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THE SECRETARY-GENERAL

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IMPROVING THE FINANCIAL SITUATION OF THE ORGANIZATION

New York, 4 June 2019

Madam Chair,
Distinguished delegates,

I welcome this opportunity to introduce my report containing measures to resolve the financial crisis facing the Organization.

This crisis has been years in the making. There are many reasons for it and each requires a different response.

It is an unfortunate reality that we cannot continue to work around.

It is undermining the delivery of our mandates.

It is undermining our reform efforts.

And it is preventing the Organization from reimbursing our troop- and police-contributing countries in a predictable and timely manner. This in turn hinders their ability to provide lifesaving support to our peacekeeping operations.

Discussing the financial situation is never an easy conversation. I wish to stress that we are not trying to single out anyone. We are merely trying to solve a crisis.

I encourage you to set aside your political differences and longstanding objections to certain proposals.

I urge you to join with me to put the Organization on sound financial footing. We are at a tipping point and what we do next will matter for years to come.

I urge you to recommit to paying your financial obligations on time and in full. I thank those member states that have done so. I also thank those that continue to make every effort to do so, notwithstanding the difficult economic conditions they face.

I also urge you to help find a solution to the structural problems that create large upfront expenditures, thereby reducing our available cash and creating an artificial budget level and compounding our liquidity problems.

We have dealt with many complex issues these past few years. You have shown that we are able to find common ground and act in the interest of the Organization.

I know that we can do the same again at this critical juncture.

Let me begin with the big picture.

In taking my oath of office, I promised to work hand-in-hand with Member States to make reform a priority.

You have overwhelmingly supported our reform efforts — and I thank you for that.

But success depends on more than the Secretariat.

It also rests on sufficient and predictable financial contributions from Member States.

On several occasions in the past two years I have expressed my concern about the deteriorating financial health of the Organization.

A major cause is the increase in arrears from Member States in both the regular and peacekeeping budgets. However, we also face inherent structural weaknesses and rigidities in the budget methodologies that exacerbate cash shortfalls.

At the end of 2018, we really reached the bottom.

As I promised to you in March, I have put forward a report that examines the root causes, and offers proposals that I believe are critical to address this emergency.

I will turn first to the regular budget.

Regular budget operations face severe liquidity problems.

While this has occurred before, the current situation is much worse and, if left unaddressed, will start directly affecting mandate delivery. Our liquidity problems have been getting worse year after year -- with cash deficits occurring earlier, running deeper and lingering longer. The crisis is not limited to the 2018-2019 budget period and it will get worse if we do not take immediate measures.

Our cash shortages now occur earlier in the year and the third quarter is now the most problematic, owing to changing payment patterns and the large amounts that we are expected to absorb while being reimbursed only later. Earlier cash shortages mean we have to draw from the liquidity-bridging mechanisms, such as the Working Capital Fund and the Special Account, much sooner in the year and for longer periods. In 2018, we ran out of cash in May and had to resort to the Working Capital Fund. Despite numerous efforts to contain expenditures this year, we are likely to run out of cash in August and, therefore, borrow from the Working Capital Fund.

Additionally, cash deficits now run so deep that the Working Capital Fund and the Special Account are inadequate. In 2018, for the first time in recent years, we were forced to use resources from closed peacekeeping missions simply to meet payrolls. In 2019, despite more Member States paying earlier and the extra measures we have implemented to align expenditures with liquidity projections, our reserves are likely to be exhausted in September/October even in an optimistic scenario for collection of assessments, forcing us to again use resources from closed peacekeeping missions to meet regular budget needs. For the last three years, the Working Capital Fund was exhausted for one-quarter of the year. This is an indication of a more systemic problem: our liquidity reserves are simply too small.

We passed the tipping point last year when we exhausted all our liquidity reserves. Had I not acted twice during the year to contain expenditures, the crisis would have been bigger. Even the closed peacekeeping surpluses that we tapped for the first time since 2005 would not have been sufficient to cover the deficit. Our inability to meet payroll and vendor obligations would have been catastrophic for our reputation and business continuity.

In 2019, I took additional measures to avert a bigger crisis. Managers have been instructed to adjust their hiring and non-post expenditures.

