



The Four Nations Initiative  
on Governance and Management of the UN  
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# **Power, Purse and Numbers:**

## **A Diagnostic Study of the UN Budget and Finance Process and Structure**

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FORO Nacional/Internacional – Agenda: PERU



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## ACRONYMS

4NI	Four Nations Initiative
ACABQ	Advisory Committee on Administrative and Budgetary Questions
ASG	Assistant Secretary General
CANZ	Canada, Australia and New Zealand
CPC	Committee for Programme Coordination
CY	Calendar year
DDA	Department of Disarmament Affairs
DESA	Department of Economic and Social Affairs
DPA	Department of Political Affairs
DPKO	Department of Peacekeeping Operations
EU	European Union
FNI	Four Nations Initiative
G77	Group of 77
GA	General Assembly
GDP	Gross Domestic Product
JIU	Joint Inspection Unit
MDGs	Millennium Development Goals
MTP	Medium Term Plan
OCHA	Office for the Coordination of Humanitarian Affairs
OIOS	Office of Internal Oversight Services
PBI	Programme Budget Implications
PKO	Peace-keeping Operations
PPBME	Planning, Programming, Budgeting, Monitoring and Evaluation
PSA	Peacekeeping Support Account
RBB	Results-Based Budget
SG	Secretary General
SMG	Senior Management Group
UN	United Nations
UNDP	United Nations Development Programme
UNEF	United Nations Emergency Force
UNEP	United Nations Environment Programme
UNHCR	United Nations High Commissioner for Refugees
UNLB	United Nations Logistics Base
UNRWA	United Nations Relief and Works for Palestine Refugees in the Near East
US	United States
USG	Under-Secretary General

## Executive Summary

*“Without an understanding of the political background of the fiscal difficulties of the United Nations and the political determinants of its future role in world affairs, one cannot deal intelligently with the problems and prospects of the Organization’s treasury. ... the United Nations is an agency of the multi-state system, owned and operated by states which undertake, cooperatively and competitively, to use it to affect the working of the system and to influence their fortunes within the system. It does not stand above or outside the international political system, but it is clearly in and decidedly of that system. Serving as both workshop for collaboration and an arena for conflict, the Organization is inexorably involved in the political relationships of states and is affected by politics, and working undisturbed to promote global welfare is neither possible nor desirable. Political involvement is the price of relevance; only a world organization which is subject to the buffeting of political forces is in a position to contribute significantly to the solution of the critical problems of international relations.”*

Inis Claude, 1963.<sup>1</sup>

## Introduction

Who should hold power in a democratic institution? The majority of its members or those who pay for it? Is it possible to avoid the dilemma of choosing between the tyranny of numbers and the tyranny of the purse? Can a sensible middle course be found to address the legitimate concerns of poorer members, whose power lies in numbers, and of richer members, whose power within the organization is based on money? These are difficult questions that have bedevilled democratic institutions since time immemorial—and none more so than the United Nations, which has had to deal with these issues head on during its more than six decades of existence. Over time, these questions have been resolved, to a lesser or greater degree, and to the satisfaction or dismay of one or another group of UN member countries. Yet, it is highly unlikely that they will be dealt with, once and for all, in ways that will make all of its members comfortable and happy.

The evolution of the UN has mirrored the state of the world during the second half of the 20th century. As the world economy has grown, as new states emerged in the international arena and as conflicts multiplied, the UN was called on to address new and more complex problems. However, its governance, management and financial capabilities remained rather inadequate, for they lagged by several years, if not decades, behind the challenges they were supposed to meet.

## Background

Financial and budgetary difficulties emerged early in the history of the United Nations and have been a constant feature through its existence. An early attempt at achieving some degree of coherence between decision-making in the General Assembly and the capacity of the Secretariat to implement those decisions was initiated barely one year after the UN was created. In 1947 a new rule of procedure was adopted:

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<sup>1</sup> Claude (1963, p. 831).

‘No resolution involving expenditure shall be recommended... for approval by the General Assembly unless it is accompanied by an estimate of expenditures prepared by the Secretary-General. No resolution in respect of which expenditures are anticipated by the Secretary-General, shall be voted by the General Assembly until the Administrative and Budgetary (Fifth) Committee has had an opportunity of stating the effect of the proposal upon the budget estimates...’<sup>2</sup>

Over time, there have been many other attempts to address financial, budget, management and administrative questions, seeking to improve the effectiveness of the UN and to balance the financial requirements to fulfil mandates with resource availability. These attempts intensified in the 1990s as pressures to reform the UN became more acute.

The budget process involves two main groups of stakeholders, with a third group straddling them. The first group includes Member Countries represented in the General Assembly, most of its committees and the Security Council, while the second group comprises the departments, offices, funds, programs and regional commissions that are part of the United Nations Secretariat. A third group of stakeholders links the first two and includes the Fifth Committee of the General Assembly that deals with financial matters, the Advisory Committee on Administrative and Budgetary Questions (ACABQ), the Committee for Programme and Coordination (CPC), and the monitoring and oversight bodies (Board of Auditors, Joint Inspection Unit, Office of Internal Oversight Services).

The UN Secretariat has three main ways of obtaining funds: the regular budget, the peacekeeping operations budget and voluntary contributions. The regular budget works on a two-year cycle and is carried out as part of a Planning, Programming, Budgeting, Monitoring and Evaluation (PPBME) process. It begins with the preparation of an outline budget, with submissions from Secretariat departments and with a review and compilation of the budget by the Department of Management of the Secretariat. The budget is then examined by the ACABQ and the CPC, before being discussed and adopted by the Fifth Committee. It is then approved by the General Assembly and revised annually to introduce the necessary changes. The peacekeeping budget operates on an annual cycle and derives from Security Council mandates for the UN to intervene in a conflict area. Start up funds are allocated after review by the ACABQ and budgets for peacekeeping missions are approved by the Fifth Committee in a much shorter time than it takes to approve the regular budget.

The regular budget represents 24.4 percent of total 2005 expenditures of the UN Secretariat, while extra-budgetary and peacekeeping expenditures account for 46.5 percent and 29.1 percent, respectively. The growth and amounts of extra-budgetary resources in recent years have outpaced those from the regular budget. For the biennium 2006-2007, the UN regular budget amounts to US\$ 3.8 billion and voluntary contributions to US\$ 5.6 billion, 72 percent of which fund human rights and humanitarian affairs programs. There are more than 150 trust funds through which voluntary contributions are channelled to the UN Secretariat, each of which has its own support arrangements and costs.

The United Nations budget is a key vehicle through which Member Countries transform their interests, aspirations, desires and objectives regarding many aspects of multilateral relations into collective decisions and action. The process of preparing, approving and executing the UN budget provides a financial nexus in which differing views on multilateral initiatives are

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<sup>2</sup> Rule 153 of the rules of procedure of the General Assembly.

crystallized. Therefore, it is essential to keep in mind that the financial problems of the UN Secretariat are, above all, political problems, for the UN budget reflects the power structures, political relations, ideological divisions, military capabilities and relative economic strengths of UN Member Countries.

### **Areas of concern**

It is possible to identify four main areas of concern regarding the financial and budget aspects of UN Secretariat, whose combined impact leads to a fifth set of preoccupations. The first refers to the different views of UN stakeholders and the search for consensus; the second focuses on the lack of correspondence between mandates and the resources made available to carry them out; the third emerges out of the structure of finance of the UN Secretariat; and the fourth focuses on the processes and procedures to prepare and execute the UN Secretariat budget. All of these lead to a lack of organizational learning capabilities that stymies the functioning of the UN Secretariat.

*Stakeholders and the search for consensus.* As the only world body with universal membership, with a level playing field of ‘one country one vote’ in the General Assembly, and with a Security Council that reflects the reality of power relations long past, consensus has emerged as a key feature of the decision-making process at the United Nations. During nearly five of its six decades of existence, the Cold War provided a framework for the bargaining process that characterizes decision-making in the UN. In the post-Cold War age, this East-West division has been superseded by a new and different set of cleavages between nations, which reflect the diverging concerns of the rich-poor or included-excluded dichotomies that have emerged as the process of globalization has taken hold.

The ongoing North-South tension in the UN can be summarized as a struggle between the ‘power of the numbers’ and the ‘power of the purse’. The lack of voting power of the large contributors over budgetary questions in the General Assembly and the Fifth Committee, and their unwillingness to provide resources for activities they do not control, has resulted in the stagnation of the regular budget and an increase in extra-budgetary financing through trust funds, where donor countries can exert more influence. The interaction between the UN Secretariat and Member States, and particularly the G77, has also been characterized by relative unease, lack of cooperation and mistrust. This lack of trust generates burdensome procedures, regulations, controls and reporting requirements that hamper the overall efficiency of the organization.

Taking into account the diversity of national interests and positions of UN Member States, it is essential to seek common ground and to generate a minimum level of consensus for the UN Secretariat to function adequately and fulfil its mission of maintaining peace and promoting development. This requires a clear understanding of the interests and objectives of different parties, as well as a reasonably correct appreciation of the ‘zones of tolerance’ and ‘negotiation thresholds’ that define the range of acceptable outcomes for all parties. It is also necessary to judiciously use ‘creative ambiguity’ in drafting resolutions, so as to allow for compromises, accommodation and slightly different interpretations that UN delegates can defend in their own countries. Over time, as confidence and trust are built, such a process may lead to gradual and possibly lasting changes, as it has done in the past in the UN, but it must always be kept in mind that there is ample room for misunderstandings.

*Lack of correspondence between decision-making and resources to implement decisions.* There is a widely held perception in the UN that mandates and budgets are running on different tracks and that there is a serious mismatch between the two. During the last two decades the mandates given by the General Assembly have proliferated and the resources required for their implementation have outpaced the financial capabilities of the UN. This has been exacerbated by the policy of zero-growth of the regular budget, which has further widened the gap between mandates and financial resources to carry them out, particularly for the non-peacekeeping activities of the UN Secretariat.

The UN Secretariat has at its disposal several mechanisms to cope with some of these mismatches, which primarily affect activities covered by the UN regular budget. These include the definition of priorities in the Strategic Framework, the phased implementation of mandates, the practice of spreading resources thinly to partially implement mandates, the use of the contingency fund (though it is usually rapidly depleted), and the identification of obsolete and redundant activities that can be terminated with the concurrence of Member States. In addition, there is the recourse to extra-budgetary resources, although this has the disadvantage of distorting priorities defined by the General Assembly. These means of coping with the mismatch between mandates and resources in the context of zero growth of the regular budget provide a way out, but do not encourage transparency. They also make it difficult to know what will be actually funded, force the Secretariat to address issues that Member States leave unresolved, and exacerbate the mistrust between Member States and the Secretariat.

The Programme and Budget Department at the UN Secretariat and the ACABQ play important roles in linking the General Assembly and its Fifth Committee, on one hand, and the UN Secretariat, on the other. They contribute significantly to ease the extent and impact of these mismatches by playing a 'buffer role' between these two sets of stakeholders in the budget process. In addition, they must examine, review and reconcile divergent views on resource allocation, and act as process keepers and guardians to ensure compliance with budget regulations.

*Fragmented structure of finance of the UN Secretariat.* The different sources of funding of the UN Secretariat pose an administrative challenge to the organization as they have different planning, budgeting, implementation cycles, inter-governmental review, reporting and accountability processes. The regular budget is the backbone of the organization's activities not by virtue of size, for it forms only a relatively small proportion of the annual expenditure of the UN system, but rather because it supports the basic operational costs of the organization and because assessed contributions are not earmarked and allow, at least in principle, discretion in the allocation of resources. Provided that Member States make timely and full payments, the regular budget is an effective, predictable and stable source for the organization. Yet in practice, this has not been the case: the flow of funds from assessed contributions has been highly unreliable. Similar remarks apply to the peacekeeping budget.

Voluntary contributions through trust funds can be viewed as a useful and even necessary supplement to the regular and peacekeeping budgets of the United Nations Secretariat. Without recourse to them, much valuable work in the fields of humanitarian relief, narcotics control, and economic and social programs could not be carried out. The relative speed and flexibility with which they can be used give them further advantages and, from a donor's perspective, they also allow countries to choose programs that are more aligned with their national priorities and that they wish to support. But trust funds also generate problems. They



add additional layers of complexity to the planning and overall governance of the organization. The activities financed are not subject to the same central program of administrative and budgetary controls as regular budget activities, nor are they subject to approval through the normal budgetary processes. Voluntary contributions tend to be a less predictable and reliable source of funding than assessed contributions. Unilateral ‘pick and pay’ approaches of major donors through trust funds generate financial uncertainty, and donors prefer this type of finance as they can avoid long-term budgetary commitments.

*Budget preparation, approval and execution procedures.* There is general agreement that the main planning, budgeting, reporting and evaluation tools at the UN Secretariat are rather weak and require significant improvements. Resources available to Member States to evaluate UN activities and performance are inadequate, and as a consequence budget allocations, program objectives, expected results, output indicators and evaluation processes remain disconnected from each other.

There also appears to be a blurring of functions between the Fifth Committee and Secretariat management, which stems from the great level of detail with which Fifth Committee members review regular budget submissions. This is reflected in discussions and decision-making on budgets and administrative topics that typically focus on individual posts and specific expenditure items, rather than on strategic questions related to the objectives, mandates and performance of the UN Secretariat. Moreover, the active involvement of Member States in specific resource allocation decisions makes it difficult for the Secretary General to reallocate resources as needs emerge.

*Organizational learning.* The preceding four areas of concern combine to generate a fifth set of preoccupations that refer to the inability of the United Nations to develop organizational learning capabilities. Past experience with budgets and finance has not, in general, led to lasting changes and significant improvements, even though the last decade has seen renewed efforts in this direction. This largely a consequence of the political character of the institution, a fact clearly noted by Inis Claude in the quote at the head of this executive summary.

The diversity of views, objectives and expectations of the multiplicity of stakeholders in UN financing and budget makes it difficult to agree on indicators and qualitative measures that could provide benchmarks for the performance of the Secretariat. Together with the lack of correspondence between decision-making and resource allocation, and between budget planning and execution, this conspires against obtaining feedback to guide future action.

### **An approach to change**

Rather than viewing the preceding areas of concern as a ‘problem’ for which a ‘solution’ should — or could — be found, they must be seen as a structural condition to be acknowledged and dealt with. Such conditions are not ‘solved’ in a clear, unambiguous and definitive manner; rather, organizations ‘evolve’ out of a condition in a variety of ways. These include incremental and gradual adjustments, cataclysmic events that force change in practices and behaviour, haphazard circumstances and chance that create unexpected opportunities and open up avenues, actions by charismatic and visionary leaders that put their imprint on the organization and chart new courses of action, and the deliberate intervention of coalitions of stakeholders that act strategically to change the organization.

However, a complex institution or organization with a multiplicity of diverse stakeholders can remain in stasis for rather a long time, or undergo change in such a slow way as to be almost imperceptible. This is partly because the parties involved in it learn to tolerate a certain degree of inefficiency and ineffectiveness as the price of inclusiveness, participation and broad ownership by its members. Yet, such an acceptance of less than satisfactory performance does not necessarily imply disregard or lack of interest in improving the way the organization operates, but rather an acknowledgement of tradeoffs and a determination to keep the institution alive and functioning in spite of its shortcomings.

However frustrating to reform-minded stakeholders, finance and budget matters in the UN are likely to advance by fits and starts, achieving incremental but lasting improvements that demand patience and persistence. Promoting change in the UN requires an appreciation and understanding of the long-term historical background of this unique entity and its peculiar organizational culture; of the medium-term institutional factors — norms, rules, regulations, incentives, processes, structures, procedures — that mould and shape the behaviour of its members; and of the short-term circumstances that influence perceptions and create openings for new initiatives. These three sets of factors should be viewed against the backdrop of changing international power relations in a fractured global order.

The unique nature of the UN — in which the ‘one country one vote’ rule in General Assembly provides a level playing field that equalizes asymmetric power relations between member countries, but where at the same time the Security Council and its five Permanent Members reflect a balance of power frozen in time since the end of World War II — requires a paradoxical mindset to effect change. Only incremental steps are feasible, but to generate lasting improvement they must be informed by a radical vision for the institution. The oxymoron ‘radical incrementalism’ may be appropriate to describe this approach to institutional changes in governance and management at the UN. At the same time, as circumstances change continuously, there is a need to be alert and exploit opportunities that may emerge unexpectedly, although it is also necessary to place them in a strategic framework to guide which opportunities to take advantage of and in which way. ‘Strategic opportunism’ may be another suitable oxymoron to describe such a stance.

In trying to resolve the indeterminate equation of power, purse and numbers in UN financial and budget matters, it is possible to identify some ‘entry points’ emerging out of this study. A first entry point refers to the financial and budget aspects of peacekeeping operations, which are functioning reasonably well at present but are likely to encounter serious difficulties in the near future; a second focuses on transparency, coherence and rationalization in trust fund management, which would considerably improve financial management in the UN Secretariat; and a third entry point deals with improvements in the budget preparation, approval and execution process, matters on which there is general agreement, but where it has not been possible to move forward because of political limitations that could be overcome with political will.

A more adequate appreciation and understanding of the closely intertwined political, technical and managerial aspects of financing and budget processes at the UN Secretariat would make it possible to evolve a shared perception of the governance and management challenges and opportunities that the United Nations faces at the beginning of the 21st century. In turn, this may pave the way for the UN Secretariat to evolve out of the difficult and messy situation it finds itself in at present.

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## **1. Introduction**

Who should hold power in a democratic institution? The majority of its members or those who pay for it? Is it possible to avoid the dilemma of choosing between the tyranny of numbers and the tyranny of the purse? Can a sensible middle course be found to address the legitimate concerns of poorer members, whose power lies in numbers, and of richer members, whose power within the organization is based on money? These are difficult questions that have bedevilled democratic institutions since time immemorial—and none more so than the United Nations, which has had to deal with these issues head on during its more than six decades of existence. Over time, these questions have been resolved, to a lesser or greater degree, and to the satisfaction or dismay of one or another group of UN member countries. Yet, it is highly unlikely that they will be dealt with, once and for all, in ways that will make all of its members comfortable and happy.

These are the some of the thorny issues addressed in this report, which was requested by the Four Nations Initiative (4NI) on Governance and Management of the United Nations. The idea was to prepare a diagnostic study of the budget and finance process and structure of the UN Secretariat, and to focus primarily on the challenges faced by UN Member Countries and the UN Secretariat.<sup>3</sup>

The main objectives of this study are:

- To describe the evolution of budgetary and financial rules as well as practices to the extent that this contributes to an understanding of weaknesses and shortfalls in the present rules and practices;
- To identify problems and challenges in the area of budget and finance structure;
- To examine the implications of these rules, practices, problems and challenges both from the perspective of Member States and of the UN Secretariat.

The report is organized into five sections. Following this introduction, the second section describes the evolution of the budgetary and financial rules and practices of the UN Secretariat. The third section presents the UN Secretariat budget-making landscape, identifying the main stakeholders in the budget-making process, describing the process itself and the current financial structure. The fourth section describes the main areas of concern that emerge from an analysis of the financial structure and the budget-making process at the UN Secretariat. The fifth section offers some concluding remarks and an appreciation of the key

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<sup>3</sup> The study was conducted in a short period of time (late August-early December 2006). It involved a review of the academic literature, of General Assembly Resolutions, of Secretariat reports and documents, and of material produced by a variety of UN subsidiary bodies and expert groups. This was complemented with interviews with UN Secretariat officials, delegates from Member Countries and independent experts on UN reform. The team held several meetings in person and a much larger number of telephone conferences to discuss findings and their implications. The team benefited greatly from the feedback of members of the Steering Committee and the Secretariat of the Four Nations Initiative and from comments by several experts.

challenges faced in UN Secretariat budget and financing reform. Several annexes complete the report.

## **2. Evolution of the UN Secretariat budget and finances**

### ***2.1. Initial arrangements for financing the UN Secretariat***

Right from the beginning, at the time the United Nations was created, it was agreed that the core expenses of its Secretariat were to be paid by assessment of its entire membership. The UN Charter established a legally binding framework for all sovereign Member States that ratified it, which committed themselves to honour its collective decisions.

