



How Money Talks

The Funding Crisis at the UN

World Federalists of Canada

June 1996

Briefing Paper No. 33

"The United Nations is on the brink of financial disaster. Americans need to know what's going on, because their country took the lead in creating the organization, and its delinquency in paying arrears is threatening it."

-- United Nations Secretary-General Boutros Boutros-Ghali, in an op-ed article carried in the *New York Times*, April 8, 1996.

Summary Statement

The financing of the United Nations has, one way or another, been under constant evaluation and discussion since its early years. For decades the organization has been forced by some of its member states to live in a sort of permanent financial emergency which does not allow its effective operation.

In recent years this bad situation has become much worse. Much of the current shortfall is attributable to the withholding of funds by the United States, which many feel is using its position as the UN's largest contributor to leverage administrative reforms and cuts to UN programs.

The entire UN system costs about \$10 billion per year. The annual arms trade is over three times that; and the world's annual military expenses are over \$800 billion. The UN is a bargain.

Payment of UN dues is an international treaty obligation. However, many nations do not comply with the law. The UN Charter does provide some means to penalize members which are in arrears. However, these measures are not applied and are ineffective.

Canada pays its UN dues on time and in full, but is in a minority of states which do so. Unless full compliance with financial responsibilities by all member states becomes a reality, the potential of the UN will always be restricted.

The UN has been under-financed for over three decades. This track record of steadily worsening financial conditions at the UN offers little hope that member states will in the near future reverse course and pay their annual dues promptly, as well as making good on their overdue assessments.

Rather than pump life back into the worn-out policy of year-to-year decisions by individual governments on how much money to appropriate for international organizations and to which organizations the money should go, what's needed is a flow of funds for the UN which is generated automatically, independent of and additional to contributions from governments.

Numerous proposals for alternative funding for the UN have been made by economists, international non-governmental organizations and recently by a few UN member states. These include a wide range of measures for taxing the international economy or levying taxes or license fees for uses of the global commons. Many are designed to advance other desirable goals, such as the much-discussed 'Tobin tax' (which would stabilize the international monetary system), or a tax on excessive uses of fossil fuels (which would help reduce global warming).

Canada should support as a matter of policy the development of measures which would generate alternative, independent and reliable funding for the UN.

Background

The Rules of the game

There are four types of budget in the United Nations system: the regular budget, the peacekeeping budget, specialized agencies' budgets and voluntary programmes, the first two being the largest and of most interest.

(1) The Regular Budget. The United Nations consists of six principal organs: the Economic and Social Council, the General assembly, the International Court of Justice, the Secretariat, the Security Council and the Trusteeship Council. All of the expenses of these organs are covered in the regular budget. The regular

budget is financed by the contributions of member states based on a scale of assessments. The scale of assessments is prepared by the General Assembly's Committee on Contributions. In preparing the scale they use a complicated formula which takes into account a state's total national income, per capita income and ability to pay. The upper limit for any one state is 25% of the total (this is the amount the U.S. is assessed). The minimum is .01% which is the assessment for many developing countries.

(2) The Peacekeeping Budget. Separate from the regular budget, states are also assessed for peacekeeping operations. The scale of assessments for peace operations is a modified version of the regular budget process. Most developed countries pay the same percentage they pay under the regular budget. Developing countries pay one-fifth their regular share. Since the Security Council makes the decision to establish such operations, its permanent members (China, France, Russia, United States, United Kingdom) are assessed 20% more than their normal share.

(3) Specialized Agencies Budgets. Also separate from the regular budget are the budgets of the specialized agencies. These intergovernmental agencies are separate autonomous organizations related to the United Nations by special agreement. They have their own membership, legislative and executive bodies, secretariats and budgets. The funding of the specialized agencies can occasionally become vulnerable to the same sort of pressures and irregularities as the UN peacekeeping and regular budgets: the withholding by states of their assessed contributions, often as a lever to bring about political change in the organization. The UN Educational, Scientific and Cultural Organization (UNESCO) and the Food and Agricultural Organization of the United Nations (FAO) are two agencies whose work has been held back because member states withheld funds in order to promote a different orientation and agenda for the agency.

(4) Voluntary Programmes. Voluntary programmes are financed not through a scale of assessments which is put in place by the treaty creating the organization, but through the voluntary (usually on an annual basis) contributions of states. Although the funding is voluntary and not based on an annual assessment, some of these programmes are among the larger and more significant members of the UN family of institutions (e.g. the UN Development Programme, UNICEF, UN Environment Programme).

Origins of the crisis

To understand the nature of the current UN financial crisis, it should be put into some historical context. The finance problem is not new. It has bedeviled the United Nations for over three decades.

