financing of UNEF and ONUC do not make contributions to the regular budget to cover these annual payments. In addition, it is necessary to recall that certain Member States, because of their positions of principle, do not participate in the financing of certain items of a different character which come under the regular budget. There is, accordingly, a problem for the Organization's regular budget, which otherwise would not incur any great difficulties.

20. The important financial consequences flowing from the two operations as at 30 September 1965, according to the figures provided by the Secretary-General, are as follows:
(a) The expenses authorized for UNEF from its inception amounted to $186.9 million. The contributions received (both assessed and voluntary) and miscellaneous income amounted to $125.9 million. The unpaid assessed contributions amounted to $33.7 million. The proceeds of the loan mentioned in paragraph 19 (b) above were utilized up to $29.9 million.

(b) The expenses authorized for ONUC from its inception amounted to $392.8 million. The contributions received (both assessed and voluntary) and miscellaneous income amounted to $205 million. The unpaid assessed contributions amounted to $82.5 million. The proceeds of the loan mentioned in paragraph 19 (b) above were utilized up to $143.2 million.

(c) The original amount of the loan referred to in paragraph 19 (b) above was $169.9 million to which was added interest earnings of $3.2 million, making a total available of $173.1 million. The balance due on this long-term debt is $156 million.

(d) The regular budget has a cumulative deficit of $5.7 million, owing to the refusal of certain States, because of their positions of principle, to pay their part of the contributions corresponding to the service of the loan. It may be anticipated that the continuation of this situation will increase the cumulative deficit by about $2.4 million a year. To the $2.4 million it is necessary to add amounts relating to the items in the ordinary budget referred to in the penultimate sentence of paragraph 19 (c) above.

21. The proceeds of the long-term loan added to the paid assessments, voluntary contributions and miscellaneous income were not sufficient to meet the total expenses of the Organization with the result that there was at 30 September 1965 a residual shortfall. To arrive at a judgement of the amount of this residual shortfall, it was necessary for the Committee to reach conclusions as to the current availability of assets and the current extent of liabilities.

22. The Secretary-General properly confined himself to providing in this respect the figures contained in the accounts of the Organization, whereas the table which follows in paragraph 24 sets forth the Committee's judgement of the difference between the current obligations and the currently available assets which can be used to meet them.
23. In those instances where the Committee felt that its judgement fell between a minimum and maximum amount, it has shown the amounts resulting in a lower shortfall in column A and the amounts resulting in a larger shortfall in column B. With regard to line 3 (surplus accounts), the figures set forth in columns A and B reflect divergent points of view as to the applicability of the regulations and practices on this subject to the "surplus accounts" for UNEF and ONUC. In relating columns A and B to the figures appearing in table IV of the Secretary-General's report (A/AC.124/1), it must be borne in mind that in the case of three items (3, 6 and 8) the information contained in table IV differs in kind and objective from the figures in columns A and B.