The Charter assigned certain financial powers to the General Assembly (GA) in three different articles, thus conferring the ‘power of the purse’ to all Member States that take decisions on budget matters in the GA. Article 17 states the General Assembly is in charge of considering and approving the organization’s budget, and indicates that ‘the expenses of the Organization shall be borne by the Members as apportioned by the General Assembly’. Article 18 stipulates that all decisions on ‘important questions shall be made by a two-third majority of the Members present and voting’ and specifically includes budgetary matters in the category of important questions. Anticipating that some governments might fail to provide their share of the funds for the common enterprise, the Charter included an enforcement mechanism in Article 19:

‘A Member of the United Nations which is in arrears in the payment of its financial contributions to the Organization shall have no vote in the General Assembly if the amount of its arrears equals or exceeds the amount of the contributions due from it for the preceding two full years’.

The drafters of the Charter of the UN took into consideration the experience with the Covenant of the League of Nations and introduced several provisions to avoid the problems that plagued it. First, the Charter makes clear that ultimate budgetary authority lies with the General Assembly. Omitting this stipulation in the League of Nations Covenant had led to conflicts and stalemates on financial matters. Second, the GA was to apportion the budget among all Member States, but the framers of the Charter gave the Assembly considerable flexibility and refused to specify how the budget process should be handled. Third, the two-thirds majority required to approve the budget was a departure from the unanimity principle of the League of Nations, which often led to paralysis. Lastly, considering that nothing in the League Covenant had provided for action in case of failure of Member States to pay their assessed contributions, penalties were established for those that accumulate arrears.

The UN Member States also agreed on the principle that UN expenses ‘should be apportioned broadly according to capacity to pay’ and established a scale of assessments, which was based primarily on economic indicators. However, from the very early days of the UN (1948), the formula for apportioning UN expenses has made allowance for the low per capita income of many of its members. In 1958, the General Assembly decided that the scale of assessment would apply for three-year periods. The *Committee on Contributions* —a panel of experts elected by the Assembly and tasked with periodically reviewing the methodology, data, and alternatives for apportioning the expense burden among Member States— evaluates current economic indicators and re-examines the assessment scale every three years. Poor

countries struggling with a heavy burden of foreign debt receive special treatment in the form of relief from their financial obligations.

In order to finance unforeseen and extraordinary expenses pending appropriation decisions by the General Assembly, and also to provide for the eventuality of assessed contributions being paid late, a *Working Capital Fund* was established in 1946.<sup>4</sup> This Fund was authorized to be at a level of about 20 percent of the regular budget. Yet, the Working Capital Fund has frequently been exhausted, which has forced the UN Secretariat to borrow funds from peacekeeping accounts to meet regular expenditures.

Since the creation of the United Nations, assessed budgets have covered most administrative expenses of the Secretariat and of programs, funds and agencies, while additional voluntary contributions have provided a substantive portion of resources for specific activities and field operations. Voluntary contributions also have allowed Member States the opportunity to support initiatives they considered priority.<sup>5</sup> In 1979, the GA adopted policies for establishing and managing voluntary contributions through trust funds,<sup>6</sup> which were revised shortly afterwards in 1982.<sup>7</sup>

Peacekeeping operations were envisaged in the United Nations Charter. The UN's first peace and security missions, which took place in Palestine and Kashmir in 1948, were financed as part of the UN regular budget. The first major military action under United Nations auspices was carried out from 1950 to 1963 in Korea and, as at that time there were no specific agreement or regulations to apportion the costs of UN military interventions, Member States contributed troops, money and materials on a voluntary basis. However, as a response to the invasion of Egypt by Israel, France and the United Kingdom in 1956, the General Assembly established the United Nations Emergency Force (UNEF) and, for the first time, assessed the costs of a major peacekeeping operation on its entire membership.<sup>8</sup> In November 1956 the Secretary General (SG) recommended that a Special Account outside the regular budget be set up for UNEF and that Member States share the costs on the basis of the scale of assessment.

In 1962 the International Court of Justice stated that the GA had the capacity to assign financial responsibility to Member States to cover the cost of peacekeeping operations.<sup>9</sup> Each of these operations began to be assessed separately based on a special peacekeeping scale of assessment, which was introduced formally in 1973.<sup>10</sup> The pertinent resolution recognized that 'a different procedure is required from that applied to meet expenditures of the regular

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<sup>4</sup> A/C.5/27/Corr. 1, 6 February 1946.

<sup>5</sup> The UN's first major undertaking with voluntary contributions was through the UN Relief and Rehabilitation Agency to provide relief for displaced persons in Europe after World War II. By the time the agency was dissolved it had spent about US\$ 3.6 billion to care for war refugees awaiting repatriation or resettlement. See: Jeffrey Laurenti, 2004, "Financing the United Nations" in Jean E. Krasno (ed.), *The United Nations: Confronting the Challenges of a Global Society*, p. 229.

<sup>6</sup> ST/SGB/146/Rev.1.

<sup>7</sup> United Nations, 1982, *Programme Support Accounts: From the Assistant Secretary for Financial Services*, ST/AI/286, United Nations, 1982, *Establishment and Management of Trust Funds*, Doc. ST/SGB/188.

<sup>8</sup> Leland M. Goodrich, and Gabriella E. Rosner, 1957, *The United Nations Emergency Force*, *International Organization*, Vol. 11, No. 3 (Summer, 1957), pp. 413-430.

<sup>9</sup> See: "Expenses of the United Nations for Peacekeeping Operations: The Advisory Opinion of the International Court of Justice", *International Organization*, Vol. 17 (1963), No. 1, pp. 5-6.

<sup>10</sup> The General Assembly on the recommendation of the Fifth Committee (A/9428) adopted the relevant resolution involving four levels (for UNEF), Doc. 3101 (XXVIII) on 11 December 1973.

budget', and proceeded to establish four categories of Member Countries for the purposes of contributing to peacekeeping operations. Category A comprises the five permanent members of the Security Council, which bear the main responsibility for maintaining global peace and pay an additional 25 percent above their assessments for the regular UN budget. Group D, comprising the poorest countries, is assessed at 10 percent of their regular budget contributions; countries in Group C, roughly the lower middle income countries, pay 20 percent of their regular budget assessments; and countries in Group B, mainly middle income countries, contribute in the same proportion as they do to the regular budget. However, considering that since the peacekeeping assessment scale was adopted the US had paid in excess of 30 percent of the total cost of peacekeeping missions, in 2000 a ceiling of 25 percent was adopted to cap the contributions that should be paid by any one Member Country.<sup>11</sup>

The complexity and technical character of financial arrangements for the United Nations were recognized early on.<sup>12</sup> In 1946, the *Advisory Committee on Administrative and Budgetary Questions* (ACABQ) was established as a subsidiary organ of the General Assembly<sup>13</sup> to examine and report on the budget submitted by the Secretary General, and to advise the General Assembly concerning any administrative and budgetary matters referred to it. This Committee, which initially had 16 members, has played a major role in financial matters at the UN Secretariat, for it reviews the budget submitted by the Secretariat before it is considered by the General Assembly and, in particular, its Fifth Committee (a committee of the whole). ACABQ members are supposed to be independent and to have substantive technical expertise, in addition to being designated taking into consideration geographical representation.

However, initiatives and decisions with budgetary implications proliferated right from the first sessions of the General Assembly, leading to conflicting priorities with no coherent pattern.<sup>14</sup> As a response to this concern, the creation of a *Committee for Programme Coordination* (CPC) was proposed in 1948, even though it was only established in 1962. This was an attempt to rationalize the budget process and to improve coordination in the UN, primarily by reviewing programs, identifying overlaps and establishing priorities.

Another early attempt at achieving some degree of coherence between decision-making in the General Assembly and the capacity of the Secretariat to implement those decisions was initiated barely one year after the UN was created. It aimed at ensuring that all the main policy organs of the United Nations, the Councils and the main committees of the GA, become aware of the hidden costs of policy decisions, and of the financial implications of the programs that they consider or authorize. In 1947 a new rule of procedure was adopted:

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<sup>11</sup> See annex 3 for a description of the peacekeeping scale of assessment.

<sup>12</sup> Authorizing and approving expenditures under the United Nations regular budget were perceived as a lengthy and cumbersome process right from the beginning. In the words of the US Senate Foreign Relations Committee study: 'The UN budget probably is given as careful a scrutiny as any budget of a similar size anywhere in the world. Representatives from Member States in the General Assembly often spend days debating relatively modest sums which would be considered by some national legislative bodies in a matter of hours or even minutes', US Congress, Senate, 83rd Congress, 2nd Session, *Budgetary and Financial Problems of the United Nations*, Staff Study No 6, Subcommittee on the United Nations Charter, Washington, DC, No 55432, p. 161, December 1954.

<sup>13</sup> Assembly resolutions 14 (I) of 13 February 1946

<sup>14</sup> See: David Singer, *Financing International Organizations: The United Nations Budget Process*, Martinus Nijhoff, The Hague, 1961, p. 39.

‘No resolution involving expenditure shall be recommended... for approval by the General Assembly unless it is accompanied by an estimate of expenditures prepared by the Secretary-General. No resolution in respect of which expenditures are anticipated by the Secretary-General, shall be voted by the General Assembly until the Administrative and Budgetary (Fifth) Committee has had an opportunity of stating the effect of the proposal upon the budget estimates...’<sup>15</sup>

As to the problem of voting activities that had not been budgeted, the financial regulations were amended to provide that:

‘Where, in the opinion of the Secretary-General, the proposed expenditure cannot be made from the existing appropriations, it shall not be incurred until the General Assembly has made the necessary appropriations, unless the Secretary-General certifies that provision can be made under the conditions of the resolution...relating to unforeseen and extraordinary expenses of the Working Capital Fund.’<sup>16</sup>

Financial and budgetary difficulties emerged early in the history of the United Nations and have been a constant feature through its existence. In a general sense, the evolution of the UN has mirrored the state of the world during the second half of the 20th century. As the world economy has grown, as new states emerged in the international arena and as conflicts multiplied, the UN was called on to address new and more complex problems. However, its governance, management and financial capabilities remained rather inadequate, for they lagged by several years, if not decades, behind the challenges they were supposed to meet. In some extreme cases, it may be said that these capabilities have been frozen in time and respond to a world reality that has long since vanished. Figure 1 traces the growth of world GDP, the number of conflicts, world military expenditures and UN membership, showing how the regular and peacekeeping budgets have kept pace with the growth of those indicators. It also makes it clear that, as the challenges to the UN mounted proposals to reform its governance, management and financing systems have also grown.

## ***2.2. Major highlights of the evolution of budgetary and financial rules and practices until the mid 1990s.***

Financial pressures have been a fact of life at the UN—in no small measure because member countries often paid their assessed duties late or purposefully withheld them. However, the first really serious financial crisis arose in 1956 as a consequence the first major peacekeeping operation (UNEF in the Sinai), which set off a dispute regarding how to cover its cost, who should pay and how much. Since there was no clear precedent to determine contributions to peacekeeping, a number of Member States refused to pay, some on the grounds that those countries responsible for the crisis should bear its cost. Later, in 1960, another major and controversial peacekeeping operation, this time in Congo, again led a number of countries—particularly the Soviet Union and France—to withhold payments because of policy differences.

When U. Thant took over the post of Secretary General (SG) he decided to address the financial crisis immediately. One of his first suggestions was to establish a lottery to finance

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<sup>15</sup> Rule 153 of the of the rules of procedure of the General Assembly

<sup>16</sup> A/520, 1 January 1948, Rules of Procedure, p. 26; GA II 1947, Resolutions, p. 75, Reg. 38

FIGURE 1: The World and the United Nations: A Long-Term Perspective



Sources:

1. World GDP. World Development Indicators database.
2. Number of conflicts. Harbom, Lotta and Peter Wallensteen, 2005, "Armed conflict and its international dimensions 1946-2004", *Journal of Peace Research* vol. 42, No 5, pp. 623-635.
3. World military expenditures. Stockholm International Peace Research Institute (yearbooks).
4. UN Membership. <http://www.un.org/Overview/growth.htm>.
5. UN Regular Budget, Financial Report and Audited Financial Statements for the Biennium and Report of the Board of Auditors; Peacekeeping operations, from <http://www.globalpolicy.org/finance/tables/pko/pend.htm>.
6. Thant Myint-U and Amy Scott, 2006, *A Brief History of the UN Secretariat*, International Peace Academy, 27 November 2006, forthcoming.
7. UN reform proposals –(See Annex 1 for the complete list of proposals).

Note: All graphs show the average data for the period except the graph for UN Country Members.



UN Secretariat operations, but this met with little support. He then proposed a special bond issue to cover unpaid assessments, which was approved by the General Assembly in December 1961 with opposition from some Member States. Altogether, the UN issued \$169 million in bonds starting in 1962, which were later paid off from regular assessment income, although some countries refused to pay the bond service and withheld pro-rated sums from their assessments. So before the end of the 1960s, two bad precedents had been set. First, that countries could withhold assessed payments because of policy disputes. Second, that Member States could reduce their assessed contributions to the regular budget through ‘targeted withholdings’. In addition, another attempt to ease the financial crisis also set a bad precedent. With the acquiescence of member countries, the UN began to delay reimbursements to countries supplying troops and equipment to peacekeeping operations, in effect forcing these countries (many of which were poor) to provide loans to the organization.

In 1965, the GA established a Committee of Experts to assess the systems of finance and budgeting of the UN. The Committee concluded that the budget structure allowed too much latitude to UN’s organs and recommended developing a more integrated system for planning and budgeting, which was approved by the General Assembly in 1967. It also came up with a formula to recoup many of the sums withheld from the UN and to attract voluntary contributions to ease the financial crunch. Member Countries were invited to contribute to a Special Account that acted as a reserve fund, expanding on the rather small Working Capital Fund set up in 1945. These two funds provided the UN with a limited financial cushion.

In the mid-1960s the United States called for the application of Article 19 of the UN Charter, under which a Member State owing more than its previous two years contributions could be stripped of its vote in the GA. The rule was not applied and instead the rules and procedures were modified, so that peacekeeping arrears would not count against overall arrears for the purposes of Article 19. Subsequently, many countries have failed to pay their assessments, both to the regular and peacekeeping budgets, with little fear of the consequences.

The proliferation of bodies, duplication of activities and lack of coordination across the system was also becoming a problem. In 1969, the UNDP commissioned a study of the capacity of the UN development system (the ‘Capacity Review’) led by Sir Robert Jackson. It was the first report that provided an overall view of the United Nations operations and was extremely forth-right in its criticism of the UN structure and operations. Jackson described the UN as a ‘machine’ that had evolved into ‘probably the most complex organization in the world. He asked the question ‘who controls this machine?’ He pointed out that ‘about thirty separate governing bodies’ tried to exercise control over different pieces of the administrative machine, yet ‘at the headquarters level, there was no real ‘Headpiece’ — no central coordinating organization — which could exercise effective control.’<sup>17</sup> The report, however, produced little substantive change within the UN structure because of opposition of some Member States and the bureaucracy.

Up until the 1970s, different regional group priorities could be accommodated through budgetary growth and in that decade the UN regular budget grew at the fastest rate in UN history. However, during this decade US control over the UN weakened as membership of the organization expanded and the Third World bloc rose in prominence. In 1979, during hearings on UN finance and reform, members of Congress called for tighter control by the United States over the UN and its spending —especially spending on policies with which the

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<sup>17</sup> Robert G.A. Jackson, 1969, *A Study of the Capacity of the United Nations Development System*, Geneva.

US government and members of Congress did not agree. The US began to withhold payments for selected UN programs such as those that supported the Palestine Liberation Organization and the South West African People's Organization, the independence movement in Namibia. In 1984, the US Congress approved the Kassebaum-Solomon Amendment to that country's budget authorization, in which it withheld 20 percent of UN appropriations conditional on the UN establishing weighted voting on budgetary matters.

To meet this challenge the GA established the Group of High-Level Intergovernmental Experts (the 'Group of 18') to recommend measures for improving the efficiency of the UN's administrative and financial operations. The Group noted that the regular budget had grown sevenfold in 40 years and that the structure of the Secretariat was too 'top-heavy and complex' with 28 USG and 29 ASG posts under the regular budget. It made 71 recommendations, including a 15 percent reduction in the overall number of regular budget posts; a 25 percent reduction in regular budget USG and ASG-level posts; reductions in the costs of conferences, travel and documentation costs; consolidation of departments; and the trimming of staff benefits.

In 1986, the GA passed a resolution approving some of the recommendations from the Group of 18, including a two-tier budget procedure.<sup>18</sup> A new 'budget outline' was introduced sketching priorities and appropriations one year prior to approving the detailed budget, so as to involve Member Countries at an earlier stage of the budget process. In addition, the new outline budget was to be approved by consensus, which gave a greater weight — in effect, veto power — to any country and especially those paying the larger quotas. This further allowed for an even tighter cap of 'zero nominal growth' in UN Secretariat expenditures. Other decisions covered the reduction in the number of posts by 15 percent and the merging and restructuring of organizational entities in the political, economic and information services areas. In an atmosphere of budgetary shrinkage, resource battles between the Secretariat and Member Countries, as well as within the Secretariat, became particularly bitter.

Other changes also arose over the years with regards to the scale of assessment. Since the creation of the UN, the United States sought to lower its assessment and unilaterally insisted that it should pay no more than a quarter of the total UN expenses. Several compromises were struck and US contributions were first fixed at 39.89 percent and subsequently lowered to 33.33 percent in 1954, and in 1974 this ceiling was reduced to 25 percent. The debate flared once again with the particular intensity in 1999, when the United States Congress adopted legislation authorizing the payment of \$926 million in arrears to the UN over a three-year period, subject to the fulfilment of specific conditions.<sup>19</sup> The payment for 2000 was conditional, among other things, on action by the GA to reduce the regular budget ceiling assessment for Member States. The United States insisted on lowering its regular budget assessed share to 22 percent, and the country's assessed share of peacekeeping operations to 25 percent. In the end, the GA acquiesced to these proposals and set the ceiling for the contribution of any single country (in practice, the United States) to 22 percent for the regular budget and 25 percent for the peacekeeping budget.

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<sup>18</sup> General Assembly Resolution 41/213, 19 December 1986.

<sup>19</sup> The "Helms-Biden Agreement", which is contained in the Foreign Affairs Reform and Restructuring Act (House Report 105-432), established conditions for the release of \$926 million in arrears the US has accrued with the UN Payments. The second tranche of payment was linked to a reduction in the US assessment rate from 25 percent to 22 percent for the UN regular budget and from 31 percent to 25 percent for UN peacekeeping operations.

Since the mid-1990s a number of UN internal reforms have been undertaken to improve the efficiency of UN administrative practices related to the financing of peacekeeping. In 1992 a 'Peacekeeping Reserve Fund' of US\$ 150 million was created as a cash-flow mechanism to ensure rapid start-up funding of new and expanding peacekeeping operations (PKO). However, because several member countries accumulate arrears, the fund has been constantly depleted and the money has principally been used to meet cash shortages in ongoing peacekeeping operations, instead of supporting new missions. At the same time, the budgetary process has been standardized and streamlined, budget cycles were harmonized, and standardized costing was introduced. Most of these reforms were introduced by General Assembly resolution 49/233 of 23 December 1994.<sup>20</sup> In that resolution the General Assembly decided to institute a financial period for each peacekeeping operation from 1 July to 30 June and consequently spending authority advanced on an annual basis. This has been a major improvement, particularly considering the fact that in the early 1990s the financial cycles of the peacekeeping operations still depended on the mandate period approved separately for each mission by the Security Council, and thus Member States were asked to make payments at unexpected moments throughout their domestic budget cycles.

Secretary General Boutros Boutros-Ghali took office in January 1992, and immediately initiated sweeping organizational changes that included streamlining the Secretariat into a more pyramid-like structure and increasing the authority of the SG.<sup>21</sup> The SG amalgamated all the various political offices and departments into just two. The old Office for Special Political Affairs was turned into the new Department of Peacekeeping Operations (DPKO), incorporating the logistical support functions for peacekeeping previously housed in the Department of Management. All the other political offices were brought together to create the new Department of Political Affairs (DPA). Similarly, the scattered development-related departments and units were merged into a single Department of Economic and Social Affairs (DESA). A new Department of Humanitarian Affairs was also established, headed by a Humanitarian Coordinator.