The derivations of the problem can be traced to the early peacekeeping operations. In 1956, The Soviet bloc, supported by a number of Arab states, objected to being asked to pay for the UN Emergency Force, which was established in response to the Suez crisis. They argued that the costs of the peacekeeping operation should be borne by the countries that had precipitated the crisis: U.K., France, Israel. Despite the decision that the costs would be paid by the members at large, many states refused to pay their assessed amounts. The debate continued in 1960 with the Congo crisis, which saw the United Nations commit around 20,000 personnel from 29 nations over a four-year period, at a cost of \$400 million, to the peacekeeping mission in the Belgian Congo (now Zaire). The Soviet bloc still maintained that the cost should be borne by the aggressor (Belgium) and in addition argued that the creation of the UN Force for the Congo was a matter within the jurisdiction of the Security Council and that the General Assembly had no right to give a ruling on the question of organizational expense.

Facing financial trouble due to default on peacekeeping costs, the General Assembly sought an Advisory Opinion from the World Court. The Court ruled that the General Assembly was within its charter rights to assess costs for the two peacekeeping operations. Nevertheless, many members, including the Soviet Union, refused to pay arrears.

In response, the U.S. sought to apply Article 19 of the Charter, which states that: 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 arrears equals or exceeds the amount of the contributions due from it for the preceding two full years. The General Assembly may, nevertheless, permit such a Member to vote if it is satisfied that the failure to pay is due to conditions beyond the control of the Member. The Soviet Union promptly threatened to leave. UN member states were reluctant to discipline a superpower. What then happened must be considered extraordinary. The United Nations proceeded to hold a session (1964) of the General Assembly with no formal votes being taken and decisions being decided by consultation among the delegates and the President of the General Assembly. Had the Soviet Union left, the organization would have been well on the way to unraveling completely.

Following the failure to enforce Article 19, the United States reserved for itself the right to reject compulsory assessments in the future if it deemed such funding to be contrary to the national interest. It exercised this right a few years later. Thus, the failure to implement Article 19 for fear of key members resigning demonstrated a lack of resolve and willingness to enforce the spirit and letter of the Charter. Members could fail to meet their assessments with little fear of the consequences.

Such was the political climate in which the United Nations struggled through the 1960s to the mid- 1980's. In 1985 a new problem reared its head: the Kasselbaum-Solomon amendment. This act of the U.S. Congress called for the United States to reduce its contributions to the regular budget from 25 per cent to 20 per cent, which would have involved holding back \$42 million for 1987, unless a system of weighted voting (i.e. weighted in favour of the large contributors) was established for the UN budget- making process. The reasons for this amendment was that the United States was concerned about voting procedure in the United Nations which it felt was under the sway of bloc politics and what it perceived as a Third World anti-U.S. bias. Much of the Kasselbaum-Solomon amendment became U.S. policy. The UN adopted some elements of the Kasselbaum-Solomon amendment (under pressure from countries of the North, exploiting U.S. withholding of dues). The U.S. assessed share was not reduced; however, the U.S. won agreement on a change in the way the UN develops its budget. Decision-making on budget questions would now be made by consensus, effectively giving the U.S. a veto.

Over the years, the history of official, intergovernmental efforts to reform the assessment system has produced few results. Working Groups and intergovernmental committees of experts have been repeatedly convened over UN financing - in 1961, 1964, 1965, 1970, 1975, 1980, 1983 and 1986. All of these efforts have resulted in only a few concrete actions, such as:

- one issue of UN bonds - but only to liquidate already incurred costs of peacekeeping in the Sinai and the Congo. (Otherwise, governments have refused to give the UN the power to borrow funds to finance its operations);
- one increase in the level of the Working Capital Fund (now at \$100 million);
- the 1986 decision (following the Kasselbaum-Solomon amendment) to approve UN budgets by consensus;
- set up a \$150 million peacekeeping fund, a revolving reserve which is administered by the Secretary-General;
- set up a \$50 million dollar revolving fund for start-up costs of humanitarian relief operations.

The Current Crisis

By the end of 1995 the amount owed to the United Nations was \$2.5 billion. About \$1 billion in arrears was owed by the United States.

Earlier in 1995 the problem was much worse. A budget battle between the new Republican Congress and Democratic White House caused delays in U.S.

payment of dues. The UN had to borrow from the peacekeeping budget just to finance day-to-day operations.

It is in this unsatisfactory manner that the organization tries to muddle through financial crises. A Working Capital Fund is supposed to cover cash flow irregularities but is too small (\$100 million) for that purpose. Thus, the peacekeeping budget is used as a backstop to cover short term deficits in the regular budget. However, this has merely transferred problems from one place to another. Peacekeeping troop contributors are not repaid promptly, sometimes waiting years to be repaid. Often this deters states from contributing troops; UN peace operations are delayed, often leading to worsening conflict.

There are a variety of reasons why the UN's financial problems have now become particularly acute. UN peace operations have grown through the nineties (and levelled off in the last two years). A deteriorating economy led the Russian Federation to delay payment of its assessments. However, the major reason for the financial crisis is the determination of the U.S. to use its position as the UN's largest contributor to advance its reform agenda. 'Reform' in this instance refers to enforcing reductions to UN programs and administrative capacity.