24. The following table, because of the reasons indicated above, discloses several differences between column A and column B and also between column A or B and the figures appearing in table IV of the Secretary-General's report.
<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Estimate of the Committee A</th>
<th>Estimate of the Committee B</th>
<th>For information purposes: Table IV of the Secretary-General's report (A/AC.124/1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Repayment of advances from Working Capital Fund</td>
<td>40.1</td>
<td>40.1</td>
<td>Advances from Working Capital Fund</td>
</tr>
<tr>
<td>(2) Unliquidated obligations</td>
<td>54.2</td>
<td>55.2</td>
<td>Unliquidated obligations</td>
</tr>
<tr>
<td>(3) Sums to be credited or repaid to Member States from surplus accounts</td>
<td>2.4</td>
<td>17.9</td>
<td>Balances recorded in surplus accounts</td>
</tr>
<tr>
<td>(4) Conditional voluntary contributions received, repayable to Member States</td>
<td>2.3</td>
<td>2.3</td>
<td>Voluntary contributions collected but not credited to income</td>
</tr>
<tr>
<td>(5) TOTAL</td>
<td>59.0</td>
<td>115.5</td>
<td>TOTAL</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(6) Payments expected from unpaid assessed contributions by end of 1966</td>
<td>7.2</td>
<td>5.3</td>
<td>Unpaid assessed contributions</td>
</tr>
<tr>
<td>(7) Conditional voluntary contributions received but not credited to income</td>
<td>2.8</td>
<td>2.8</td>
<td>Voluntary contributions required, including amounts collected but not applied as income</td>
</tr>
<tr>
<td>(8) Further payments expected by end of 1966 towards 1965 obligations</td>
<td>22.9</td>
<td>22.9</td>
<td>Difference between 1965 obligations incurred and 1965 advance payments and miscellaneous income received</td>
</tr>
<tr>
<td>(9) Net liquid assets as at 30 September 1965</td>
<td>27.8</td>
<td>24.8</td>
<td>Net liquid assets as at 30 September 1965</td>
</tr>
<tr>
<td>(10) TOTAL</td>
<td>60.7</td>
<td>55.8</td>
<td>TOTAL</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(11) Deficit (excess of liabilities over assets)</td>
<td>38.3</td>
<td>59.7</td>
<td></td>
</tr>
<tr>
<td>(12) Voluntary contributions paid into Special Account as at 30 September 1965</td>
<td>13.7</td>
<td>13.7</td>
<td></td>
</tr>
<tr>
<td>(13) Deficit for which voluntary contributions were originally requested</td>
<td>52.0</td>
<td>73.4</td>
<td></td>
</tr>
<tr>
<td>(14) Voluntary contributions to Special Account paid or pledged</td>
<td>20.1</td>
<td>20.1</td>
<td></td>
</tr>
<tr>
<td>(15) Additional voluntary contributions to be obtained</td>
<td>31.9</td>
<td>53.3</td>
<td></td>
</tr>
</tbody>
</table>
25. The main differences between column A and column B and also between column A or B and the figures appearing in table IV of the Secretary-General's report are explained in paragraphs 26-30 below.

26. "Sums to be credited or repaid to Member States from surplus accounts" and "Balances recorded in surplus accounts" (item 3).

(a) The difference between the higher figure in the Committee's estimates, $17.9 million and the figure in the Secretary-General's report of $36.2 million is accounted for by two factors:

(i) $11.1 million of the difference is attributable to the period July 1962 to June 1963 inclusive, for which no assessments were levied against the Member States for the purposes of UNEF and ONUC. During this period, the proceeds of the bond issue were used to finance these activities.

(ii) $7.2 million of the difference is mainly due to possible credits on unpaid assessments.

(b) (i) The variation of $15.5 million between the lower figure of $2.4 million for surplus accounts in column A and the higher figure of $17.9 million in column B is due to a divergence in the opinion of what comprises surplus accounts.

(ii) The Committee felt that in the light of the discussion in the General Assembly leading to the adoption of resolution 2049 (XX) it should in general act by consensus. On this particular item, in the absence of a full consensus, the Committee has elected to state divergent views as more extensively delineated in annex IV.A and B.

(iii) The higher figure of $17.9 million represents both regular budget surpluses and those surpluses related to UNEF and ONUC. This figure is supported by those Members in whose view the total amount is in accordance with the pertinent United Nations Financial Regulations and practices. These Members stressed the fact that the amounts making up this figure had been approved by the Board of Auditors, whose reports have been accepted by the General Assembly. In their opinion the word "deficit" is improperly employed (when used in the manner indicated in the following sub-paragraph (iv)) by those
delegations which object to the recognition of surpluses in the ONUC and UNEF accounts: this use of the word "deficit" with relation to the ONUC and UNEF accounts fails to take into account the fact that $173.1 million in bond proceeds were transferred to those accounts whereas the actual expenses for the period 1 July 1962-30 June 1963 amounted to only $118.8 million; if all assessments for ONUC and UNEF were paid, there would be in fact a substantial surplus of current assets over current liabilities; the fact that some States did not pay assessments - and the deficit resulting from that fact - cannot affect the surplus account liabilities of the Organization to those States which have paid their assessments fully; accordingly, the fifty-one Member States that have paid their UNEF and ONUC assessments in full are entitled to full credits from the $15.5 million for surplus accounts in column B of the Committee's table. Thirty-nine other Member States are entitled to partial credits from this sum as reductions in their liabilities, because of partial payments on their UNEF and ONUC accounts. In addition, $2.4 million is due from surplus accounts to all Member States as a result of the excess of regular budget authorizations over expenditures.