In 1994, after years of negotiation by the United States, the Europeans, and other Member States, the UN General Assembly approved the establishment of an Office of Internal Oversight Services (OIOS), which addressed the criticism about the lack of oversight of UN programs. In 1995, Boutros Boutros-Ghali set up the Efficiency Board (later replaced by Kofi Annan with the Management Reform Group) that comprised leading outside experts to advise on steps towards greater Secretariat efficiency. The Efficiency Board managed to reduce the length and number of documents produced, reduce travel expenses, outsource routine services in the organization and use information technology more effectively. In the meantime, the GA voted the first negative-nominal growth budget in UN history, establishing a rigid budget ceiling and allowing no room for expansion.

Months after taking the post, Boutros-Ghali issued a report titled *An Agenda for Peace* (A/47/277-S/24111) that analyzed ways of strengthening the UN's capacity for peacekeeping and peacemaking and called for major changes in the way in which the Security Council operated in the area of international peace and security. The report was significant in putting on the table issues related to the financing of the organization. The first proposal was a set of ideas on how to deal with the cash flow of the UN Secretariat, which included charging

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<sup>20</sup> United Nations, 1994, Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations, A/RES49/233, 23 December 1994

<sup>21</sup> His reforms resembled a plan produced the previous year by a 22-Member State group: Wilenski group report, 1992, *Four Major Areas of Reform*.

interest on the overdue amounts of assessed contributions, authorizing the SG to borrow from commercial banks, increasing the Working Capital Fund to US\$ 250 million, and setting up a 'Peace Endowment Fund' that would accept contributions from individuals. Other ideas in matters of financing such as some form of international taxes on arms trade, futures trading, and airspace were also broached but the discussion on this was muted because of strong US opposition. The SG subsequently added in 1994 a companion volume titled *An Agenda for Development* (A/48/935), which drew a link between development, peace and security. The proposals in this report called for a greater policy coherence and coordination among the various organs involved in the economic and social fields.

Meanwhile, the Ford Foundation set up an Independent Advisory Group on UN Financing in 1993, chaired by Paul Volcker of the US and Shijuro Ogata of Japan. The Volcker-Ogata Commission presented recommendations for a more effective financing of the UN. The report addressed the flaws of the existing assessment system and called for, among other things, the payment of dues on a quarterly basis with provisions being made for interest to be charged on unpaid amounts, and for an increase of the Working Capital Fund to \$400 million. Also starting in 1993, the GA set up five working groups to seek agreements on reforms. One of these was the 'Working Group on the Financial Situation of the UN' established in 1994. However, both the Volcker-Ogata Commission and the Working Group achieved very little given the lack of consensus among Member States.

### ***2.3. Recent attempts at reforms of the budgetary and financial rules***

UN Secretariat management, budgetary and financial rules and practices underwent further modifications when Secretary-General Kofi Annan took office in 1997. In his report, *Renewing the United Nations: A Program for Reform* (A/51/950), the SG announced the introduction of a series of reforms to increase coherence across UN organs, reduce administrative costs, and improve planning and budgeting processes.<sup>22</sup> To strengthen management and leadership, the SG reorganized the Secretariat by replacing dozens of departments, units and agencies that nominally reported directly to him with a leadership structure that was organized around five issue clusters: peace and security, humanitarian affairs, economic and social affairs, development assistance, and human rights. In the first four of these, the heads of the departments, units and agencies were grouped together in executive committees convened by agency heads. These were invited to be part of the new Senior Management Group (SMG), to serve as the central policy planning body of the United Nations in order to ensure strategic coherence and direction in the work of the Organization. The SMG proved too large for effective and timely decision-making and in May 2005 two new senior committees, chaired by the Secretary-General, were created to deal with policy and with management issues.

A central aspect of the reform process also involved steps to cut Secretariat administrative costs by some \$200 million a year, reducing administrative spending from 39 to 25 percent of the US\$ 1.3 regular budget. This was achieved by eliminating jobs and cutting duplication and red tape. In addition, the UN's Secretariat planning and budgeting process was transformed, from focusing on a detailed description of inputs and resources to one that identified intended outcomes and measurable indicators of achievement. Specifically, the Medium Term Plan (MTP), which converts legislative mandates into programs and sub-

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<sup>22</sup> The GA adopted two resolutions endorsing the reforms and following through on many recommendations. General Assembly Resolution 52/12A, 12 November 1997 and Resolution 52/12B, 19 December 1997.

programs and covered four years, was adapted to reflect a ‘results-based’ approach to UN management. It indicated program and subprogram objectives, strategy, expected accomplishments and indicators of achievement.<sup>23</sup> The revised version of the MTP 2002-2005, informed the new Results-Based Budget (RBB) 2002-2003.

In September 2002, in his report *Strengthening of the United Nations: an agenda for further change* (A/RES/57/300), the SG acknowledged the failure of the MTP by reflecting political consensus and budgetary implications, as it fell behind new legislative developments at the time of its adoption and shortly afterwards.<sup>24</sup> The planning and budgetary processes were aligned and simplified through the use of the same results-based-budgeting logical framework for both the budget and the biennial programme. The two-year strategic framework replaced the MTP (A/RES/58/269), shortening the cycle of planning and budgeting for the biennium 2006-2007 and reducing the quantity of reports and meetings.

In the same report, the SG proposed that a new policy be introduced to streamline the management of trust funds. Key objectives would include simplified rules and procedures and the introduction of a single, consistent and flexible trust fund category.<sup>25</sup> Consultations with program managers are continuing on which elements are required in the revised rules and procedures to ensure adequate financial control, as well as to improve the administration and management of voluntary contributions.<sup>26</sup> At present, an internal working group continues to review proposals on this matter.

Another modification to the budgetary rules and procedures was the concession made by Member States to give greater discretionary power for the SG to move resources across departments. In 2003, the GA approved the resolution that granted the SG, on an experimental basis, the ability to move up to 50 posts within the biennium. This concession, however, proved both insufficient and unmanageable because of the absence of any authority to reclassify positions, the large number of restrictive conditions imposed on its implementation and the reluctance of program managers in the Secretariat to let go posts.<sup>27</sup>

Many changes were also implemented in the peacekeeping budgeting process as a result of the *Report of the Panel on UN Peace Operations* (also known as the Brahimi Report).<sup>28</sup> The most notable reform was the introduction of the Peacekeeping Support Account (PSA) to enhance the capacities of the Secretariat to conceive, plan, deploy and support such operations in a coordinated manner. It is financed through assessments on all active missions, according to their size, as is the United Nations Logistics Base (UNLB) at Brindisi, Italy, that was set up in 1994 to facilitate the storage and maintenance of reusable assets from missions being closed down. In 2002, the GA also approved advance planning and spending authority of the SG of up to \$50 million<sup>29</sup> per year from the Peacekeeping Support Fund to procure essential goods and services when a new mission appeared likely, prior to Security Council

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<sup>23</sup> United Nations, 2001, *Medium Term Plan for the period 2002-2005*, Doc. A/RES/55/6 Rev.1, New York.

<sup>24</sup> The Joint Inspection Unit report titled “Review of the UN Budgetary Process,” (JIU/REP/2003/2) also highlighted many shortcomings of the MTP as a planning tool.

<sup>25</sup> A/60/692, pg. 45, Proposal 17.

<sup>26</sup> A/60/846 para. 15.

<sup>27</sup> United Nations, 2006, *Investing in the United Nations: for a Stronger Organization Worldwide*, A/60/692.

<sup>28</sup> United Nations, 2000, *Report of the Panel on United Nations Peace Operations*, A/55/305.

<sup>29</sup> The Brahimi Panel recommended giving the SG advance authority to draw \$50 million from the Peacekeeping Support Fund.

action but with ACABQ approval. Furthermore, in 2003, the GA approved an approximate 50 percent increase in peacekeeping staff resources at headquarters.<sup>30</sup>

In the area of peace and security, the SG established another ‘High Level Panel on Threats, Challenges and Change,’ tasked to provide a rigorous analysis of contemporary threats to global peace and security, an assessment of existing policies and mechanisms of the UN with regards to peace and security and how recommendations on how these policies and mechanisms could be changed to meet the threats ahead. The Panel’s report *A More Secure World: Our Shared Responsibility* (A/59/565) included various recommendations to strengthen the area of post-conflict peacebuilding, mediation and political/security analysis. One of the Panel’s recommendations led to the establishment of a new intergovernmental Peacebuilding Commission and a Peacebuilding Support Office (A/RES/60/180) in 2006. The core functions of the new Commission are to identify states that are at risk of collapse, organize ‘proactive assistance’ to prevent such a collapse, and sustain the efforts of the international community in post-conflict peacebuilding. Activities of the Commission are partly financed by voluntary contributions channelled through the new Peacebuilding Fund established in October 2006 with a target funding of US\$ 250 million.

Another interesting development in the area of peacekeeping finance was the crosscutting resolutions on administrative and budgetary aspects of the financing of the United Nations peacekeeping operations (A/RES/57/290 B; A/RES/58/315, A/RES/ 59/296; A/RES/60/266) adopted by the GA between 2003 and 2006. The resolutions sought to place financing aspects of peacekeeping budgets firmly under the authority of the Fifth Committee of the General Assembly. In addition, the peacekeeping budgets for 2004/05 featured more measurable indicators of achievement and outputs, as well as improved linkages between the results-based budgeting frameworks and resource requirements.<sup>31</sup>

The 2005 World Summit, a follow-up summit meeting to the United Nations’ 2000 Millennium Summit<sup>32</sup> that led to the Millennium Declaration and the Millennium Development Goals (MDGs), was another landmark in the UN reform process. As well as discussing progress on the MDGs and reiterating the world’s commitment to them, the Summit was convened to address the management reforms of the Secretary General’s report *In Larger Freedom: Toward Development, Security and Human Rights for All* (A/59/2005), and in particular Security Council reform issues. However, the pre-summit negotiations were derailed by some Member States proposals to introduce a long list of changes at a very late stage, just days before the draft agreement was supposed to have been settled and formally approved. As a result, other countries proposed new amendments of their own and the negotiating consensus unravelled. Eventually, when world leaders assembled in New York, the text had been reduced to a set of general statements.

Despite this difficult negotiating environment, some substantive decisions were taken by Member States to implement the Summit’s outcome, such as:

- A newly established UN Democracy Fund began its work to strengthen democratic institutions and institute the rule of law, independent courts and political parties in post-conflict societies.

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<sup>30</sup> United Nations, 2003, Implementation of the recommendations of the Special Committee on Peacekeeping Operations Report of the Secretary General, A/57/711.

<sup>31</sup> United Nations, 2005, Annual Report of the Secretary-General on the Work of the Organization, A/60/1.

<sup>32</sup> United Nations, 2005, World Summit Outcome, A/RES/60/1,

- The UN launched its US\$ 500 million Central Emergency Response Fund to provide more rapid and effective disaster response.
- A new Human Rights Council was established that replaced the Commission on Human Rights.
- A Peacebuilding Commission was created in May 2006.
- The GA endorsed a review of mandates older than five years that seeks to identify and address the overlap of mandates from different organs undertaking similar issues and to eliminate old and irrelevant mandates. The Secretary General's report, *Mandating and delivering: Analysis and recommendations to facilitate the review of mandates* (A/60/733) published in March 2006 provides a general structure for Member States to use for mandate review;
- Significant progress was made in the area of Secretariat and management reforms, including an expanded financial disclosure policy that is being monitored by the newly created Ethics Office, the establishment of a Management Performance Board to assess senior managers and hold them accountable for the performance of their units, a strict whistleblower protection policy, an expanded anti-sexual harassment policy, and limited discretionary spending for the SG in order to allow flexibility to meet the evolving needs of the organization;
- The setting up of Steering Committee for the Comprehensive Review of Governance and Oversight within the UN and its Funds, Programmes and Specialized Agencies. This Committee consisted of six international experts and its objective was to oversee and guide the process. The Committee contracted PriceWaterhouseCoopers to conduct the work of the report.

Under pressure from the United States and with only six months of UN budget authorized, Kofi Annan introduced his third reform package since taking office in his report *Investing in the United Nations: For A Stronger Organization Worldwide* in March 2006 (A/60/692). The report contained 23 recommendations in six areas (people, leadership, information, communication technology, delivering services, budget and finance, and governance) on how to radically overhaul the rules, structure, systems and culture of the UN Secretariat. With regards to financial management and budgetary processes, the SG proposals included: granting more discretionary power to the SG for allocating resources and posts as necessary, shortening of the budget cycle, consolidating the budget appropriation from the current 35 sections to 13 parts, consolidating peacekeeping accounts from separate field missions into a single set of accounts and reports, increasing the Working Capital Fund to US\$ 250 million, and reforming monitoring and evaluation so that results can be evaluated in the formation of the subsequent budget (See Box 1).

In addition, the report offered several proposals on organizational structure, information technology, procurement procedures and governance. Proposals in the last category proved to be controversial, as suggestions to establish working groups of limited membership in the Fifth Committee met with determined opposition by many Member Countries, particularly from the G77, and were rejected.<sup>33</sup>

Although the \$950 million spending cap was lifted in late June 2006, feelings of resentment heightened, resulting in a hardening of the G77's positions. Also, the continuing lack of

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<sup>33</sup> A/RES/260/260.

**BOX 1: Secretary General proposals in the area of budget and finance in the report  
*Investing in the United Nations: For A Stronger Organization Worldwide (A/60/692)***

**Problems noted by the Secretary General:**

- *An inflexible budget implementation process that limits the ability of the United Nations to allocate funds strategically for operational needs.* The budget process is hampered by debate on line-item details, too much iteration within a lengthy review period and a paper-intensive approach. The preparation of the budget currently begins 15 months ahead of each biennium, which is too far in advance to respond to the fast-changing nature of United Nations business and can lead to resources being misaligned with actual needs. The majority of our finance staff is employed in supporting this cumbersome process, leaving little capacity for proactive financial planning and analysis in support of program goals.
- *Highly restricted authority of the Secretary-General to shift resources to meet emerging needs.* The ability of the Secretary-General to shift money between programs and reallocate posts without Member State approval is weak. Recognizing the need for greater fluidity, Member States agreed in 2003 to grant the Secretary-General, on an experimental basis, the ability to move up to 50 posts within the biennium. But this concession has proved both insufficient and unwieldy, in part because of the large number of restrictive conditions imposed and the absence of any authority to reclassify positions according to need.
- *No single, coherent and commonly understood notion of accountability for program performance.* The achievement of program objectives has few consequences for resource allocation, work planning or assessments of managerial performance.
- *Cumbersome practices emerging from the Financial Rules and Regulations.* As we move from a centrally controlled institution to a more decentralized one, we may need to revisit the rules themselves in a more fundamental way. Adoption of the International Public Sector Accounting Standards by the United Nations, which will be sought from Member States later in 2006, would require significant adaptation of the Organization's Financial Rules and Regulations.
- *Insufficient transparency and availability of relevant financial information to provide clear guidance either to Member States or to Secretariat managers on the Organization's financial picture.* An archaic and fragmented IT infrastructure, outdated manual processes and fragmented accounts in peacekeeping and trust funds create delays but also, more importantly, prevent the collection and tracking of key data needed for management decisions and proper oversight and audit.

**The Secretary General's vision for improving UN budget and finance:**

- There will be a flexible and strategy-focused budgeting process, building on the earlier reforms that implemented results-based budgeting within the Secretariat;
- Member States and the Secretariat will strike the right balance between control and managerial freedom, and between the direction and guidance provided by Member States and the flexibility needed by the Secretariat to fulfil those wishes. Thus, the Secretariat will have the authority needed to deploy and shift resources to implement effectively the mandates given to it by the Member States;
- There will be clear links between performance and resource allocation, enabling the best possible stewardship of Member State investments in the United Nations. This would give Member States greater confidence in the transparency and availability of relevant information on which to base their decisions, enable them to hold managers accountable for specific results and assure them that their financial contributions are being used in an efficient manner.

**The proposals of the Secretary General to advance toward this vision are:**

*Strategic budgetary planning and implementation:*

- The Member States and the Secretariat work together to find ways to further increase the strategic nature of the budgeting review, reduce duplicative, detailed and labour-intensive processes, and align key inputs across the regular, peacekeeping and extra-budgetary processes.



**BOX 1: Secretary General proposals in the area of budget and finance in the report  
*Investing in the United Nations: For A Stronger Organization Worldwide (A/60/692)***

- The budget cycles be shortened and aligned with the calendar year. Regular budget preparation and adoption should be shortened to 12 months, and all stages of the budget review process should take place during the main part (September through December) of the regular sessions of the General Assembly. The peacekeeping budgetary cycle would be aligned with the calendar year.
- Budget appropriation be consolidated from the current 35 sections into 13 parts.
- Posts be approved in aggregate numbers and grouped into four broad grade categories. The Secretariat would submit an indicative staffing table for information purposes only. The Secretary-General should have the authority to redeploy posts as necessary, and to reclassify up to 10 per cent of posts within each broad category within a given budget period.
- The Secretary-General be given the authority, within a given budget period, to use the savings from vacant posts, with a value not to exceed 10 per cent of the overall post budget, for emerging priorities or unanticipated activities.

*Financial management practices:*

- Peacekeeping accounts for separate field missions be consolidated into a single set of accounts and reports, starting in 2007, to improve cash management and operational flexibility.
- A new policy be introduced in July 2006, replacing four existing administrative instructions, to govern the streamlined management of trust funds. Key objectives would include simplified rules and procedures, the introduction of a single, consistent and flexible trust fund category, and the establishment of a new standard for support costs, lower than the current 13 per cent, to bring it more in line with the fee structure in force in the United Nations funds and programmes.
- The ceiling of the commitment authority granted by the General Assembly for peacekeeping operations be increased from \$50 million to \$150 million and de-linked from a specified number of Security Council decisions.
- The level of the Working Capital Fund for the regular budget be increased from \$100 million to \$250 million.
- Budget surpluses, including those from peacekeeping operations, be retained for use in subsequent periods, pending Member State approval.
- A separate fund be created to cover unanticipated expenditures arising from exchange rate fluctuations and inflation, to be financed through the transfer of budget surpluses.
- Interest be charged on arrears in a Member State's assessed contributions.

*Performance evaluation and reporting:*

- United Nations activities in the areas of performance measurement be given increased resources but also rationalized.
- Monitoring and evaluation tools be reformed and synchronized so that their results can be evaluated in the formation of the subsequent budget.
- The budget and planning process be explicitly linked to the results of performance, work planning and the assessment of managerial performance in order to ensure the effective stewardship of resources provided by Member States.
- A new annual report be introduced (see more detailed discussion in section four below), along with other steps to consolidate and simplify financial reporting.

progress on Security Council enlargement led to growing frustration, particularly among potential candidates for additional permanent seats. After fierce debate the GA approved limited management reforms, including an increase in the discretionary spending authorization of the Secretary General of \$20 million per biennium for the periods 2006-2007 and 2008-2009, so as to respond to changing priorities without prior GA approval.<sup>34</sup> The resolution sets out nine principles according to which the spending should occur, including

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<sup>34</sup> A/RES/60/283.

the stipulation that expenditures over \$6 million per biennium should have prior concurrence of ACABQ. The Assembly further decided not to extend the experiment regarding redeployment of 50 posts as approved in resolution 58/270. In addition, the GA approved an increase in the Working Capital Fund to US\$ 150 million. Consideration of a proposal for consolidation of peacekeeping accounts, increases in the peacekeeping reserve fund and commitment authority for peacekeeping operations, as well the establishment of a reserve fund within the context of the 2008-2009 regular budget, were deferred to the next session of the General Assembly. With regard to UN management reform, in general the position of the G77 has been that accountability mechanisms should be put in place and strengthened before the GA grants more flexibility and authority to the SG in budgetary and financial matters.

In this highly politically charged atmosphere, the report of the Steering Committee on the Comprehensive Review of Governance and Oversight within the United Nations and its Funds, Programmes and Specialized Agencies (A/60/883/Add.1 and 2) was released at the end of August 2006 for consideration by the GA at its 61st session. Particularly sensitive for the G77 were the recommendations to restructure the Fifth Committee (Table 1) that restated some of the governance suggestions made by the SG in his report *Investing in the United Nations*, for they believe that the proposed changes would greatly reduce their influence in the budget process and eliminate the key source of power they hold at the UN. Members of the G77 are also opposed to giving the SG greater authority to redeploy and reclassify staff because they consider it would give more powerful countries and major contributors to the budget too much influence over the SG.