Since nearly 70 per cent of regular budget expenditures go towards meeting salaries and related staff costs, hiring delays are causing operational problems.

Delaying other expenditures to pay salaries is also unsustainable. Deferring expenditures to future budget periods merely transfers today's problems to tomorrow.

Eventually, the postponement of expenditures become budget reductions when time runs out to commit the funds.

In this scenario, our budget implementation is no longer driven by programme planning but by the availability of cash at hand. This goes against our efforts to focus less on inputs and more on results.

Looking at the Organization's overall finances, and its financial ratios, can be misleading. We have more assets than liabilities but not enough liquid assets. This means that I am forced to operate under numerous liquidity constraints for several months of the year. Structural rigidities, including the compartmentalization of operations by funding sources, generate and compound the liquidity problems caused by arrears and delays in payments.

The level of arrears at the end of 2018 was $529 million, equivalent to more than 20 per cent of the year's assessments. Five months into this year, arrears are still at $492 million.

However, non- and late payment of contributions is not the only cause of our liquidity problems. The structural weaknesses in the budget methodology create a situation in which our expenditures outpace the approved budget level and the collection of contributions.

This does not occur because of under-budgeting or overspending by the Secretariat. It is caused by the effects of currency exchanges, inflation, salary cost standards and the actual vacancy rates that are approved at the end of one year and assessed only in the next. Similarly, additional mandates, which are approved by the General Assembly and the Security Council after the approval of the budget, are assessed only at the beginning of the following year. The lag between expenditure and assessment has created a gap almost half the size of the Working Capital Fund. Even if all Member States pay on time and in full, the United Nations will still face cash problems towards the end of the year.

Based on our cash projections for 2019, we expect the situation to remain critical. Our actual vacancy rates are still below the approved rates, leaving us with a continuing shortfall. For the Monitoring Mission in Yemen, expenditures are likely to lead to a cumulative cash deficit of $57 million. The scope for minimizing the impact on programme delivery will become more restricted if the liquidity problems persist.

But it would be even worse if we start spending now based on the approved budget level. While this would ensure full implementation of the approved programme plan, the deficit in October will reach a new record, surpassing the $488 million deficit last year. We face again the real risk of not being able to pay salaries or meet vendor obligations.

The Organization cannot operate effectively in such a cash-strapped environment.

The solution lies not only in ensuring that all Member States pay in full and on time, but also in putting certain tools in place.

Therefore, for the regular budget, I am proposing measures that would, on the one hand, strengthen our liquidity-bridging mechanisms and, on the other, manage expenditure levels in a manner that would support programme delivery.

First, we need to increase liquidity.

I have twice requested the General Assembly to increase the Working Capital Fund to $350 million.

In November 2018, I also requested the transfer of the unencumbered balance of $28.7 million for the biennium 2016-2017 to the Special Account to begin replenishing that account, which had been drawn down in recent years.

Unfortunately, these proposals were not endorsed by Member States. I hope that Member States can reach agreement on them now to avoid a complete disruption of activities.

Second, we must address the structural weaknesses.

Programme budgets will be prepared the same way as they are today. But I am asking Member States to adopt a realistic budget level that would enable full implementation of the work programme. This means vacancy rates should not be changed artificially or a staffing table adopted that is not fully funded.

Once the level is approved, I would manage the resources, including staffing, within the budgetary ceiling and with full accountability. Such management would include the transfer of resources between post and non-post expenditures, in order to stay within the approved overall budget.

We should also be able to assess Member States for new mandates at mid-year instead of the following year if the cash situation demands it.

Third, I am seeking the concurrence of Member States to temporarily suspend the return of unencumbered balances until the cash situation normalizes – or perhaps at least for the next five years. The unencumbered balances could be retained to replenish the Special Account and to fund some of the increases to the level of the Working Capital Fund.

The bottom line for the regular budget is clear: we can no longer guarantee the implementation of mandates if liquidity reserves are not increased.

Madam Chair,
Distinguished delegates,

Let me turn now to peacekeeping budgets.

Like regular budget operations, peacekeeping operations constantly face liquidity challenges.

The cumulative cash balances of peacekeeping operations are decreasing due to increasing arrears and late payments.

Outstanding contributions to active peacekeeping operations amount to $1.5 billion.