(iv) The lower figure of $2.4 million represents only regular budget surpluses and is supported by those Members in whose view no liability existed at all for the Organization, as a consequence of UNEF and ONUC surplus accounts, because, in their opinion, the special accounts for these operations were in deficit and would have been in deficit even if all assessments had been paid; these Members also considered that neither the Financial Regulations of the United Nations nor the reports of the Board of Auditors, nor the resolutions of the General Assembly could be interpreted as generating a liability for the Organization in this respect, over and above the $2.4 million due from surplus accounts to all Member States as a result of the excess of regular budget authorizations over expenditures.
27. "Payments expected from unpaid assessed contributions by end of 1966" and "Unpaid assessed contributions" (item 6). Of the $125.9 million shown as "Unpaid assessed contributions" in table IV of the Secretary-General's report, the bulk (approximately $100 million) represents assessments which certain Member States do not accept because of their positions of principle. The amounts of $7.2 million and $5.3 million in columns A and B, respectively, are the best estimates of unpaid assessed contributions expected to be collected by the end of 1966, and, therefore, this range is set forth as a current asset.

28. "Further payments expected by end of 1966 towards 1965 obligations" and "Difference between 1965 obligations incurred and 1965 advance payments and miscellaneous income received" (item 8). The figure of $31.2 million in table IV of the Secretary-General's report represents the sum still required on 30 September 1965 to be contributed by Member States for this period. The Committee's figure of $22.9 million represents the amount which may be expected to be paid by the end of 1966.

29. "Net liquid assets as at 30 September 1965" (item 9). The Committee's judgement of this asset item provides for a range of from $24.8 million to $27.8 million rather than the single figure of $27.8 million indicated by the Secretary-General. This evaluation is based upon the possible difficulty of utilizing $3.0 million out of $5.5 million in Congolese francs before the end of 1966.

30. More detailed explanatory comments on the table set forth above are contained in annex III.
III. SUMMARY OF THE SHORT-TERM (CURRENT) FINANCIAL SITUATION OF THE UNITED NATIONS AS AT 30 SEPTEMBER 1965

31. The conclusion of the Committee is that the deficit of the Organization towards which voluntary contributions were requested from Member States "to assist the Organization out of its financial difficulties" was as follows on 30 September 1965:

32. The "Deficit for which voluntary contributions were originally requested" (item 13) is shown as $52.0 million in column A and $73.4 million in column B.

33. Against this deficit an amount of $13.7 million had already been contributed (as reflected in table IV of the Secretary-General's report) and, accordingly, the "Deficit (excess of liabilities over assets)" (item 11) is shown as $38.3 million in column A and $59.7 million in column B.

34. If amounts pledged and as yet unpaid are added to amounts contributed and available, they total $20.1 million. Thus, "Additional voluntary contributions to be obtained" (item 15) is shown as $31.9 million in column A and $53.3 million in column B.

35. The variation of $21.4 million between the lower and the higher estimates for the short-term (current) financial situation as at 30 September 1965 is, as explained above in paragraph 26 (item 3), mainly due to the divergence of $15.5 million in the opinion of what comprises surplus accounts.
IV. SUMMARY OF LONG-TERM FINANCIAL SITUATION

36. As at 30 September 1965 there remained a balance due of $156 million on the principal amount of the United Nations bonds which is repayable in annual instalments until 1990. After the payment of the instalment due in January 1966, the principal amount, plus interest, remaining to be paid through maturity totals $186.4 million. It may be expected that the continuation of the situation described in paragraphs 19 (c) and 20 (d) above will result in an increase in the cumulative deficit in the regular budget of about $2.1 million a year.

37. In addition, as indicated in paragraph 19 (c), certain States, because of their positions of principle, do not participate in the financing of certain other items in the regular budget. It may be anticipated that the continuation of this situation will result in an increase in the cumulative deficit in the regular budget of about $0.8 million a year.

38. Further, certain States have offered to make payments of their shares of the appropriations for technical assistance as provided for in part V of the budgets for 1963 and 1964 in the equivalent amount of their national currencies and have deposited respective amounts to the United Nations account. The Secretary-General has not credited these amounts against assessments since he has not been able so far to use these national currencies. The amount involved is about $1.1 million a year.