TABLE 1: **Proposed changes regarding the Governing Body and Committee Structures**

Current Practice	Gap	Recommendation
<p>The General Assembly has not appointed a governing body and relies on committees of the whole to conduct its governance and oversight activities. The decision-making processes in the Administrative and Budgetary (Fifth) Committee are often complex and operate under significant time constraints. These pressures have increased in the recent past with the growth in peacekeeping and other mandates.</p>	<p>Smaller representative committees have not been appointed to ensure efficient and effective decision making on details of administrative and budgetary matters. General Assembly has not recently conducted a formal evaluation of the efficiency and effectiveness of its committees, including the Fifth Committee.</p>	<p><b><i>Strengthen effectiveness and procedures of the General Assembly's Administrative and Budgetary Committee (Fifth)</i></b></p> <ul style="list-style-type: none"> <li>• Give earnest consideration to a smaller representative body with responsibility for administrative and budgetary matters;</li> <li>• Assess the impact of the membership and procedures of the Fifth Committee based on the UN Code of Governance;</li> <li>• Compare the experience of other UN entities that have appointed smaller governing bodies and administrative and budgetary (finance) committee's responsibilities to the requirements for the Fifth Committee</li> </ul>

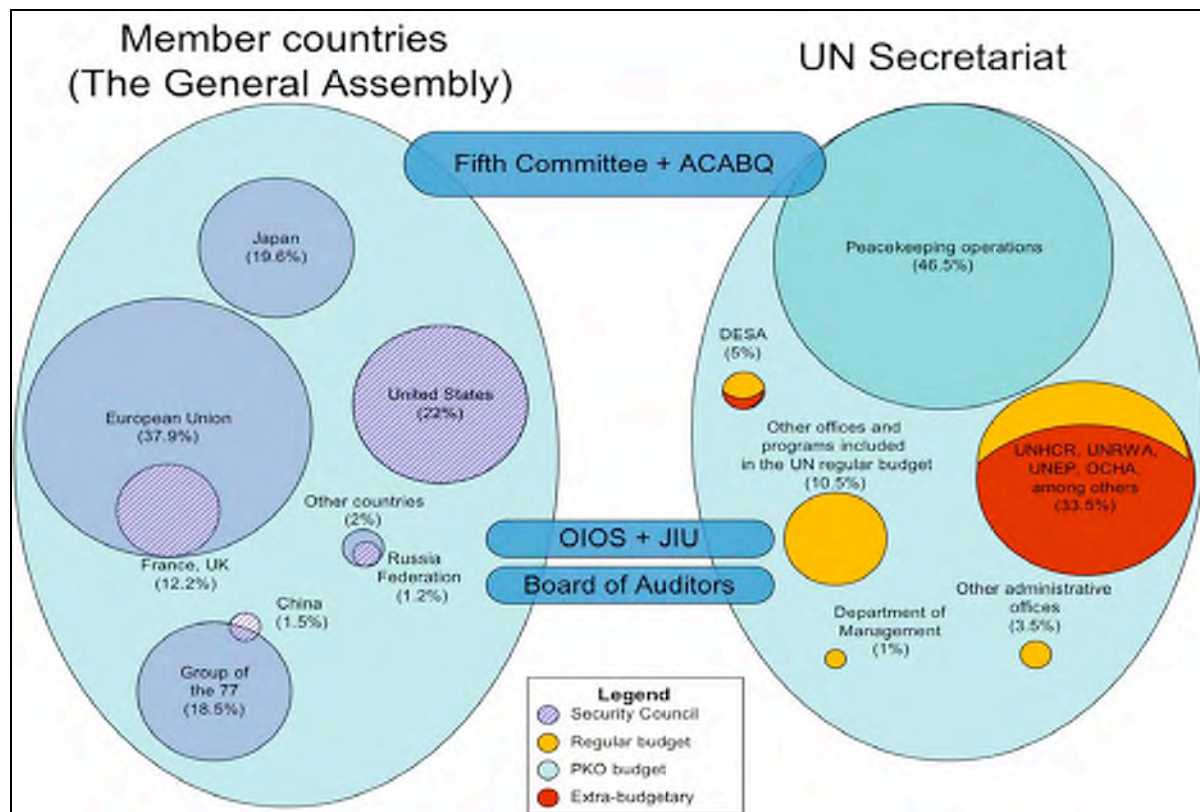
Source: United Nations, 2006, *Comprehensive review of governance and oversight within the United Nations and its funds, programmes and specialized agencies*, Report of the Secretary-General, Addendum, Report of the independent Steering Committee, A/60/883/Add.1, 28 August 2006, p. 89.

### 3. The UN Secretariat Budget-Making Landscape

#### 3.1. Stakeholders in the UN Secretariat planning and budget-making processes

The budget process includes two main groups of stakeholders with a third group straddling them (Figure 2). The first group includes the Member Countries represented in the General Assembly, most of its committees (excluding the Fifth) and the Security Council, and the second group comprises the departments, offices, funds, programs and regional commissions that are part of the Nations Secretariat. A third group of stakeholders links the first two and includes the Fifth Committee of the General Assembly, the Advisory Committee on Administrative and Budgetary Questions (ACABQ), the Committee for Programme and Coordination (CPC), and the monitoring and oversight bodies (Board of Auditors, Joint Inspection Unit, Office of Internal Oversight Services).

FIGURE 2: Stakeholders in the United Nations Budget Process



Notes:

- Member countries (General Assembly): Circles are proportional to the scale of assessments.
- UN Secretariat: Circles are proportional to their participation in the total expenditures during CY 2005, including the PKO budget, regular budget and extra-budgetary resources. Source: First Consolidated Report 2005.

#### *The General Assembly and the Security Council*

The GA, comprising all the Member States (51 in 1945, 192 in 2006), fulfils the function of a central forum for global dialogue wherein pressing issues of concern from population to the environment are discussed. While most General Assembly resolutions are not binding, the Assembly has the authority to determine the budget of the UN Secretariat. Member countries

of the GA are grouped in informal entities such as the Group of the 77, the European Union, and CANZ (Canada, Australia and New Zealand). The GA has the following six main committees:

- First Committee: political and security issues, including disarmament
- Second Committee: economic and financial issues
- Third Committee: social, humanitarian, and cultural issues
- Fourth Committee: trusteeship issues
- Fifth Committee: administrative and budgetary issues
- Sixth Committee: legal issues.

The Security Council has primary responsibility under the UN Charter for the maintenance of international peace and security, and its resolutions are binding on all Member States. It is composed of fifteen UN Member States, five of which are permanent members —United States, the United Kingdom, France, the Russian Federation and China— that have the power to ‘veto’ a substantive decision of the Council. The other ten members of the Council are elected by the General Assembly for two-year non-renewable terms, with five new members elected each year to represent the world’s major regions.

UN peacekeeping missions are established by the Security Council, but the funds to carry them out must be approved by the General Assembly and its Fifth Committee. The Council delegates to the SG its powers to organize and to exercise command and control over the missions, but it retains close management and oversight functions. Although the Charter does not expressly provide powers to the Council for peacekeeping forces, the International Court of Justice found in a 1962 case that the Council has an implied power for this purpose, even though final authority on all financial matters related to peacekeeping operations rests with the General Assembly.

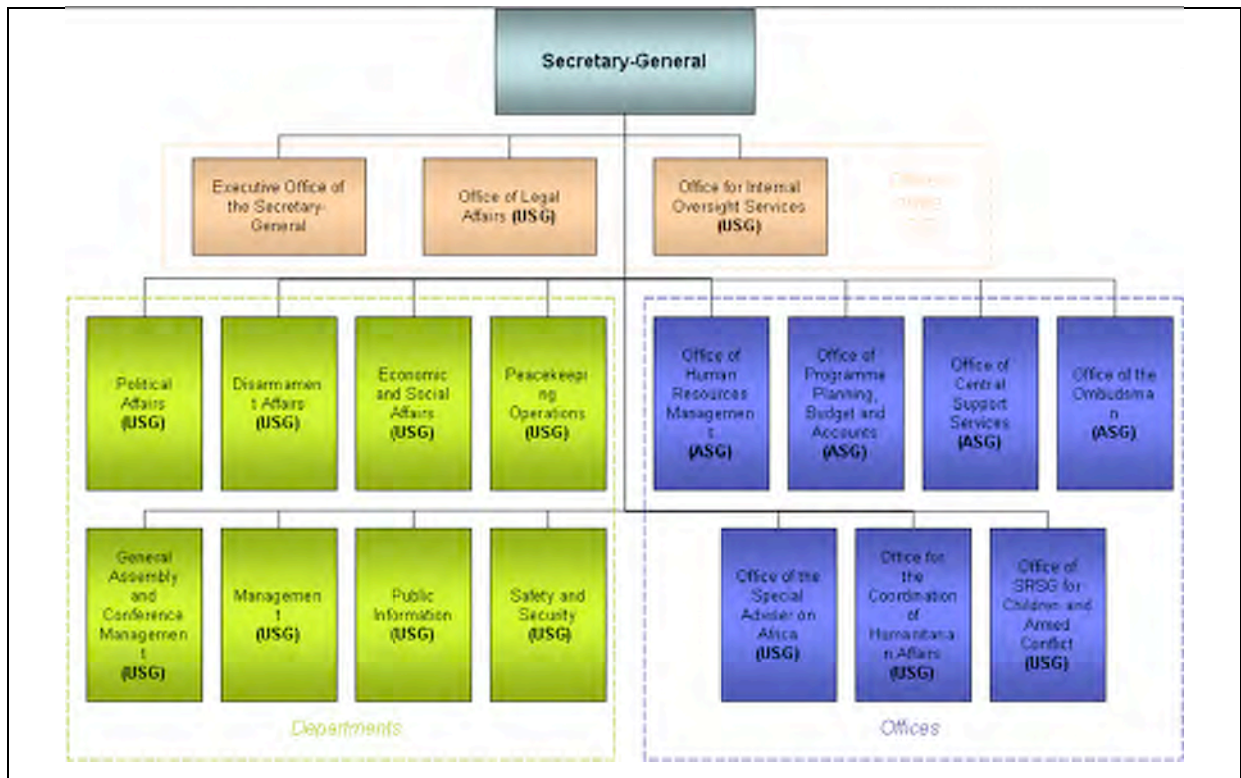
#### *The UN Secretariat and the Office of the Secretary General*

The Office of the Secretary General directs the Secretariat, a substantial bureaucracy with a staff of about 8,900 covered by the regular budget, whose main purpose is to serve the members of the Security Council, the General Assembly and related bodies. The founders of the UN conceived the SG as primarily an administrator, yet Article 99 of the Charter gives the SG the authority to bring an issue before the Security Council, thereby widening the scope of his role beyond just managing the UN.

The duties carried out by the Secretariat are varied. They range from administering peacekeeping operations to mediating international disputes, from surveying economic and social trends and problems to preparing studies on human rights and sustainable development. Figure 3 shows the current organizational structure of Secretariat that reflects the rationalization effected by Boutros Boutros-Ghali and additional changes introduced by Kofi Annan.

The departments and offices of the Secretariat can be grouped in two sub-groups according to their type of operations and financial resources. The first group is comprised of departments and offices that manage field operations. Aside from DPKO, which relies primarily on peacekeeping assessed budgets, others such as DPA, DDA and OCHA rely on extra-budgetary resources. The second group includes offices and departments that provide administrative support to UN operations and their resources depend primarily on the regular budget.

FIGURE 3: Organizational Structure of the Secretariat as of December 2006



Taken from: Thant Myint-U and Amy Scott, 2006, *A Brief History of the UN Secretariat*, International Peace Academy, 27 November 2006, forthcoming

### *The Fifth Committee*

The financial aspects of UN operation have been, since the beginning, the responsibility of the Fifth or Finance Committee of the GA, in which all Member States are represented. This ‘Committee of the Whole’ is responsible for scrutinizing and approving the UN Regular Budget which finances the core functions of the UN, as well as the budgets for the War Crimes Tribunals for the former Yugoslavia and for Rwanda, the Peacekeeping Budgets that cover all UN peacekeeping-related activities, and the budget for the ‘Capital Master Plan’, the major project to refurbish the UN Secretariat building. The Fifth Committee reviews and approves the UN’s two-year program of objectives and activities, known as the Strategic Framework, and supervises the management of the UN Secretariat, including human resources issues and oversight functions. The Fifth Committee also makes decisions on the Scale of Assessment, the system which sets out what percentage share of the UN’s budgets are charged to each Member State.

Although Permanent Missions to the UN send occasionally their Deputy Permanent Representatives or other high-level delegates to the sessions of the Fifth Committee, particularly when highly important or sensitive matters for their countries are discussed, most delegates to the Committee are usually mid-level diplomats whose duty is to review the budget and negotiate the political deals needed to forge agreement on budgetary matters. Usually, only a few delegates have expertise and in-depth knowledge of these matters and are the ones who influence and frame the debates.

Unlike the other five Main Committees of the GA, decisions in the Fifth Committee are not usually subject to voting. In 1986, the GA agreed that all financial decisions in the Fifth Committee would be adopted by the broadest possible consensus. The Fifth Committee is advised and guided by recommendations of the Advisory Committee on Administrative and Budgetary Questions (ACABQ).

*Advisory Committee on Administrative and Budgetary Questions (ACABQ).*

The ACABQ is a panel of 18 individuals elected for a three-year term by the GA for their expertise in fiscal policy and public administration, with a fixed number of seats allocated to each geographic region. The Committee technically does not represent governments and is only advisory to the intergovernmental decision-making bodies, the GA and the Fifth Committee. However, the ACABQ is in effect the primary decision-making organ in the UN budget process, for its recommendations are generally accepted by the Fifth Committee, which relies heavily on the ACABQ for analyzing the budget proposals put forward by the Secretariat.

*Committee for Programme and Coordination (CPC)*

The CPC is an intergovernmental body and is the main subsidiary organ of the Economic and Social Council and the General Assembly for planning, programming and coordination. It reviews the UN's two-year program plan and its priorities, and also considers a number of oversight and evaluation reports. Its recommendations on the UN's program plan are transmitted to the Fifth Committee for approval. The size of CPC membership was increased in 1987 from 21 to 34, and members are elected on the basis of regional representation. The CPC meets for 6 weeks in plan years and for 4 weeks in budget years. Costs of meetings and per diems are financed by the Secretariat's budget. As a result of the crisis over the Kassebaum Amendment in the late 1980s, the role of the CPC became more important as the budget received closer scrutiny to minimize and eliminate duplication, overlap and inefficiencies. But in recent years the CPC has been criticized by developed countries for its slow working methods, high cost to the Secretariat and for not helping to set priorities for the organization. It has also been criticized for not giving due consideration to OIOS evaluation reports, and consequently for not being able to follow-up on evaluation recommendations. However, several G77 delegates consider the CPC could play an important role in strengthening the monitoring and evaluation functions at the UN Secretariat.

*Joint Inspection Unit (JIU)*

The JIU is an external oversight body accountable to Member States. First established in 1968, it became a permanent part of the UN system in 1976, as a subsidiary organ of the General Assembly and the legislative bodies of other organizations that adopted its statute.<sup>35</sup> It is composed of 11 regionally balanced inspectors, who serve a five-year term each and have broad powers of investigation in performing the Unit's mission to evaluate and make recommendations concerning the effectiveness of the activities of the organization in the UN system. The Unit aims to improve the management of the United Nations and its agency programs and encourages greater coordination of activities. JIU was made accountable to the

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<sup>35</sup> See General Assembly Resolution 31/192, 22 December 1976.

General Assembly and not the Secretary-General (unlike the later Office of Internal Oversight Services).<sup>36</sup>

### *Board of Auditors*

The Board of Auditors was established by the General Assembly in December 1946 (Resolution 74 (I)) to carry out external audit of the accounts of the UN and to report findings and recommendations to the GA through the ACABQ. It serves as the external auditor of the accounts of the UN, its funds and programs, and the International Court of Justice. The GA appoints three members, each of whom shall be the Auditor General (or officer holding the equivalent title) of a Member State, and serves for a six-year term. The Board of Auditors, its Audit Operations Committee and its Panel of External Auditors have a full-time secretariat that provides technical and administrative secretarial support. They coordinate their work with the Office of Internal Oversight Services (OIOS), the Joint Inspection Unit (JIU) and with the internal audit services in other United Nations organizations, primarily through periodic meetings and the exchange of audit plans and reports.

### *Office of Internal Oversight Services (OIOS)*

The primary purpose of the United Nations Office of Internal Oversight Services (OIOS) is to provide audit, investigation, inspection, program monitoring, evaluation and consulting services to the United Nations Secretariat and the rest of the United Nations System. The agency was established in 1994 as a ‘watchdog’ office and was given great independence to investigate possible fraud and abuse within the organization. In 1999, the Fifth Committee reviewed the functions and reporting procedures of OIOS and set out a number of provisions on OIOS for reporting, functions, coordination, funds and programs, investigations and operational independence. However, considering the diversity of functions it has to perform and staff limitations, OIOS can evaluate in depth one or a few UN departments or units per year, which implies that each of these units would be evaluated every 25-30 years.

OIOS produces the ‘Programme Performance Report’ (PPR) on a regular basis, which attempts to provide a comprehensive review of the Secretariat’s performance in implementing the expected accomplishments. This report is based on the approved program budget for the current biennium and builds on the benchmarks and evaluations prepared by managers throughout the organization. Relying to a large extent on self-evaluations, it is difficult for the PPR to provide an unbiased picture of organizational performance. In addition to this, different Member Countries and the various UN Secretariat units have divergent perceptions of the role of OIOS, since some view it as performing more of an internal audit service, while others regard it more as an external watchdog.

### ***3.2. Overview of the current UN Secretariat budget-making processes***

The UN Secretariat budgetary process comprises four modes of financing: the regular budget, the peacekeeping operations budget, the international tribunals and voluntary contributions.

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<sup>36</sup> The JIU has prompted a number of changes the UN Secretariat’s budgetary rules and procedures as a results of its reports and studies, some recent examples of which include: *Evaluation of Results-Based Budgeting In Peacekeeping Operations* (JIU/REP/2006/1), *Oversight Lacunae in The United Nations System* (JIU/REP/2006/2), *Review of the United Nations Budgetary Process* (JIU/REP/2003/2), *Enhancing Governance Oversight Role: Structure, Working Methods and Practices on Handling Oversight Reports* (JIU/REP/2001/4), and *Results-Based Budgeting: The Experience Of United Nations System Organizations* (JIU/REP/99/3).

This section will outline the procedures and steps of the first two modes of financing, which constitute the centrepiece of the UN budgeting process.

### *Budget-making process for the regular budget*

The regular budget operates on a two-year cycle. It is carried out as part of a Planning, Programming, Budgeting, Monitoring and Evaluation cycle (PPBME).<sup>37</sup> Its procedures are governed by the “Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation” (ST/SGB/2000/8), and include four main steps (see Annex 2).

#### First Step: Preparation of the budget by UN Secretariat departments and review and compilation by the Department of Management

The budget-making process begins in the first year of the preceding biennium, when the Secretariat prepares a ‘budget outline’ setting the level of resource requirements. All the departments of the Secretariat and of the agencies, programs and commissions that receive at least some support from the regular budget submit their proposed activity and spending plans for the next biennium.<sup>38</sup> The UN Department of Management, specifically the Office of Programme Planning, Budget and Accounts, assembles these into an integrated budget plan within the fiscal guidelines of the UN. At this stage, department heads in the Secretariat and representatives of Member Countries often intercede directly with the SG to ensure that a budget line for particular posts or programs of special interest to them be kept in the budget that the Secretary General submits to the GA. The proposed budget document also informs the GA of planned extra-budgetary spending, indicating the programs that the UN will undertake and the staff positions that will be filled during the biennium with supplementary resources.

#### Second Step: Review of the Budget by ACABQ and CPC.

From the moment the Secretary’s budget requests goes to the GA, it becomes subject to intense intergovernmental politics. The first checkpoint is the CPC and the ACABQ. As of 2005, and on an experimental basis that will be reviewed in 2007, the CPC does not examine the proposed program budget in detail, but instead reviews the programmatic changes arising from new and/or revised mandates subsequent to adoption of the framework. From time to time, upon the recommendation of the GA, the CPC evaluates UN programs on a sectoral basis taking into account the need to avoid overlap and duplication. The ACABQ holds bilateral meetings with heads and finance officers of departments of the Secretariat to review departmental submissions and budget fascicles that are prepared in a Results-Based Budgeting format with summary information on post and non-post resources. Following this the ACABQ transmits its views and recommendations to the Fifth Committee.