Some of this lobbying has been successful. In December 1995, the General Assembly agreed to a "zero growth" regular budget for 1996-97 (total expenditures forecast for \$2.7 billion). This zero real growth means that the UN will have to reduce its staff by approximately 1,000 persons (out of a total Secretariat staff of only 13,000).

Earlier this year, the Russian Federation agreed to pay its arrears of \$400 million. But election year politics in the U.S. could have unpredictable consequences. Interestingly, U.S. Democratic leaders have recently been sounding much more supportive of the UN. And Republican-dominated Congressional hearings into U.S. Government expenses on international organizations have been held in smaller and smaller committee rooms. The reason for this is public opinion. It seems that recent polls have demonstrated that, despite the rantings of some politicians, the American people continue to support the UN.

World Federalist Analysis

"He who wills not the means, will not the end."
- Alexander Hamilton

Arguments that the United States cannot afford to restore funding and pay its arrears look unconvincing in light of the billions that the country spends on its military and when compared to its funding of other major international organizations. For example, the United States has no arrears with the

Organization for Economic Cooperation and Development (OECD) nor with the North Atlantic Treaty Organization (NATO). The question of UN funding is ultimately a question of priorities and political will, not one primarily of resources.

If the UN is to become a more effective and autonomous organization, it must resolve its chronic and persistent lack of financial resources. While the world makes more and more demands of the United Nations, governments are failing to provide it with adequate resources to meet these demands.

It is time to look beyond the nation-state for new sources of funds, independent of national contributions. Providing the UN with independent revenue sources is analogous to a nation's system of public finance (taxes, borrowing powers, etc.). This would also enhance the autonomy of the UN system, making it less vulnerable to the shifting priorities of national governments. Of course, with these added resources and autonomy come increased responsibilities for improved accountability, management practices and improved mechanisms for policy coordination.

Any additional alternative financing of the UN and its system should be supplementary to a more healthily apportioned and honoured assessment system.

A wide range of proposals exist for providing the UN with a direct funding base. As a matter of common sense, fundraising for international purposes like the UN should come from those activities which benefit from the peaceful international order which the UN seeks to provide. Travel, transport, communications and international transactions are obvious candidates.

For example, the "Tobin tax" has received much publicity in recent years. This would be a tax on international currency transfers. Some one trillion U.S. dollars worth of foreign exchange transactions take place each day. Such a tax would help regulate the international monetary system and protect national governments against destabilizing currency fluctuations like the recent crisis with the Mexican peso. Even a small tax (.003% has been suggested) on each transaction would raise billions for the UN.

When this proposal was discussed at the G-7 summit in Halifax there were mixed views as to which international organization (the UN? the IMF? the World Bank?) should benefit from the tax. Another criticism of the proposal is that it would require the cooperation of all countries. One or two countries outside of the system could provide tax-free currency exchange havens. Responding to this criticism, economist Ruben Mendez has proposed a foreign currency exchange which would operate similar to stock exchanges. License fees for using the exchange would generate the income for international purposes.

Many other proposals have been developed which would provide independent revenue sources for the UN. Some of these would involve taxes on the international economy which would have additional desirable effects, such as a tax on arms sales, or a tax on uses of fuels which generate greenhouse gases. Others would involve taxing the global commons, such as a tax on marine travel or air transport or a satellite 'parking space' in geosynchronous orbit.

Deciding which is the most ideal means of raising these additional funds for the UN is not really the issue. What's lacking now is the political will on the part of governments to provide the UN with reliable sources of funds, independent of state contributions. Therefore, what's important at this stage is gaining political acceptance, in principle, for the idea.

Recommended Action

Many governments spoke in favour of alternative UN funding methods at last year's 50th anniversary commemoration of the UN.

This rhetorical support needs to be supported, and transformed into concrete action. Governments need to be persuaded that the international good provided by a well-financed UN exceeds the loss of national control associated with supplementing state contributions with independent sources of funding.

Canada has not declared its view on alternative funding for the UN. Foreign Minister Axworthy is personally concerned over the UN's current financial crisis. He made the issue a priority on his first trip to Washington a few months ago, encouraging U.S. payment of UN dues when he met with Secretary of State Christopher and Congressional officials.

A strong and effective UN has always been in Canada's national interest. Canada should be encouraged to declare its support for the development of sources of reliable funding for the UN, independent of and in addition to state contributions.

Letters can be directed to:

Hon. Lloyd Axworthy
Minister for Foreign Affairs
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario
K1A 0G2

In addition, we can express our views on the issue in concert with other concerned world citizens. An international coalition of NGOs has launched a petition intended to reflect the concern of "We the Peoples" of the world over the continued under-financing of the world's primary universal public service

institution. A copy of the [petition](#) is appended with this paper. Please copy and distribute, sign, and mail the petition to the collecting NGO (**Global Policy Forum**).

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