At the end of May, despite a cash balance of $1.3 billion, which could theoretically cover our operations for about two months, two large missions had cash to cover a mere two weeks of operations, and three missions were already in deficit.

Typically, the Organization should have cash for at least three months.

This puts at risk not only the functioning of our operations but also the people who serve in difficult environments.

Most importantly, it means that we could not reimburse troop- and police-contributing countries, thus defaulting on our obligations to these countries.

Member States pay contributions separately for individual missions, and their payment patterns tend to be different across missions.

Peacekeeping operations do not have any working capital. The Peacekeeping Reserve Fund of $150 million is available only to support new missions and the expansion of existing missions.

Cash from one active mission cannot be used for another, even on a temporary basis and even when it could be fully justified.

The aggregated cash balance for active peacekeeping missions is more than $1 billion at any given moment. However, many of our missions, for short periods, do not have cash to cover all their costs.

When cash runs low, missions prioritize payments of salaries to their personnel and individual contractors, and to commercial vendors to avoid disruptions in operations.

Consequently, the shortage of cash tends to result in delays in payments to troop- and police-contributing countries. These countries have become, in essence, financiers of the Organization's liquidity.

The Organization owed more than $250 million to troop- and police-contributing countries at the end of 2018 and again at the end of the first quarter of 2019. This debt is likely to again exceed $400 million at the end of June 2019, similar to the situation at the end of June 2018.

The rigidity of our rules determines which troop- and police-contributing countries finance the Organization. This is based on the cash position of the operation to which they contribute and not on their capacity to shoulder this unfair burden.

It has created a paradox.

The United Nations is now financed for prolonged periods by troop- and police-contributing countries. Many of them are low-income countries. At the same time, we are asking them to do more -- to train their personnel and improve the quality of their equipment.

The short-term effect of not reimbursing countries creates pressure on their finances.

In the long-term, the delay in payments creates an impediment to attracting countries to deploy new units to peace operations.

And as we have seen – as with the regular budget -- even if the Organization were to contain costs to align with available cash, the resulting under-expenditures would have to be credited back to all Member States proportionally according to the scale of assessments, including to those Member States that had not yet contributed in full.

This situation is unfair and unsustainable.

I am proposing four complementary measures:

First, to manage the cash balances of all active peacekeeping operations as a pool.

This would greatly alleviate the liquidity problems of some peacekeeping operations and improve the timely settlement of payments to troop-contributing countries, while ensuring the liquidity of lending missions for three months, as is being done currently.

In the last five years, pooling cash would have ensured timely settlements in 15 out of 20 quarters.

Second, to create a Peacekeeping Working Capital Fund of $250 million. This step, along with the pooling of their cash balances of about $1 billion, would give active operations about two months of operating costs, including payments to troop- and police-contributing countries, based on an annual budget of about $7 billion. Such an approach would have allowed us to settle the dues to troop-contributing countries in 18 of the past 20 quarters and significantly reduce the arrears in the remaining two quarters. In June 2019, it could enable us to significantly reduce the outstanding payments to troop-contributing countries.

Third, to issue assessment letters for the full budget period, not only until the next mandate renewal. This would facilitate planning by Member States and ensure greater predictability in payment patterns.

Fourth, to temporarily suspend the obligation to return unencumbered balances to Member States. The retained resources could be used to fund the Peacekeeping Working Capital Fund.

Madam Chair,
Distinguished delegates,

I have done everything within my power to encourage Member States to fulfill their financial obligations to the Organization. More Member States have paid in full than in earlier years. I thank those Member States that have responded positively to my calls.

But we are still nowhere near where we need to be.

I have had to slow down expenditures to align them with cash at hand and to meet payrolls. This is now beginning to impact mandate delivery.

We risk undermining our work and our reforms if we do not urgently and squarely address the deteriorating financial situation.

Moreover, we should not confuse the current delays in expenditure for budget discipline. These are not savings resulting from the Secretariat doing its work more efficiently and cost-effectively. These are cuts resulting from a lack of cash, which keep us from performing our best.

My team looks forward to engaging with you to clarify my proposals, allay your concerns and facilitate your decisions.

I count on your full support for common-sense solutions that will allow us to get out of the present unsustainable situation.

Thank you.