#### Third Step: Discussion and adoption of the final version of the program budget by the Fifth Committee

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<sup>37</sup> In 1998, the CPC and Fifth Committee undertook a comprehensive review of the PPBME and as a result the Secretariat started to move towards a performance-based budget. Finally, a result-based budget (RBB) was introduced on 2003.

<sup>38</sup> As an illustration, the process for the 2006-2007 Budget began in 2004.



The Fifth Committee reviews the proposed programme budget from October to December 5, by which time it will have the report of the ACABQ, and as applicable, the report of the CPC. The Fifth Committee reviews the programme budget in two stages, the “first reading” and the ‘second reading’. The first reading consists of the review of the Budget section by section. At the same time, the Fifth Committee also considers some adjustments, such as resolutions about ‘Programme Budget Implications’ (PBIs).<sup>39</sup> The second reading takes into account the results of the first reading and the adjustments, and re-costing of resources (new exchange rates, inflation etc.). In these readings various informal and formal negotiations are held between groups of Member States such as the G77, the EU, and CANZ. The result is called ‘Initial appropriations of the biennium’, which is the budget that is submitted for approval by the GA.

#### Fourth Step: Budget approval (GA) and subsequent modifications

Traditionally, the GA approves the ‘initial appropriation of the program budget’ without significant modifications. After the budget is approved and is under implementation, it can be modified, which also involves a complicated process. During the first year of the implementation of the budget, the Fifth Committee reviews the ‘First Performance Report’ (including changes on exchange rates and unforeseen and extraordinary expenses) produced by the Secretariat and screened by the ACABQ. When adjusted and agreed, the result is the ‘Revised Appropriations’. During the second year, the ‘Second Performance Review’ takes place and its approval at the GA results in the ‘Final Appropriations for the Biennium’.

#### *Budget-making process for peacekeeping operations*

In contrast to the biennial period followed by the regular budget, the peacekeeping operations budget follows a 12-month cycle from 1 July to 30 June of the following year. The Security Council is the body that determines when and how UN peacekeeping missions are deployed, although there is a distinction between new missions and the extension of current operations.

When establishing new missions, a survey team is sent to the conflict area to develop an operational and budgetary plan, which is an input to the report that the Secretary General presents to the Security Council. If approved, the Security Council establishes a mandate to intervene in the conflict area —usually for six months or less— and the ACABQ will commit a start-up provision for the new mission.<sup>40</sup> The review process takes place at the beginning of the next fiscal year by the ACABQ and the GA (in the form of a performance report), which decides on new funding for the mission and for the extension of the mandate, and subsequently approves appropriations.

When extending mandates for current missions, the Security Council drafts and approves a Resolution, usually a few days before the mandate expires, which is then funded by expanding the budget for the extended mandate or by new assessed contributions. After this, the procedure for reviewing the budget is similar as for new missions, unless the mandate changes significantly. If this is the case, a revised budget is prepared.

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<sup>39</sup> PBIs of draft resolutions are reviewed by the ACABQ and may be subject to the contingency fund.

<sup>40</sup> Total commitment authority granted by the ACABQ at any one time must not exceed a cumulative amount of \$150 million. For more than \$50 million, commitment authority is requested from General Assembly (RES/49/233 A, part IV).

The shorter time cycle for the peacekeeping budget creates some difficulties for the UN Secretariat in the sense of compressing the cycle for the preparation of documents, for consultations, for approvals and for deploying the resources. At the same time, because peacekeeping operations take place in unpredictable and volatile contexts, the shorter period allows more timely budgetary responses, which nevertheless appear too slow in many cases when rapid action and deployment of peacekeeping forces is required. These problems are exacerbated by the rapid growth of peacekeeping operations —and their respective budgets— during the last decade.

### 3.3. Current Structure of Finance

The UN Secretariat's operations are financed in several ways, of which three are the most important: (i) the regular budget, which is financed by a mandatory assessment to Member States; (ii) the peacekeeping budget, which is also financed by assessment but is kept separate from the regular budget and has a different scale of assessment; and (iii) voluntary contributions from governments, organizations and individuals, which are also called extra-budgetary resources.

The regular budget represents 24.4 percent of total 2005 expenditures of the UN Secretariat, while extra-budgetary and peacekeeping expenditures stand for 46.5 percent and 29.1 percent, respectively (Table 2).<sup>41</sup> In the past few years, the growth and amounts of extra-budgetary resources have outpaced those from the regular budget, which partly indicates the lack of regular budget resources allocated to fulfil new mandates. For the biennium 2006-2007, the UN Secretariat budget amounts to US\$ 3.8 billion of appropriations plus an estimated US\$ 5.6 billion of extra-budgetary resources.

TABLE 2: Expenditures by strategic program activity, 2005 (US\$ million)

Expenditures by income source Strategic Program Activity	Regular budget	Peace-keeping	Extra-budgetary	Total
International peace and security	330.8	4,096.9	138.8	4,566.5
Economic growth and development	361.8	0.0	457.6	819.4
Development of Africa	4.5	0.0	0.3	4.8
Promotion of human rights	30.0	0.0	66.2	96.2
Humanitarian assistance	30.6	0.0	571.2	601.8
International law and justice	294.0	0.0	5.2	299.2
Disarmament	8.5	0.0	7.5	16.0
Drugs, crime and terrorism	16.1	0.0	100.4	116.5
Refugees	38.5	0.0	1,103.0	1,141.5
Organizational management	1,039.3	0.0	110.6	1,149.9
<b>Total</b>	<b>2,154.1</b>	<b>4,096.9</b>	<b>2,560.8</b>	<b>8,811.8</b>
<b>Percent of Total</b>	<b>24.4%</b>	<b>46.5%</b>	<b>29.1%</b>	<b>100%</b>

Source: United Nations Secretariat, First Consolidated Report 2005.

<sup>41</sup> The United Nations Secretariat recently presented the First Consolidated Report of its total 2005 expenditures from all income sources (regular budget, peacekeeping operations and extra-budgetary or voluntary contributions). Although this is the first effort to consolidate and standardize financial information from the United Nations Secretariat, they have utilized different categories to group the Strategic Programme Activities, which differs from those categories utilized in the Programme Budget.

Establishing trends for UN Secretariat's expenditures is a difficult task since the information is fragmented and the budget cycles differ (the peacekeeping budget and monies from trust funds operate on a one-year cycle and the regular budget has a two-year cycle). Figures 4 and 5 present historical data on current expenditures for peacekeeping operations, the regular budget,<sup>42</sup> and on payment arrears for peacekeeping operations.<sup>43</sup> Three trends emerge clearly from this information. First, the UN Secretariat program budget from assessed contributions has remained stable, with no major increases over time. Second, peacekeeping operations have increased steadily since 1998 and have outpaced regular budget resources. Third, arrears have kept pace with the growth of peacekeeping budget assessments to Member Countries.

For the biennium 2006-2007, resources from the regular budget concentrate on UN Secretariat administrative functions (Figure 6). As an illustration, 78 percent of contributions, totaling US\$ 3.8 billion, have been appropriated to the following functions:

- 'Overall policymaking, direction and coordination', which includes the budget for the General Assembly and the Economic and Social Council;
- 'Political affairs', which includes offices such as the Security Council and coordination activities for disarmament, peacekeeping operations, and peaceful uses of outer space at Headquarters;
- 'International cooperation for development', which includes the activities of the Department of Economic and Social Affairs, the United Nations Environment Programme (UNEP) and the United Nations Conference on Trade and Development (UNCTAD);
- 'Regional cooperation for development', which includes the functioning of Regional Offices;
- 'Common support services', which includes the budget of all administrative offices ranging from the Office of Management to the administrative offices at Nairobi, Vienna and Geneva; and
- 'Staff assessment' that refers to the total expenditures in office posts. The other 22 percent of the total budget goes to other administrative offices such as the Office of Internal Oversight Services (OIOS) and coordination activities for field operations such as humanitarian affairs, and other program such as the 'Development Account' and 'Safety and Security.'

Another way of looking at the way resources are allocated in the UN Secretariat involves focusing on the regular budget and consolidating the various categories of expenditures into several main areas to examine the relative weight of each area. Figure 7 reports on the result of such an exercise, and indicates that the regular budget is focused primarily on management and oversight, cooperation for development, and on international political and security issues.

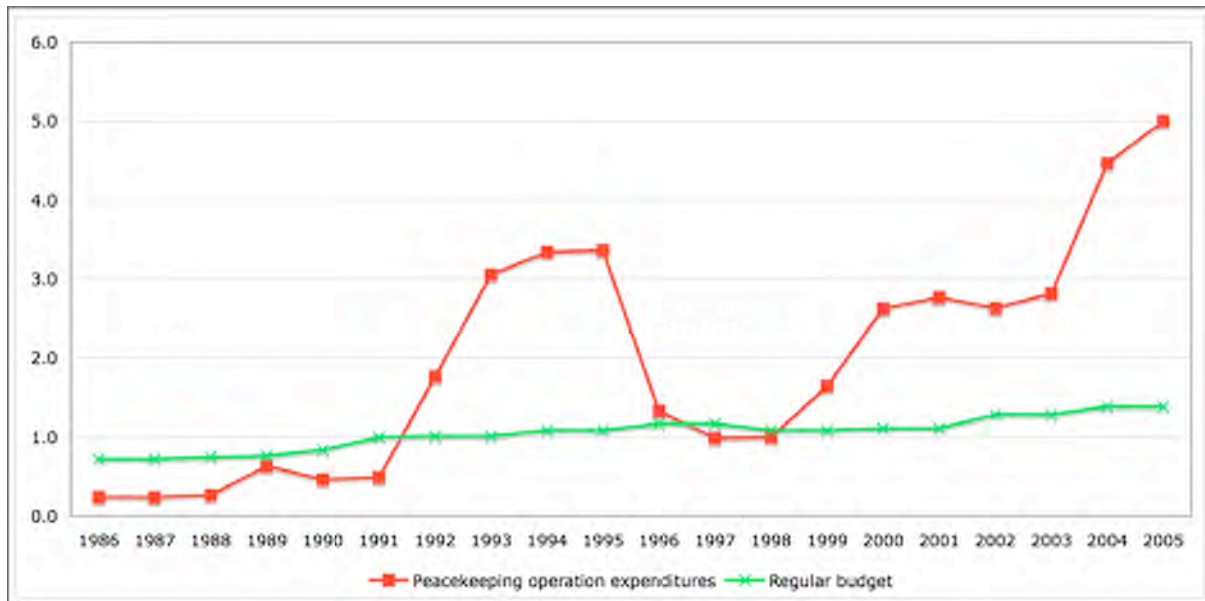
Increasingly various departments and organs of the UN Secretariat are relying on extra-budgetary resources. In the biennium 2006-2007, voluntary funding for the UN Secretariat stood at 5.6 billion, 72 percent of which fund 'human rights and humanitarian affairs' programs. This includes the operations of the Office for the Coordination of Humanitarian Affairs (OCHA), the program for Palestine refugees and the humanitarian assistance activities. The remainder complements activities of Headquarters offices such as DESA, and

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<sup>42</sup> As stated in the Program Budget for the biennium divided by two for comparison purposes.

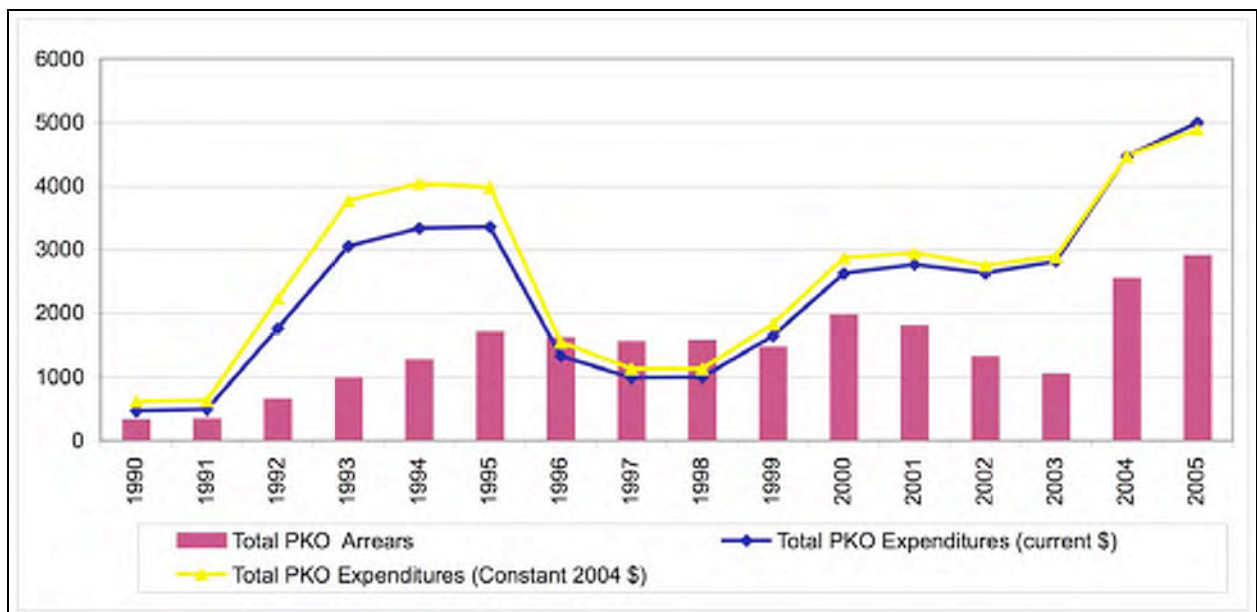
<sup>43</sup> These figures are taken from the Global Policy Forum's "UN Financial Crisis" website and correspond to budgeted rather than actual expenditures. See: <http://www.globalpolicy.org/finance/index.htm>.

**FIGURE 4: Peacekeeping operations expenditures and the UN regular budget (US\$ billion)**



Source: Global Policy Forum

**FIGURE 5: Peacekeeping operations expenditures vs. payment arrears of Member States: 1990-2005 (in current and constant US\$ million)**

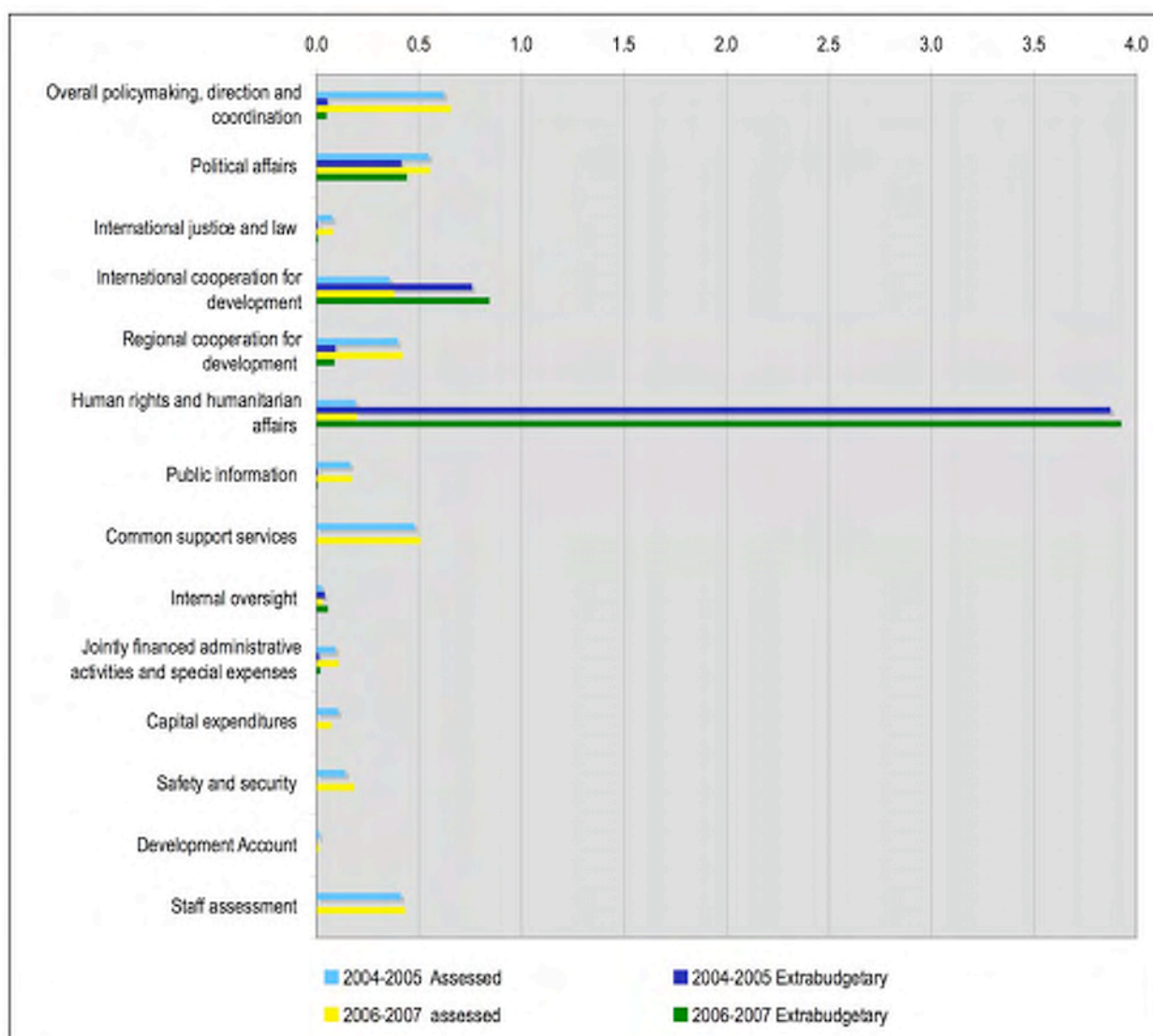


Source: Global Policy Forum, <http://www.globalpolicy.org/finance/tables/pko/expendarrears.htm>

Table notes:

1. All sums are rounded in million US\$.
2. Peacekeeping Expenditures: Since 1996 the Peacekeeping budget is measured by July-June basis instead of by calendar year. GPF has calculated the calendar year figures since 1996 by adding the prior and the current years' figures and dividing by two. From 2000 onwards, peacekeeping data represent approved budgets rather than actual expenditures.

FIGURE 6: UN Secretariat Budget: Biennium 2004-2005 and 2006-2007



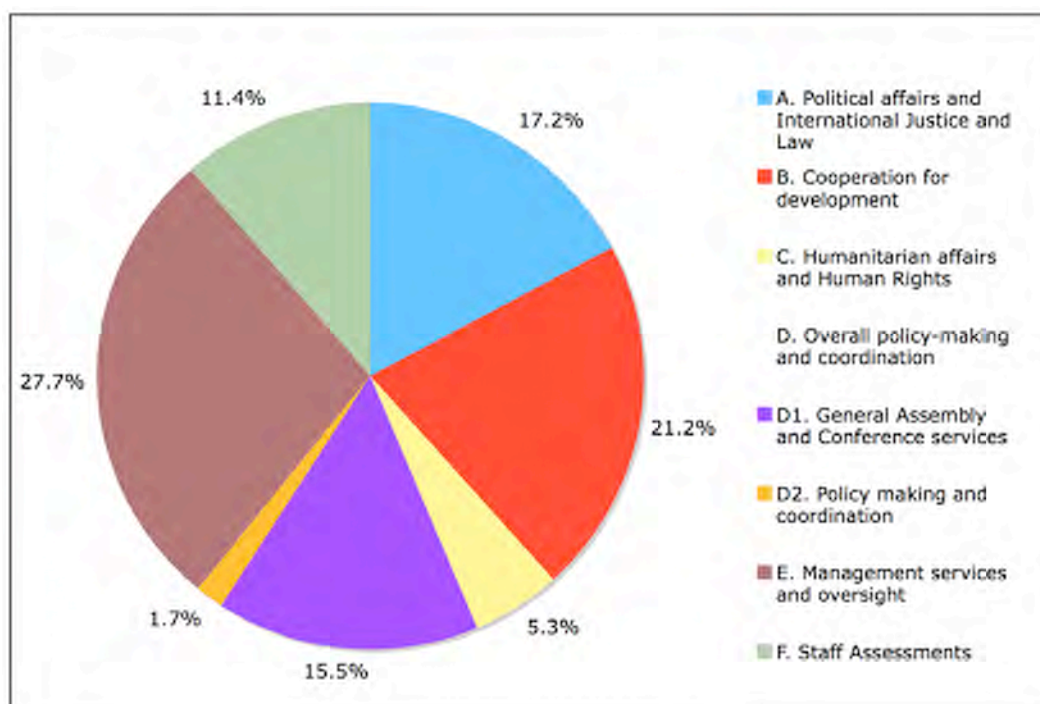
Source: Proposed Programme Budget for 2006-2007 of the Secretary General, which includes revised appropriations for the biennium 2004-2005.

other funds and programs such as drug control, environment affairs and support to the New Partnership for Africa’s Development. With regards to type of activity, 54 percent of total extra-budgetary resources finances ‘operational activities’, such as direct assistance to member countries in the form of technical cooperation activities or humanitarian projects. Thirty percent contribute to ‘substantive’ activities —i.e. UN core activities usually funded with assessed contributions—; and 16 percent cover ‘support’ cost of administrating trust funds and extra-budgetary operational activities.<sup>44</sup>

The report of the SG *Investing in the United Nations: For a Stronger Organization Worldwide* acknowledges that ‘there are more than 150 separate trust funds... each with its own support arrangements and costs’, and this situation ‘prevent[s] the collection and tracking of key data needed for management decisions and proper oversight and audit’. In

<sup>44</sup> United Nations, 1982, Programme Support Accounts: From the Assistant Secretary for Financial Services, ST/AI/286; United Nations, 1982, Establishment and Management of Trust Funds, ST/SGB/188

**FIGURE 7.** Distribution of the UN Secretariat Regular Budget for 2004-2005  
(Percentages of the US\$ 3.6 billion allocated in the biennium)



Notes: Categories in the 2004-2005 Programme Budget have been consolidated in the following way:

1. Category A includes Part II (Political Affairs) and Part III (International Law and Justice)
2. Category B includes Part IV (International cooperation for development), Part V (Regional cooperation for development) and Part XIII (Development Account)—mainly related to technical cooperation activities.
3. Category C corresponds to Part VI (Human rights and humanitarian Affairs)
4. Category D includes Part I (Overall policy-making and coordination). This category has been divided in: D1 (General Assembly and Economic and Social Council Affairs and Conference Management) and D2 (Overall policy-making and coordination).
5. Category E includes Part VII (Public Information), Part VIII (Common Support Services), Part IX (Internal Oversight), Part X (Jointly financed administrative activities and special expenses), Part XI (Capital expenditures) and Part XII (Safety and security).
6. Category F corresponds to Part XIV (Staff Assessment), which comprises resources administered by the Secretariat to cover taxes and it is applicable to the seven headquarters cities (Geneva, London, Montreal, Vienna, Rome, Paris and New York).

general, any voluntary contribution from donors is channelled through trust funds, and these contributions are considered extra-budgetary resources in the programme budget. ‘Trust funds’ that channel voluntary contributions are clearly differentiated from the ‘general fund’ that records income and expenditures under the regular budget.

Procedures to establish and manage trust funds have been effective since 1982 (ST/SGB/188 and ST/AI/286).<sup>45</sup> Trust funds may be classified into two major groups: (a) general trust

<sup>45</sup> The norm does not apply to those voluntary funds that are subject to the administrative authority of their executive heads, such as the United Nations Children’s Fund (UNICEF) and the United Nations Development Programme (UNDP) —not covered in this report— or the voluntary funds of the United Nations High Commissioner for Refugees (UNCHR), the voluntary funds of the United Nations Relief and Works for Palestine Refugees in the Near East (UNRWA), the Fund of the United Nations Environment Programme (UNEP), the United Nations Industrial Development Fund, the United Nations Habitat and Human Settlements Foundation, and United Nations Institute for Training and Research (UNITAR).

funds, which support any activity excluding those of technical cooperation nature, such as those expanding current Secretariat activities related to humanitarian and relief purposes, direct assistance in response to emergency situations, among others; and (b) technical cooperation trust funds, aimed at providing economic and social assistance to developing countries.

Both the General Assembly and the Secretary General can establish trust funds, but there is no consolidated information about their sources and uses. One way to estimate uses of trust funds resources is just looking at extra-budgetary data. However, most of these resources are concentrated in a few funds whose activities are governed by their own procedures and not by the rules in the two documents mentioned above. For example, expenditures of extra-budgetary resources during 2005 amounted to US\$ 2.6 billion, but 42 percent of them corresponded to voluntary funds of the United Nations High Commissioner for Refugees (UNHCR), 18 percent to the United Nations Relief and Works for Palestine Refugees in the Near East (UNRWA), 8 percent to the Fund of the United Nations Environment Programme (UNEP) and 4 percent to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). The other trust funds (almost 150) accounted for a small portion of the extra-budgetary resources of the Secretariat.

To close this information gap, Resolution A/60/180 requested the Secretary General to compile a list of the top ten providers of assessed and voluntary financial contributions to the United Nations, based on the average annual contributions in the previous three calendar years.<sup>46</sup> However, these figures include not only contributions to the regular budget and the trust funds within the Secretariat but also to other entities such as UNDP, UNICEF, UNFPA and WFP.<sup>47</sup> This is an indication of the problems of collecting and consolidating information about sources of financing.

The First Consolidated Report of 2005 has estimated voluntary contributions for technical cooperation activities, general trust funds and other special funds. Total contributions for the 2004-2005 biennium amounted to US\$ 345 million in the case of technical cooperation activities, US\$ 1,124 million in the case of general trust funds and US\$ 643 million in the case of other special funds. Nevertheless, information about donors contributing to these funds is not consolidated. In order to obtain information about donors providing resources to trust funds within the Secretariat, it is necessary to analyze every trust fund separately—and this information is only readily available for the large trust funds.

For example, the overall budget for the UNHCR in 2005 was US\$ 1.1 billion, of which only US\$ 39.3 million corresponded to resources from the regular budget. Most of UNHCR's resources come from voluntary contributions, primarily from the EU Member States (35 percent), the US (28.5 percent), the European Commission (12.8 percent), Japan (11.8 percent) and other country donors (9.6 percent), complemented by private donors and NGOs (2.2 percent). However, only 20 percent of UNCHR budget corresponds to unrestricted contributions, whilst earmarked contributions to regional programs account for 13 percent, to sub-regional programs 19 percent and sectoral/thematic programs 18 percent.<sup>48</sup>

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<sup>46</sup> See <http://www.un.org/ga/president/60/summitfollowup/060202sgb.pdf>

<sup>47</sup> From these source, the US provided US\$ 3.8 billion on average during the 2002-2004 period, Japan US \$ 1.8 and the UK US\$ 1.1 billion. The other seven top donors' contributions range from US\$ 0.8 to US\$ 0.5 billion.

<sup>48</sup> UNCHCR Global Report 2005, see <http://www.unhcr.org/static/publ/gr2005/gr2005toc.htm>

OCHA provides another example of the difficulties in consolidating information on trust funds. OCHA itself can be viewed as an ‘umbrella trust fund’ that administers other funds to accomplish its tasks in the field.<sup>49</sup> The OCHA budget in 2005 was US\$ 120 million, of which only 7 percent came from the regular budget. Voluntary contributions accounted for 83 percent of its budget and program support for specific tasks provided 10 percent of the resources. Similarly to the UNHCR case, the proportion of earmarked to un-earmarked contributions is relatively high, at around 7 to 3 in the period 2003-2005. The main donors are European Union countries (75 percent), the Humanitarian Aid Department of the European Commission (10 percent), the United States (8 percent) and Japan (2 percent), while other donors contribute 5 percent.

#### **4. Main areas of concern in the finance structure and budget-making process of the UN Secretariat**

The United Nations budget is a key vehicle through which Member Countries transform their interests, aspirations, desires and objectives regarding many aspects of multilateral relations into collective decisions and action. The process of preparing, approving and executing the UN budget provides a financial junction in which differing views on multilateral initiatives are crystallized. Therefore, it is essential to keep in mind that the financial problems of the UN Secretariat are, above all, *political* problems, for the UN budget reflects the power structures, political relations, ideological divisions, military capabilities and relative economic strengths of UN Member Countries.

Against this background, the analysis of the preceding sections makes it possible to identify four main areas of concern regarding the financial and budget aspects of UN Secretariat, whose combined impact leads to a fifth set of preoccupations. The first, and probably most important, of these refers to the different views of UN stakeholders and the search for consensus; the second focuses on the lack of correspondence between mandates and the resources made available to carry them out; the third emerges out of the structure of finance of the UN Secretariat; and the fourth refers to the processes and procedures to prepare and execute the UN Secretariat budget. All of these lead to a lack of organizational learning capabilities that stymies the functioning of the UN Secretariat.

##### ***4.1. The elusive search for consensus: multiplicity of actors with different objectives, attitudes and perceptions***

*‘From one point of view, consensus is essential; either the activities of the Organization must be restricted to fit the consensus, or the consensus must be broadened to support the developing range of activities. Financial difficulty is but a symptom of the deeper political crisis which is almost automatically precipitated by miscalculation of the limits of the prevailing consensus, or by deliberate efforts to push the Organization beyond those limits.*

Inis Claude<sup>50</sup>

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<sup>49</sup> OCHA administers the Trust Fund for Disaster Relief (DMA), the Trust Fund for Strengthening the Office of the Coordinator (DDA), the Trust Fund for the Tsunami Disaster (TKB) and the Special Account for Programme Support (ODA), among other in-kind contributions.

<sup>50</sup> Claude (1963), p. 840.



As the only world body with universal membership, with a level playing field of ‘one country one vote’ in the General Assembly, and with a Security Council that reflects the reality of power relations long past, consensus has emerged as a key feature of the decision-making process at the United Nations. During nearly five of its six decades of existence, the Cold War provided a framework for the bargaining process that characterizes decision-making in the UN, in which the G77 and the Non-Aligned Movement sought to play a balancing role between the Western camp, led by the United States, and the Eastern camp, led by the Soviet Union. In the post-Cold War age, this East-West division has been superseded by a new and different set of cleavages between nations, which more closely reflect the diverging concerns of the rich-poor or included-excluded dichotomies that have emerged as the process of globalization has taken hold.<sup>51</sup>

The basic division in the UN at the beginning of the 21st century is that between North and South, between developed and developing countries. The South camp is represented by the Group of 77 (G77), which is the largest single coalition of countries comprising 132 members and contributes 18.5 percent of the budget. However, the G77 is clearly not monolithic and is made up of a number of other groups —geographic, political, and religious— each of which has its own perspective, its own set of issues, its own agenda. The G-77 includes Africa, 54 countries whose focus is on development and conflict; Asia, which is very diverse and does not tend to act as a political block; and Latin America, which comprises countries with very different political positions. Although China is a member of the Security Council and has many views in common with the larger powers, it often aligns itself with G77 positions to the extent it may be possible to speak of a ‘G77 and China’ group.<sup>52</sup>

In the North camp there is the European Union, comprised of 27 countries, which contribute approximately 37 percent of the budget. If the Acceding Countries and potential candidates are added to it, the EU constitutes quite a powerful block of countries in UN affairs. Moreover, the EU has acted as a tight, cohesive and coherent group that takes positions after its members reach a consensus. The like-minded countries of Australia, Canada and New Zealand (CANZ) constitute another group of countries, which aligns itself with the Northern camp in most administrative and budgetary matters, but with the South in some other issues. Japan, which contributes 19 percent of the UN regular budget and a similar amount to peacekeeping operations, is also a key player that has become increasingly frustrated because of lack of progress in Security Council reform (in which it aspires to become a permanent member). The United States is in a category by itself. As the only superpower at the beginning of the 21<sup>st</sup> century, it faces resentment and hostility, mainly because of its propensity to act unilaterally and disregard the UN when it does not agree with the US foreign policy line. This has been exacerbated by the policies and attitudes of the current administration (e.g. withholding contributions to the UN budget). During 2005-2006, the reaction of most UN Member Countries to any American statement or position — especially on UN reform — has been critical and sceptical, and US actions at the UN have galvanized opposition from the exceedingly diverse Group of 77.

The ongoing North-South tension can be summarized as a struggle between the ‘power of the numbers’ and the ‘power of the purse’. The lack of voting power of the large contributors

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<sup>51</sup> Francisco Sagasti, “A Fractured Global Order”, Lima FORO Nacional/Internacional, April 2006.

<sup>52</sup> The fact that most developing and developed countries in the UN are members of one or another group reduces to a certain extent their options for acting independently, thus fostering the adoption of negotiated positions that are presented to other groups. However, this does not prevent some countries from forcefully stating their views and pushing for their adoption within their groups.

over budgetary questions in the General Assembly and the Fifth Committee, and their unwillingness to provide resources for activities they do not control, has resulted in the stagnation of the regular budget and an increase in extra-budgetary funding allocated through trust funds, where donor countries can exert more influence. Countries whose contributions to the UN are growing, such as the Republic of Korea and the Arab states, are following suit. At the core of many of these differences is the perception that the North is consistently trying to reduce the importance of UN initiatives in the economic and social fields, while keeping it as an important player in primarily in peace and security matters. In particular, the South resents that the UN's research, policy formulation and negotiating functions on development issues have been diminished and the UN has become marginalized from the main thrust of policy-making in areas such as international development, trade, monetary, finance, debt and aid issues. In contrast, most countries of the North prefer to leave these matters to the Bretton Woods Institutions, the World Bank and the International Monetary Fund, where weighted voting gives them greater control.

The interaction between the UN Secretariat and Member States has also been characterized by relative unease, lack of cooperation and mistrust. Developing countries view the UN Secretariat as being under the thumb of the big countries and hence any reforms coming from the Secretariat are approached with caution. In the eyes of several Member States, the Secretariat often disregards their directives and is selective in implementing mandates. This lack of trust generates burdensome procedures, regulations, controls and reporting requirements from the GA, which diminishes managers' flexibility, increases transaction costs and thus hampers the overall efficiency of the organization.<sup>53</sup> Furthermore, there is also divergence of views within the Secretariat itself regarding financial matters. There are departments that have field operations that are largely financed with assessed contributions (DPKO), departments with field operations that are mostly dependent on extra-budgetary resources (OCHA, DDA, DPA), departments that have large field staff and some field operations that are financed by the regular budget and complementary extra-budgetary resources (DESA), and several other support departments whose resources come out of the regular budget and assessed contributions. In addition, there are the departments in charge of managing the UN Secretariat and ensuring an adequate functioning of the organization. Each of these groups of departments has their own perspectives on financial and budgetary matters, and do not necessarily present a unified front when interacting with Member Countries through the Fifth Committee or other UN bodies.

A first example of how these diverse views play out in the current context of mistrust at the UN has been the mandate review exercise agreed by Member States at the World Summit 2005 (Resolution A/RES/60/1). The general idea of the mandate review is to update the program of the organization to ensure that mandates reflect contemporary needs, and to make the UN more effective. Aside from the diverging interpretations of the process and scope of the mandate review exercise, the lack of trust between various groups of Member States has made this review a rather difficult and laborious process. A second example of the way in divergent views produce clashes and mistrust, not only between Member Countries, but also between groups of countries and the UN Secretariat, is provided by the fate of the last reform package that was presented by the SG in rather difficult circumstances in early 2006. At a time when the United States perceived that the reform effort was stalling, it secured the passage of a limit on UN spending through imposition of spending cap despite strenuous

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<sup>53</sup> The Oil-for-Food program scandal and the multiple reports of sexual and financial misconduct on the part of UN personnel in peacekeeping operations and at the UN headquarters have further deepened the lack of confidence of Member States.

objections at attempts to use the budget as a lever to secure further progress on reform efforts. The link between the unusual decision to introduce a spending cap and the initiatives to reform the UN galvanized greater mistrust among Member States.<sup>54</sup>

A third example of the divergent views of North and South Member Countries at the UN is the controversy generated by some of the proposals of the Independent Steering Committee on Governance and Oversight within the United Nations, which recommended establishing several small representative groups of UN members to make decisions on budgetary and financial matters (see Table 1 in section 2.3).<sup>55</sup> The report mentions that the size of the Fifth Committee is a substantial obstacle to the swift reaching of agreements on these matters, and it is that this hampers effective decision-making. The Fifth Committee is generally recognized as the only organ within the General Assembly that functions as a counterweight to the Security Council based on its power over budget priorities and dues assessments. The G77 sees the Fifth Committee as a unique organ that cannot be equated to the financial board of a firm, corporation or smaller agency. Given that G77 countries exert great influence in the UN's budget committee, they are concerned that the proposal was designed to reduce their role and heighten the influence of wealthy nations in determining how the United Nations spends its resources —thus eroding the only level playing field that allows all members, rich and poor alike, to exert some modest influence in the conduct of UN affairs. Finally, the proposed reform of the CPC has also stirred up some controversy. Whereas Japan and the US have expressed their frustration with the Committee and argued for dismantling it, the G77 has defended the work of the CPC as needed to help ensure that the programmatic content of the budget conforms to legislative mandates and to guarantee coordination within the United Nations system.

The preceding comments and concerns suggest that, taking into account the diversity of national interests and positions of UN Member States, it is essential to seek common ground and to generate a minimum level of consensus for the UN Secretariat to function adequately and fulfil its mission of maintaining peace and promoting development. In this regard, it is useful to distinguish between 'soft' consensus, arrived at by leaving aside areas of disagreement or sweeping them under the rug — and that usually result in platitudes and empty rhetoric — and 'operational' consensus, which emerges out of give-and-take negotiations and hard bargaining on difficult issues — and usually leads to choosing 'second best' options that can nevertheless be put in practice.

In the arduous process of seeking operational consensus, in addition to having a clear understanding of the interests and objectives of different parties, it is necessary to have a reasonably correct appreciation of the 'zones of tolerance' and 'negotiation thresholds' that define the range of acceptable outcomes for all parties. It is also necessary to judiciously use 'creative ambiguity' in drafting resolutions, so as to allow for compromises, accommodation and slightly different interpretations that UN delegates can defend in their own countries. Over time, as confidence and trust are built, such a process may lead to gradual and possibly

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<sup>54</sup> Yet, this type of behaviour by powerful member countries is not new. As Thant and Scott (2006, p. 77) point out: 'An important Part of the Secretariat's history is its recurrent financial crises —in the 1960s and 1970s the result of Soviet unwillingness to pay its peacekeeping dues and in the 1980s and 1990s the result of American attempts to force budgetary and other reforms. These crises have repeatedly guided the reformist impulse towards cut-backs rather than more thought-through and long-lasting reforms.'

<sup>55</sup> United Nations, 2006, *Comprehensive review of governance and oversight within the United Nations and its funds, programmes and specialized agencies*, Report of the Secretary-General, Addendum, Report of the Independent Steering Committee, A/60/883/Add.1. The review was conducted by an external contractor, Price Waterhouse Coopers, under the aegis of the Committee.

lasting changes, as it has done in the past in the UN, but it must always be kept in mind that there is ample room for misunderstandings and for attempts at taking advantage of the perceived weaknesses of other parties. Forward-looking leadership committed to multilateralism, both at the national level and among UN delegates, plays a key role in creating the spaces where operational consensus can be generated.

#### ***4.2. Correspondence between the decision making process and financial resource availability***

*'Financing the United Nations is somewhat like the job of providing for an unusually large and disparate family on a very modest income. Some worthy projects may have to be sidetracked; a portion of the funds available may be wasted; it is difficult to get each member of the family to accept his share of responsibility; and there will be a constant concern over whether both ends will meet.'*

US Congress, 1954<sup>56</sup>

*'The Secretariat must still prepare estimates for a host of programs which cannot be financed and the Fifth Committee must still debate and examine them. That the priority and coordination problem in particular still persists will be made clear throughout this study. In a sense this is the basic issue in the Organization's fiscal system.'*

David Singer, 1961<sup>57</sup>

*'I have said many times that the Secretariat has reached the limit of what it can deliver with the existing resources. Whatever savings can be achieved through reforms must be reinvested to strengthen those parts of the Organization that have been weakened in recent times. This reform must not become a pretext for another round of budget cuts.'*

Kofi Annan, 2002<sup>58</sup>

The second area of concern refers to the correspondence between the decision making process in the UN General Assembly, which finds expression in the resolutions and mandates it approves, and the resources made available to put them into practice, which find expression in the budget of the organization. There is a widely held perception that mandates and budget are running on different tracks and that there is a serious mismatch between the two. During the last two decades mandates, both renewed and new, have proliferated and the resources that would be required for their implementation have outpaced the financial capabilities of the UN. This has been exacerbated by the policy of zero-growth of the regular budget, which has been in effect for nearly a decade and has further widened the gap between mandates and budget for non-peacekeeping activities of the UN Secretariat.

However, *there is not a structural disconnect* between the decision-making process that leads to mandates and the resource allocations process that provides the means to comply with these mandates, at least in the sense that Member Countries and the Secretariat are fully aware of the resource implications of mandates. Nor there is such a disconnect between the

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<sup>56</sup> US Congress (1954).

<sup>57</sup> Singer, David, 1961, *Financing International Organizations: The United Nations Budget Process*, Martinus Nijhoff, The Hague, p. 42

<sup>58</sup> United Nations, 2002, *Strengthening of the United Nations: an agenda for further change*, Report of the Secretary-General, A/57/387, p. 26

planning and budgeting processes, but rather *a set of mismatches between decisions, resources, planning and budgeting that undermines the effectiveness of UN operations*. The main mechanism that links the decision-making and resources allocation process are the rules of procedure adopted back in 1947 that state that mandates must spell out their budget implications. Yet, even in the face of the policy of zero-growth of the regular budget, it has become a practice for the GA to adopt, year after year, hundreds of renewed or new mandates to be implemented by the Secretariat but without conferring additional resources. New mandates are supposed to be carried out ‘within existing resources’.

The Secretariat has at its disposal several mechanisms to cope with some of these mismatches, which primarily affect activities covered by the UN regular budget. These include the definition of priorities in the Strategic Framework, the gradual or phased implementation of mandates, the practice of spreading resources more thinly to partially implement mandates, the use of the contingency fund (though it is usually rapidly depleted), and the ‘5.6 Rule’ to identify obsolete and redundant activities<sup>59</sup> which can be terminated with the concurrence of Member States and not funded in the next cycle of the UN regular budget. In addition, there is the recourse to extra-budgetary resources, although as indicated in sections 3.3 and 4.3, this has the disadvantage of distorting priorities for UN action. These means of coping with the mismatch between mandates and resources in the context of zero growth of the regular budget provide a way out, but do not encourage transparency and make it difficult to know what will be actually funded, force the Secretariat to address issues that Member States leave unresolved, and can exacerbate the mistrust between Member States and the Secretariat.

The mismatch between mandates and resources is more limited in the case of peacekeeping operations for several reasons. First, all Member Countries acknowledge that maintaining peace is the fundamental objective of the United Nations, and that its peacekeeping activities are crucial and irreplaceable. This leads to an implicit agreement to review the budgets for peacekeeping operations rather lightly, in contrast with what happens with the regular budget. In addition, there are several sources of funds for peacekeeping operations and the scale for assessed contributions differs from that of the regular budget, for it takes into account the fact that some Member Countries have a special responsibility in maintaining world peace. Permanent members of the Security Council, which must approve peacekeeping operations, pay a premium, while the least developed countries receive a discount on their assessed contribution to the UN regular budget (see Annex 3).

Another mismatch that affects in particular the process of approving the UN regular budget, refers to the inordinate amount of time and attention bestowed by the Fifth Committee on rather small budget items. There is a lack of proportion of the degree of scrutiny that some budget matters receive and the materiality of the decisions involved in terms of financial resources and personnel.

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<sup>59</sup> Regulation 5.6, issued as part of the “Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation”, SG Bulletin ST-SGB-2000-8, indicates that: “ Within the proposed programme budget, the Secretary-General shall submit to the General Assembly, with justification, a list of outputs included in the previous budgetary period which, in the judgement of the Secretary-General, can be discontinued and which, as a consequence, have not been included in the proposed programme budget.” (p. 9).

The Programme and Budget Department at the UN Secretariat and the ACABQ play important roles in linking the General Assembly and its Fifth Committee, on one hand, and the UN Secretariat, on the other. They contribute significantly to ease the extent and impact of these mismatches by playing a ‘buffer role’ between these two sets of stakeholders in the budget process. In addition, they must examine, review and reconcile divergent views on resource allocation, and act as process keepers and guardians to ensure compliance with budget regulations.

### **4.3. Sources and structure of finance**

*‘There is the compulsory subscription and the voluntary subscription. The only difference between them is this. The compulsory is the one that you do not pay if you do not want to, and the voluntary is the one that you need not to pay unless you wish to.’*

Harold Macmillan, House of Commons, December 14, 1961<sup>60</sup>

*‘... the United Nations had barely passed its second birthday before members of the US Congress started to call for sweeping reforms of UN finance and administration. In October 1947, the Senate expenditures committee launched a study that found serious problems of overlap, duplication of effort, weak coordination, proliferating mandates and programs, and overly generous compensation of staff within the infant, but rapidly growing, UN system.’*

Edward Luck, 2003<sup>61</sup>

The third area of concern is related to the fragmented structure of finance of the UN Secretariat. The different sources of funding of the UN Secretariat pose an administrative challenge to the organization as they have different planning, budgeting, implementation cycles, inter-governmental review, reporting and accountability processes. According to the Secretary General, in the areas of peacekeeping and trust funds this leads to a lack of transparency and availability of relevant financial information to provide clear guidance, both to Member States and to Secretariat managers on the Organization’s financial picture:

*‘... an archaic and fragmented IT [information technology] infrastructure, outdated manual processes and fragmented accounts in peacekeeping and trust funds create delays but also, more importantly, prevent the collection and tracking of key data needed for management decisions and proper oversight and audit.’<sup>62</sup>*

The regular budget is the backbone of the organization’s activities not by virtue of size, for it forms only a relatively small proportion of the annual expenditure of the UN system, but rather because it supports the basic operational costs of the organization and because assessed contributions are not earmarked and allow, at least in principle, discretion in the allocation of resources. Provided that Member States make timely and full payments, the regular budget is an effective, predictable and stable source for the organization. Yet in practice, this has not been the case: the flow of funds from assessed contributions has been highly unreliable. Late payments and the practice of withholdings of dues has been a chronic problem for decades,

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<sup>60</sup> Quoted in Claude (1963, p. 850).

<sup>61</sup> Luck (2003, p.1)

<sup>62</sup> United Nations, 2006, *Investing in the United Nations: for a Stronger Organization Worldwide*, Report of the Secretary-General, March, A/60/692, p. 23

and there are to date no penalties for or interest charges on unpaid assessments. Late payments have frequently depleted the UN's Working Capital Fund and have created transactions costs as managers cross-borrow from different units and departments to cover resource shortfalls.

The vulnerability of assessed contribution is also the result of relying on a few countries for the bulk of the resources. In 2006, the top three countries, US, Japan and Germany, contributed more than 50 percent of the total regular budget, and a little over 80 percent of core resources was provided by only ten countries. On the other hand, 88 countries pay about 0.26 percent of the regular budget. This invariably leads to a situation whereby the organization is over-reliant on the willingness and ability to pay of a few member countries.

Moreover, in addition to Article 19 of the Charter that says that voting rights in the General Assembly will be suspended if dues are not paid for two years, Article 6 allows the possibility that a country could be expelled for the same offence upon the recommendation of the Security Council. This has not happened in practice and it is likely not to happen in the future.<sup>63</sup> Therefore, it is not surprising that only 40 Member States, representing less than a quarter of the total regular budget, paid their full 2006 dues on time.<sup>64</sup> The debt of all Member States to the UN regular, peacekeeping and international tribunals budgets totalled US\$ 3.3 billion at December 31, 2005, of which the US accounted for more than US\$ 1 billion.<sup>65</sup>

Furthermore, the very slow growth of the UN regular budget has not been responsive to its continuously expanding agenda. The policy of zero real growth, initiated under Boutros Boutros Ghali on the insistence of the United States and other major donors, effectively froze UN spending. This forced the various departments of the UN Secretariat either to make savings in existing program areas (presumably of lower priority or impact) in order to fund new activities or to seek voluntary contributions.

As indicated earlier in this report, voluntary contributions can be viewed as a useful and even necessary supplement to the regular budget of the United Nations. Without recourse to them, much valuable work in the fields of humanitarian relief, narcotics control, and economic and social programs could not be carried out. The relative speed and flexibility with which they can be used given them further advantage and, from a donor's perspective, they also allow countries to choose programs that are more aligned with their national priorities and that they wish to support.

But trust funds also generate problems. They add additional layers of complexity to the planning and overall governance of the organization. The activities financed are not subject to the same central program of administrative and budgetary controls as regular budget activities, nor are they subject to approval through the normal budgetary processes. Instead, they have their own approval procedures, reporting requirements and accountability mechanisms that reduce transparency and create an additional administrative load. The

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<sup>63</sup> For example, it is inconceivable that the US (the country that has accumulated the largest amount of arrears) would vote in the Security Council to throw itself out of the UN!

<sup>64</sup> Volcker Lehmann and Angela McClellan, United Nations, Friedrich Ebert Foundation, New York Fact Sheet, April 2006

<sup>65</sup> Conference on The Challenges of UN Finance Organized by Global Policy Forum and the Friedrich Ebert Foundation, March 22, 2006.

multiplication of such systems and procedures also increases overall transaction costs in the organization.

In addition, voluntary contributions, which are under their direct control of donors, may also be seen by some Member Countries as a partial substitute for assessed contributions that are under the control of the General Assembly and the Secretary General. This constrains the extent to which the UN bodies can make strategic decisions on resource allocation. In this sense, earmarked voluntary funding is further divorced from the planning and the budgeting processes of the UN Secretariat, and is a main cause of overlap and duplication and also an impediment to integrated UN action.

Lastly, voluntary funding tends to be less predictable and reliable source of funding than assessed contributions. Unilateral ‘pick and pay’ approaches of major donors through voluntary contributions are much to blame for the financial uncertainty in the organization. Donors prefer this type of finance as they can avoid long-term budgetary commitments. Voluntary contributions make it easier for governments to retrench at times of fiscal stringency and to revise their UN spending priorities as the domestic political winds change. Furthermore, unlike assessed contributions that are internationally agreed obligations, voluntary pledges are subject to normal scrutiny and revision by finance ministries and legislators in donor countries. As a result, funding levels may vary widely from year to year. However, voluntary funding does not need necessarily be unpredictable, and some donors are making voluntary, core-funding, multi-year pledges to some UN Funds, Programmes and Specialized Agencies.

#### ***4.4. Problems in the budget preparation, approval and implementation process***

*‘The business practices, processes and culture of the UN system have evolved in an incremental and ad hoc manner over 60 years, in response to specific situations and agency needs. This has widened the disconnect between organizations of the system, contributed to inefficiency and hindered the development of a common management culture that is accountable and results-oriented. To boost public trust, the UN needs to demonstrate more transparency and accountability*

High Level Panel on System-Wide Coherence, 2006<sup>66</sup>

A fourth area of concern is related to the weak instruments and cumbersome procedures and processes to prepare, approve and execute the UN Secretariat’s budget. The first issue here is the *weakness of the primary planning, budgeting, reporting and evaluation tools*. The Strategic Framework and the budget document do not provide guidance for Member States to discuss the overall priorities of the organization. This stems in part from the obscurity of the budget information, particularly with reference to the activities and programs financed with extra-budgetary resources that usually do not appear in budget documents. Furthermore, resources available to Member States to evaluate UN activities and performance are inadequate. There are weak linkages in program budget between objectives, expected accomplishments, indicators of achievements and outputs. The ‘Financial Performance Report’, which is the primary reporting and evaluation tool for Secretariat activities, is mostly a summation of a variegated mixture of short-term outcomes. The data collected does not

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<sup>66</sup> United Nations, Delivering as one: Report of the High-level Panel on United Nations System-wide Coherence in the areas of development, humanitarian assistance and the environment, 2006, A/61/583.



provide information as to whether resources were used efficiently, partly because no performance standards or productivity benchmarks were defined in advance.

In addition, self-evaluation practices are weak. A recent report of OIOS (A/59/79) indicates that the major obstacles to conducting self-evaluation are the lack of commitment from program managers, shortage of time and resources, and the need for further guidance, training and monitoring of program implementation. While the Secretary General has identified the need for strengthening the system of monitoring and evaluation, and some efforts to reinforce this function have been made, there has not been any appreciable increase in the resources to carry out these functions.

A further limitation is the failure to follow up on evaluation recommendations. The CPC, tasked to review and recommend actions from thematic evaluation reports produced by OIOS, is not fulfilling this role in full because of the limited experience of some CPC members in the UN system, lack of follow-up mechanisms by the Secretariat, and time constraints and heavy workload of the Committee to make in-depth analysis of evaluations. As a result, intergovernmental bodies do not have the information on program performance, which is a major impediment for determining the direction and content of future programs and for improving the functioning of the Secretariat. The planning process and resource allocation are thus not informed by past experience.

Another major issue is the *blurring of functions between the Fifth Committee and Secretariat management*, which stems from the great level of detail with which Fifth Committee members review the regular budget submission. This is reflected in discussions and decision-making on budgets and administrative topics that typically focus on individual posts and specific expenditure items, rather than on strategic questions. What UN staff often refer to as ‘micro-management’ by the Fifth Committee is rooted in the lack of trust between Member States and the Secretariat, and in the narrow interests of some Member States in securing posts held by their own nationals and in protecting programs of particular interest to them. As a consequence, the negotiation processes is lengthy, time-consuming and lacks transparency. The complexity of the agenda, along with the number and volume of reports submitted to the Committee, results in a very severe and challenging workload for Committee members.

This also produces a heavy workload for the Secretariat. Countless hours are spent preparing submissions, servicing meetings and conducting negotiations for a total resource appropriation that changes only negligibly from the previous biennium. For example, the Secretariat delivers 275 different reports to the Fifth Committee every year, whose members listen to around 80 Secretariat oral statements.<sup>67</sup> In 2001, the Secretariat reported that it provided 563 pages of written replies to 490 questions and approximately US\$ 10.3 million worth of Secretariat staff time was spent servicing the work of the Committees.<sup>68</sup> To address this Fifth Committee members have instituted a process of ‘informal consultations’ open to all Member States in order to reach preliminary agreement on a host of budget questions, leaving some of the most disputed issues for later in budget negotiations.

The active involvement of Member States in specific resource allocation decisions makes it difficult for the SG to move resources horizontally as needs emerge. In addition, cumbersome

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<sup>67</sup> Report of the Secretary-General, *Investing in the United Nations: for a stronger Organization worldwide* (A/60/692), para. 77.

<sup>68</sup> United Nations, 2002, *Strengthening of the United Nations: an agenda for further change*, Report of the Secretary General, A/57/387.

personnel rules, procedures and practices, mostly designed to protect staff rights, weaken managers' ability to lead and to establish a high-performance results-oriented work environment. Another consequence is that the lengthy process involved in defining priorities makes it hard to use the biennial budget as a management instrument to define programmatic directions for the organization; it therefore has little impact on day-to-day activities. Box 2 describes some of the views and perspectives on the problems of the budget-making process of the regular budget from discussions with Member Country delegates and the Secretariat officials.

### **BOX 2: Views and Perspectives on the Problems of the Budget-Making Process of the Regular Budget**

- **Lengthy process:** The Strategic Framework and the Results Based Budget (RBB) establishes the priorities, programs and subprograms two years before implementation. The lengthy process involved in defining priorities means that the biennial budget ceases to be a management instrument to help define the programmatic direction of the organization and has little impact in day-to-day activities.
- **Little variation of priorities from biennium to biennium.** Departments are encouraged to make the minimal changes from the previous biennium to avoid cutbacks of Department posts and financial resources. The Fifth Committee looks only at the proposed increments in the budget
- **The budget does not provide an overall picture of the organization's activities.** Part of the UN's budget information remains obscure. Activities and programs that are financed by extra-budgetary resources are not presented.
- **RBB is still a work in progress.** The budget is not sufficiently and consistently linked to results such as operational outputs or strategic outcomes. Tools are not in place to assess performance of the organization in a systematic and meaningful way.
- **Little scrutiny by the CPC of evaluations conducted by OIOS.** CPC's heavy workload precludes an in-depth analysis of evaluation reports and consequently few recommendations are made on implementing and following up on evaluation recommendations.
- **Burdensome reporting requirements that do not inform decision-making.** The quantity of reports requested by the GA obscures their quality and impact, overwhelming the Member States and overburdening the Secretariat. Countless hours are spent preparing submissions, servicing meetings and conducting negotiations for a total resource appropriation that changes only negligibly from the previous biennium. The Secretariat has estimated that in 2001, it provided 563 pages of written replies to 490 questions and approximately US\$ 10.3 million worth of Secretariat staff time was spent servicing the work of the Committees (United Nations, 2002, *Strengthening of the United Nations: an agenda for further change*, Report of the Secretary General, A/57/387). Information is not often provided on the overall picture of the Organization in an area, it is difficult through those reports to judge the effectiveness of mandates in meeting the Organization's objectives.
- **Perceived duplication of work of the ACABQ and the Fifth Committee.** Member States appear to take over the role of the ACABQ through their review of detailed budgeting information. Instead of focusing on the strategic issues or debating about outputs and results. There is no tradition of delegating substantial authority to the Secretariat to act.
- **Time consuming formal and informal negotiations to reach agreements.** The negotiating process in the 5th Committee has at times been conducted in a series of frequent and long informal consultations that, although being in principle open to all member countries, were in practice limited to delegates with strong interest, extensive knowledge and time availability.
- **The budget documentation is voluminous.** The programme budget contains 13 separate sections, each with an average of 50 pages, totalling roughly 650 pages. In addition, there are various background documents and reports for the Fifth Committee to review from different entities within the UN (e.g. JIU, OIOS, Programme Planning and Budget Division). In the 59th session of the GA, the number of reports submitted to the Fifth Committee totalled 275.

#### **4.5. Organizational learning in decision-making and resource management**

*“Without an understanding of the political background of the fiscal difficulties of the United Nations and the political determinants of its future role in world affairs, one cannot deal intelligently with the problems and prospects of the Organization’s treasury. ... the United Nations is an agency of the multi-state system, owned and operated by states which undertake, cooperatively and competitively, to use it to affect the working of the system and to influence their fortunes within the system. It does not stand above or outside the international political system, but it is clearly in and decidedly of that system. Serving as both workshop for collaboration and an arena for conflict, the Organization is inexorably involved in the political relationships of states and is affected by politics and working undisturbed to promote global welfare is neither possible nor desirable. Political involvement is the price of relevance; only a world organization which is subject to the buffeting of political forces is in a position to contribute significantly to the solution of the critical problems of international relations”.*

Inis Claude, 1963<sup>69</sup>

The various issues identified in the preceding four areas of concern combine to generate a fifth set of concerns that refer to the inability of various United Nations bodies, including the General Assembly, its committees and the Secretariat, to develop organizational learning capabilities.

In particular, as many studies and reports produced in the early years of the UN show, the preoccupation with financial and budgetary matters emerged early in the life of the organization. Complex and cumbersome budgeting procedures, estimated implementation costs growing much faster than resources, proliferation of activities of questionable impact, and overlap and duplication were identified in the first few years of the UN. However, past experience with budgets and finance has not, in general, led to lasting changes and significant improvements, even though the last decade has seen renewed efforts in this direction. This is largely a consequence of the political character of the institution, a fact clearly noted by Claude in the quote at the head of this subsection.

Organizational learning on financial and budget matters has been further constrained by the lack of continuity and consistency in the policies of key Member Countries towards the United Nations. While some have supported multilateral initiatives and actions in a steady and forceful manner, others have reluctantly agreed, openly opposed, or simply ignored them, often modifying their stance with changes in government. Of more direct concern for the functioning of UN bodies are the changes in Permanent Representatives to the UN, and especially changes in delegates to the Fifth Committee. Given the complexity of financing and budget rules and procedures, it takes a rather long time for a delegate to become familiar with them and be an effective participant in budget discussions and debates. This contrast with the relatively long time that some UN staff members remain in their posts, and creates a certain degree of imbalance in expertise on budget and financial matters that is seen with suspicion by some delegates.

The diversity of views, objectives and expectations of the multiplicity of stakeholders in UN financing and budget makes it difficult to agree on indicators and qualitative measures that

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<sup>69</sup> Claude (1963, p. 831).

could provide benchmarks for the performance of the Secretariat. Together with the lack of correspondence between decision-making and resource allocation, and between budget planning and execution, this conspires against obtaining feedback to guide future action. In a certain sense, without performance measures and feedback, many UN Secretariat activities may be compared to flying blind, without points of reference to guide course changes, and unable to learn from past experience. These considerations explain to a significant extent why the United Nations Member Countries and the Secretariat resort frequently to high-level panels, external committees, outside experts and the international relations community in general, to assist them in the process of organizational learning at the UN.

## 5. Concluding remarks: key challenges in UN Secretariat budget and financing reform

*‘When nations have little basic faith in an institution, they are prone not to invest heavily in it. It is evident, not only from budgetary debate, but from the tone of the remarks in every organ, and from national behaviour outside the Organization, that the members of the world community are putting few, if any, of their eggs in the United Nations basket. The vicious circle is of course ultimately completed, because this lack of political faith and financial support tends in turn to further weaken the institution, resulting in even greater neglect of the Organization’*

David Singer, 1961<sup>70</sup>

The analysis in the preceding sections shows the complexity and intractability of UN financial and budget matters, whose difficulty has been acknowledged practically since the organization was created. It also suggests that, rather than viewing these matters as a ‘problem’ for which a ‘solution’ should—or could—be found, they must be seen as a *structural condition* to be acknowledged and dealt with. Such conditions are not ‘solved’ in a clear, unambiguous and definitive manner; rather, organizations ‘evolve’ out of a condition in a variety of ways. These include incremental and gradual adjustments, cataclysmic events that force changes in practices and behaviour, haphazard circumstances and chance that create unexpected opportunities and open up avenues, actions by charismatic and visionary leaders that put their imprint on the organization and chart new courses of action, and the deliberate intervention of coalitions of stakeholders that act strategically to change the organization.

However, a complex institution or organization with a multiplicity of diverse stakeholders can remain in stasis for rather a long time, or undergo change in such a slow way as to be almost imperceptible. This is partly because the parties involved in it learn to tolerate a certain degree of inefficiency and ineffectiveness as the price for inclusiveness, participation and broad ownership by its members. Yet, such an acceptance of less than satisfactory performance does not necessarily imply disregard or lack of interest in improving the way the organization operates, but rather an acknowledgement of tradeoffs and a determination to keep the institution alive and functioning in spite of its shortcomings. This may also explain why even rogue members in an organization may not be prepared to precipitate total collapse, even though they may be willing to keep it in a permanent state of crisis.

However frustrating to reform-minded stakeholders, finance and budget matters in the UN are likely to advance by fits and starts, achieving incremental but lasting improvements that

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<sup>70</sup> Singer (1961, p. 10)

will challenge patience and persistence. Promoting change in the UN requires an appreciation and understanding of the long-term historical background of this unique entity and its peculiar organizational culture; of the medium-term institutional factors — norms, rules, regulations, incentives, processes, structures, procedures — that mould and shape the behaviour of its members; and of the short-term circumstances that influence perceptions and create openings for new initiatives. These three sets of factors should be viewed against the backdrop of changing international power relations in a fractured global order. In turn, more adequate appreciations and understandings would make it possible to evolve a shared perception of the governance and management challenges and opportunities faced by the United Nations at the beginning of the 21st century.

The unique nature of the UN — in which the ‘one country one vote’ rule in General Assembly provides a level playing field that equalizes asymmetric power relations between member countries, but where at the same time the Security Council and its five Permanent Members reflect a balance of power frozen in time since the end of World War II— requires a paradoxical mindset to effect change. Only incremental steps are feasible, but to generate lasting improvement they must be informed by a radical vision for the institution. The oxymoron ‘radical incrementalism’ may be appropriate to describe this approach to institutional changes in governance and management at the UN.<sup>71</sup> At the same time, as circumstances change continuously, there is a need to be alert and exploit opportunities that may emerge unexpectedly, although it is also necessary to place them in a strategic framework to guide which opportunities to take advantage of and in which way. ‘Strategic opportunism’ may be another suitable oxymoron to describe such a stance.

In trying to resolve the indeterminate equation of power, purse and numbers in financial and budget matters, so as to improve governance and management at the United Nations, it is possible to identify some ‘entry points’ that are likely to elicit the interest of most stakeholders, produce results in a reasonable time frame and could be appropriate for the Four Nations Initiative to focus on.

A first entry point refers to the *financial and budget aspects of peacekeeping operations*. As indicated in the preceding sections, there is general agreement that maintaining peace is the most important function of the UN. Peacekeeping operations have grown very fast during the last decade and mismatches between decision-making and resource allocation are not, as yet, too large in this aspect of UN operations. However, the rapid increase of the peacekeeping budget is beginning to generate serious strain, and major disagreements over financial issues are looming in the horizon. Some middle-income Member Countries, and even some of the rich ones, are becoming concerned with the growing financial burden imposed by assessed contributions for peacekeeping operations. The peacekeeping scale of assessment will be reviewed again in 2009, which provides an additional incentive to address these matters.

A second entry point focuses on *transparency, coherence and rationalization in trust fund management*. This is an issue that has been repeatedly highlighted by UN Member Countries and the Secretariat, but that requires further work to gather and process information, elucidate the nature of the problems and find ways of reconciling the use of extra-budgetary resources with the overall priorities of the UN as expressed in the regular budget. While Member Countries hold diverging views on this subject, enough territory has already been covered to

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<sup>71</sup> On ‘radical incrementalism’ see Sagasti, Bezanson and Prada (2005, pp. 188-189).

warrant a search for common ground on how extra-budgetary resources are channelled and deployed within the organization, and on ways of improving the use of trust funds.

A third entry point deals with *improvements in the budget preparation, approval and execution process*. More narrowly focused than the preceding two, this issue could generate less controversy and may lead to rapid agreements among Member Countries. The weaknesses and shortcomings of these processes have been clearly identified and are well documented, but political considerations and conflicts in the General Assembly and other UN bodies have prevented taking action to address them. As circumstances change, perhaps it is time to make new attempts at addressing questions such as the proliferation of reports, the time and attention mismatches in the budget process, and matters related to evaluation, organizational learning and accountability.

The arrival of a new Secretary General, the changes in the delegations of key Member Countries, the growing sense of weariness derived from the GA confrontations of the past years, and the renewed realization of the importance of multilateralism in addressing global problems provide a propitious setting for the proposals that will emerge out of the Four Nations Initiative in 2007.

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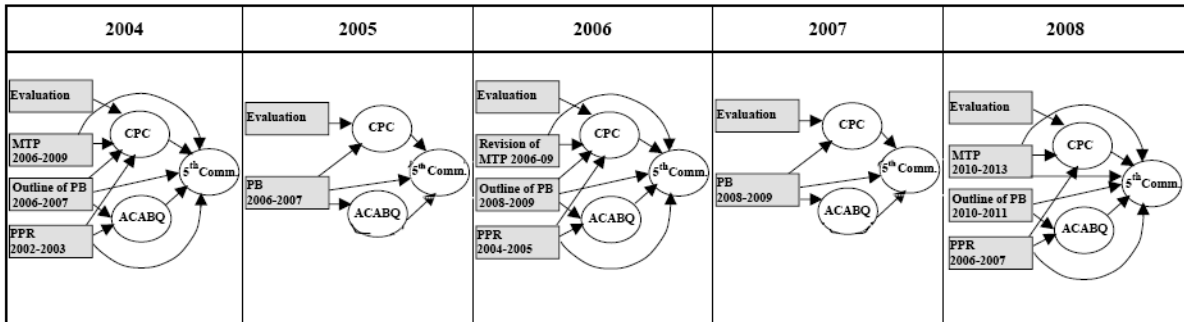
# **ANNEXES**

## ANNEX 1. A Summary List of United Nations Reform Proposals

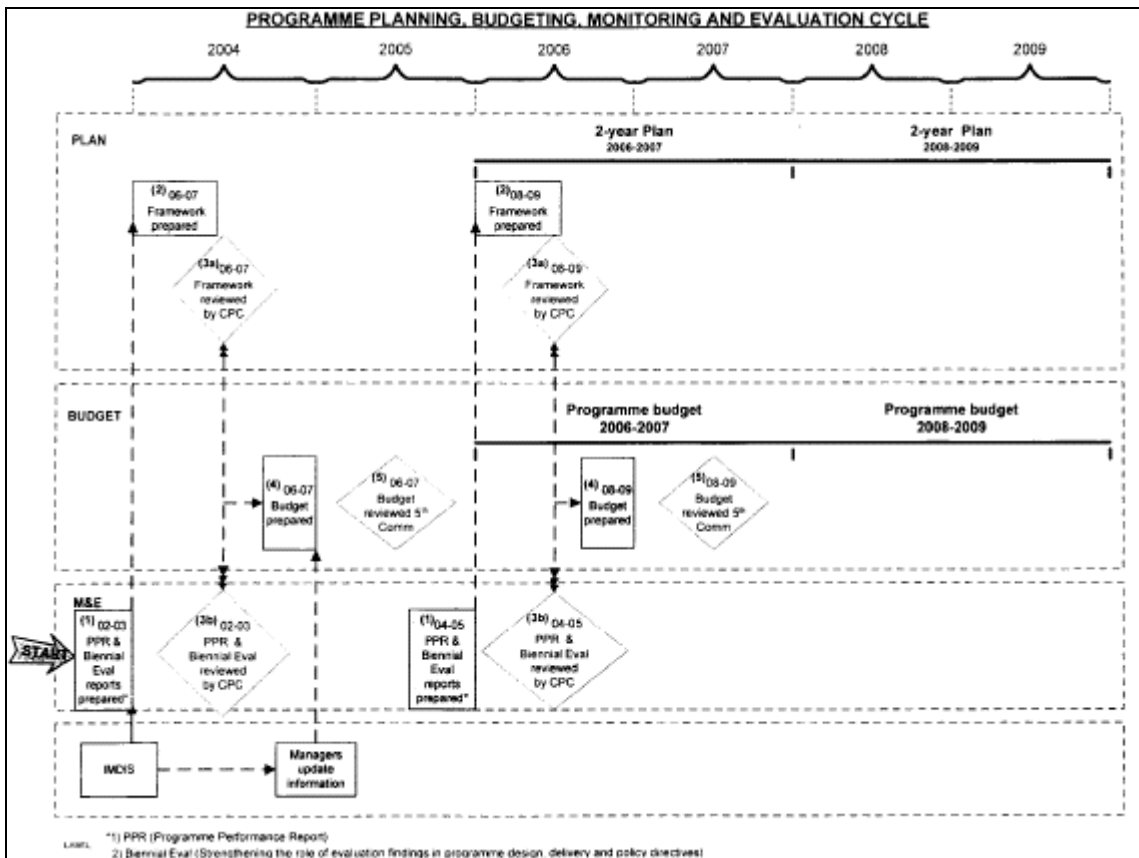
Year	Intergovernmental Groups	Commissions and Panels	External Reports	From the Bureaucracy	Title
1953				☉	<i>Report on the Organization of the Secretariat, Report of the Secretary-General, (1953), UN doc. A/2554.</i>
1961	☉				<i>Review of the Activities and Organization of the Secretariat (1961), Committee of Experts (“Group of 8”)</i>
1961	☉				<i>Examination of the Administrative and Budgetary Procedures of the United Nations (1961), Working Group of 15 (“Group of 15”)</i>
1966	☉				<i>Examination of the Finances of the United Nations and the Specialised Agencies (1966), Ad Hoc Committee of Experts (“Group of 14”)</i>
1969		☉			<i>Partners in Development (1969), Commission on International Development (Pearson Commission).</i>
1969				☉	<i>A Study of the Capacity of the United Nations Development System (“Jackson Report” / “Capacity Study”) (1969), Robert Jackson</i>
1975	☉				<i>A New United Nations Structure for Global Economic Cooperation (Gardner Report) (1975), Group of Experts on the Structure of the United Nations System</i>
1979		☉			<i>North-South – A Programme for Survival (North-South Report) (1979), Independent Commission on International Development Issues (Brandt Commission)</i>
1982		☉			<i>Common Security; A Programme for Disarmament (1982), Independent Commission on Disarmament and Security Issues (Palme Commission).</i>
1984				☉	<i>A World Without a UN; What Would Happen if the United Nations Shut Down? (1984), Heritage Foundation</i>
1984			☉		<i>The Future of the United Nations System: Some Questions on the Occasion of an Anniversary (1985), Marc Nerfin</i>
1985			☉		<i>Some Reflections on the Reform of the United Nations (1985), Maurice Bertrand</i>
1986	☉				<i>Report of the Group of High-Level Intergovernmental Experts to Review the Efficiency of the Administrative and Financial Functioning of the United Nations (1986) (“Group of 18”)</i>
1987		☉			<i>Our Common Future (1987), World Commission on Environment and Development (Brundtland Commission)</i>
1987					<i>A Successor Vision – The United Nations of Tomorrow (1987), UNA-USA commissioned panel on UN reform.</i>
1990		☉			<i>The Challenge to the South (1990), South Commission</i>
1990					<i>A World in Need of Leadership: Tomorrow’s United Nations (1990), Urquhart and Childers</i>
1991			☉		<i>The United Nations in Development: Reform Issues in the Economic and Social Fields (1991), Nordic United Nations Project</i>
1991					<i>Strengthening the United Nations for the 1990s (1991), North-South Roundtable</i>
1991			☉		<i>United Nations: Structure and Leadership for a New Era (1991), Stanley Foundation</i>
1991			☉		<i>Towards a More Effective United Nations (1991), Urquhart and Childers</i>
1991			☉		<i>Common Responsibilities in the 1990 (1991), Stockholm Initiative on Global Security and Governance</i>
1992	☉				<i>Five Major Areas of Reform, “Wilenski group” of 30 ambassadors (1992)</i>
1992		☉			<b><i>Review of the Panel of Independent High-level Experts (1992)</i></b>
1992			☉		<b><i>The United Nations at a Critical Crossroads (1992), South Centre</i></b>
1993				☉	<b><i>Financing an Effective United Nations (1993), Independent Advisory</i></b>

Year	Intergovernmental Groups	Commissions and Panels	External Reports	From the Bureaucracy	Title
					<b>Group on United Nations Financing</b>
1994					<b>Reviewing the UN System (1994), Urquhart and Childers</b>
1995	☉				<i>Report of the Open-ended High-level Working Group on the Strengthening of the United Nations System (1995).</i>
1995				☉	<i>The United Nations in its Second Half Century (1995), Independent Working Group on the Future of the UN System</i>
1995			☉		<i>Reforming the United Nations (1995), Paul Kennedy and Bruce Russett</i>
1996		☉			<i>Our Global Neighbourhood (1996), Commission on Global Governance</i>
1996			☉		<i>For a Strong and Democratic United Nations: A South Perspective on United Nations Reform (1996), South Centre</i>
1996			☉		<i>Strengthening the United Nations in the Economic and Social Fields (1996), Nordic United Nations Reform Project in the Economic and Social Fields</i>
1996			☉		<i>Saving the United Nations: A Challenge to the Next Secretary-General (1996), Jesse Helms</i>
1997				☉	<i>Global Vision, Local Voice (1997), Task Force on Reorientation of United Nations Public Information Activities</i>
1997				☉	<i>Renewing the United Nations: A Program for Reform, Report of the Secretary General, (1997) UN doc. A/51/950</i>
1998				☉	<i>Environment and Human Settlements (1998), Task Force on Environment and Human Settlements</i>
2000		☉			<i>Report of the Panel on United Nations Peace Operations (“Brahimi Report”) (2000)</i>
2002				☉	<i>Strengthening of the United Nations: an agenda for further change, (2002), Report of the Secretary General, UN doc. A/57/387</i>
2005		☉			<i>A More Secure World; Our Shared Responsibility (2005), High-level Panel on Threats, Challenges and Change,</i>
2005				☉	<i>In Larger Freedom: Towards Development, Security and Human Rights for all, Report of the Secretary-General (2005), Report of the Secretary General, UN doc. A/59/2005</i>
2005			☉		<i>Gingrich-Mitchell, 2005, “Report of the Task Force on the United Nations: American Interests and UN Reform,” United States Institute for Peace</i>
2006		☉			<i>Delivering as One; Report of the Secretary-General’s High-level Panel on UN System-wide Coherence (2006), High-level Panel on System-Wide Coherence</i>
2006				☉	<i>Investing in the United Nations: for a Stronger Organization Worldwide, Report of the Secretary- General (2006), UN doc. A/60/692.</i>
2006				☉	<i>Comprehensive review of governance and oversight within the United Nations and its funds, programmes and specialized agencies, Report of the Secretary-General, Report of the independent Steering Committee, (2006) UN doc . A/60/883/Add.1 &amp; A/60/883/Add.1</i>

## ANNEX 2. Budget-Making Process of the Regular Budget



Source: Vislykh, Victor, M. Deborah Wynes, and Muhammad Yussuf, 2003, "Review of the UN Budgetary Process," Annex, Joint Inspection Unit, JIU/REP/2003/2.



Source: United Nations, 2004, Strengthening the role of evaluation findings in programme design, delivery and policy directives, Report of the Office of Internal Oversight Services, A/1591/79

## ANNEX 3: Financing Peacekeeping Operations

### Current Financial Arrangements for Peacekeeping Operations

Financing Arrangement	Purpose	Date of Creation
Scale of assessment for the apportionment of the expenses of UN peacekeeping operations (since 2000)	Financing methodology for assessing the contribution rate of Member States to the peacekeeping account. Assigns each Member State a fixed share of the annual costs of peacekeeping operations.	A/RES/55/325 of 23 December 2000 A/RES/55/236 of 23 December 2000
Peacekeeping Reserve Fund	Cash flow mechanism to ensure rapid start-up funding of new or expanding peacekeeping operations before assessed contributions are received.	A.RES/47/217 of 23 December 1992
Support Account	Financing of human and non-human resource requirements for backstopping and supporting peacekeeping operations at Headquarters.	A/RES/45/258 of 3 May 1991
Trust Funds (in support of UN peace operations)	Extra-budgetary, voluntary funding of activities related to UN peace operations	First established in 1989 (“Trust Fund in Support of United Nations Peacemaking and Peacekeeping Activities”)

#### Methodology of the Peacekeeping Assessment Scale established in 2000

For the purpose of apportioning the costs of peacekeeping operations UN Member States are distributed among ten different levels (from level A to level J) according to ability to pay and UN privileges:

- Level A: permanent members of the Security Council; pay assessments equivalent to their regular budget assessments plus a surcharge calculated on the reallocation of the remaining costs after discounts to poorer countries have been made.
- Level B: Developed countries, not permanent members of the Security Council; pay assessments equivalent to their regular budget assessments and receive no discount (all Member States not included in level A and C-J).
- Level C: Specified “high income developing countries” (Brunei Darussalam, Kuwait, Qatar, Singapore and United Arab Emirates); pay the same rate as regular dues minus a discount of 7.5 %.
- Level D-I: less developed countries (except level A, C and J contributors); receive different discounts from their regular budget rate of assessments, based on their average per capita GNI in relation to the average per capita GNI of all Member States (= US\$ 5094 based on 1996-2001 figures - for assessments in 2004-2006):
  - Level D: Member States with per capita GNI less than 2 times the average for all Member States (threshold for 2004-2006: under US\$ 10188): 20 % discount
  - Level E: Member States with per capita GNI less than 1.8 times the average for all Member States (threshold for 2004-2006: under US\$ 9169): 40 % discount
  - Level F: Member States with per capita GNI less than 1.6 times the average for all Member States (threshold for 2004-2006: under US\$ 8150): 60 % discount
  - Level G: Member States with per capita GNI less than 1.4 times the average for all Member States (threshold for 2004-2006: under US\$ 7131): 70 % discount
  - Level H: Member States with per capita GNI less than 1.2 times the average for all Member States (threshold for 2004-2006: under US\$ 6112): 80 % discount (or 70 % on a voluntary basis)
  - Level I: Member States with per capita GNI less than the average for all Member States (threshold for 2004-2006: under US\$ 5094): 80 % discount
- Level J: Least developed countries; receive 90 % discount and thus pay only 10 percent of their regular budget share.

*Sources:* UN Doc. A/RES/55/235; UN Doc. A/RES/58/157; UN Doc. A/RES/58/157/Add.1