CHAPTER VI

THE FINANCIAL CRISIS
1986 was declared as the "International Year of peace" by the United Nations. The declaration was not only for the world, however for the world organization itself. For the reason, it turned out to be crucial juncture—the year of its own survival.

It was the year when the financial emergency of the UN, had threatened to bankrupt and enfeeble the United Nations. It was perhaps the worst crisis in its forty-year old history. It was the year, when, for the first time since existence of the organization, the Secretary General and the General Assembly decided to apply cost-reduction measures in capital expenditures, programmes activities and staffing levels.¹

The crisis was mainly the result of refusal of many industrialized countries to contribute their share of UN budget led by the United States.

The UN Financial problems had its origin in 1960s, when certain countries refused to contribute to the expenses

¹ Yves Beigbeder, Management Problems in United Nations Organizations (Reform or Decline) (Frances Pinter Publisher, London, 1987) p.147.
of peace keeping operations. The Soviet bloc and several Arab countries refused to contribute for the functions of the UN Emergency Force (UNEF) established in 1956. The Soviet Union and France also refused to contribute for the operation of the UN Forces in the Congo (UNUC). The total budgets required for the operation of UNEF from 1956 to 1967 were approximately $200 million, and those of UNUC from 1960 to 1964, more than $400 million.

Though the problem was of legal and constitutional nature, the key issue was political. The Soviet Union wished to assess all peace keeping expenses against the aggressors: France, the United Kingdom and Israel in the Suez Crisis of 1956, and the Belgium in the Congo. In addition, the Soviet Union and France did not agree with the independent political stands taken by Secretary General, Dag Hammarskjold during the Congo Crisis.2

In 1961, the General Assembly authorized an emergency measure, the issuance of $200 million value of UN bonds, to be repaid in instalments over a twenty five year period. Of which, the United States purchased 50 percent. This stop-gap measure seemed to be failed to

solve the crisis, which remained as severe as before.³

The Ad Hoc Committee of Experts to Examine the Finances of the UN and the Specialized Agencies was established in 1965 to examine critically the financial problem because of peace-keeping activities. And the Negotiating Committee on the Financial Emergency of the UN was established by the General Assembly in 1975 to take measures for the settlement of current financial problems. The Committee submitted its report in December 1976 and in later on it proved to be unable to reach a consensus on a solution to the organization's financial problems.⁴

The UN short-term deficit for the years 1976 to 1985 is as follows:⁵

<table>
<thead>
<tr>
<th>Year</th>
<th>Deficit at year end (in millions of US dollar)</th>
<th>Amount of UN regular budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>120.9</td>
<td>394.7</td>
</tr>
<tr>
<td>1977</td>
<td>129.5</td>
<td>394.7</td>
</tr>
<tr>
<td>1978</td>
<td>168.1</td>
<td>542.1</td>
</tr>
<tr>
<td>1979</td>
<td>210.4</td>
<td>542.1</td>
</tr>
<tr>
<td>1980</td>
<td>238.7</td>
<td>670.8</td>
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<tr>
<td>1981</td>
<td>274.1</td>
<td>670.8</td>
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<tr>
<td>1982</td>
<td>306.6</td>
<td>734.8</td>
</tr>
<tr>
<td>1983</td>
<td>336.8</td>
<td>734.8</td>
</tr>
<tr>
<td>1984</td>
<td>362.5</td>
<td>804.4</td>
</tr>
<tr>
<td>1985</td>
<td>390.7</td>
<td>804.4</td>
</tr>
</tbody>
</table>

⁵ I.o.c., p. 31.
The General Assembly resolution regarding the financial problem until 1986 had no fruitful result, the reason being that they were general, platonic exhortations urging all member countries to meet their financial shares and appealing to them to make voluntary contributions. However, the General Assembly resolution of 1981 deemed to be helpful up to some extent to the Secretary General as it increased the amount of the Working Capital Fund, as from 1982, from $40 to $100 million. The decision was also taken regarding any budget surpluses that, that could be used to compensate the budget deficit, and not to be surrendered to member countries. 6

The General Assembly resolutions concerning the "Financial Energy" also requested the member states to pay readily as early as possible each year, their full assessed contributions and advances to the working capital Fund. The request was made for the reason that delayed payments of contributions and cash-flow difficulties to those, caused by the more basic selective, partial, payments.

Out of the 154 member countries, only 50 had paid their full assessed contribution by September 30, 1982.

and only 30 more had paid any part of it. On the same date, the Soviet Union still had to pay $37 million on its 1982 contribution. The United States had paid only $30 million of its $180 million assessed contribution. In 1983, 17 member states were withholding from the UN a total of $84.9 million on political grounds, almost half related to the repayment of the 1962 bonds.  

There were only 50 member states, who had paid their full contributions on 30 September for 1985 and 35 had paid it in part; 22 countries had not paid any part of their 1985 share, and 54 countries were late in paying their assessments for 1985 and previous years. The tentative amount of withholdings by member countries on particular expenditures of the regular budget was estimated at $99.7 million, while the short-term deficit of the organization was estimated at $390.7 million on 31 December 1985, the amount ever reached in its history, of which $116.3 million related to the regular budget.  

Although member-countries were responsible for the present financial difficulties, some tried to prove the Secretary General responsible for the crisis. As the Japanese representative made it clear that the Secretary General should


display greater firmness and take concrete measures to persuade member states to pay their assessed contributions and at the same time be should not tolerate delays in payment of more than one year. However, could it be possible for the Secretary General to persuade the member-countries to do what they did not wish to do?\(^9\)

However, the root cause which made the UN financial crisis worse was the American legislation passed in 1985. President Reagan gave his consent on the "Foreign Relations Authorization Act" in 1985 for the fiscal years 1986 and 1987. Under the Kassebaum Amendment to this Act, the United States was committed to seek weighted voting on budgetary questions in the United Nations and its specialized agencies. It was classified that if such weighted voting was not achieved by fiscal year 1987, the United States would only contribute 20 per cent of the UN budget, instead of the required 25 per cent. While historically it was very less than the share fixed in 1946. The Committee on Contributions had proposed in the autumn of 1946, that the United States pay 49.89 per cent of the UN budget, on the basis of its capacity to pay,

\(^9\) See, UN Doc A/C 5/40/SR. p. 46.
that is relative gross income, the United States reluctantly agreed to pay 39.89 per cent. In 1954, the American contribution came down to 33.33 per cent, and in 1972, 25 per cent. This measure was a breach of American obligations under the UN Charter.

The change in the provision of one country-one vote (Article 18.1 of the UN Charter) by weighted voting in the financial matters, was not likely to be adopted in the UN system.

For the purpose of reform, and not of blackmail, J. Perez de Cuellar had proposed that the top contribution of any government to the UN regular budget should be reduced to 20 or 15 per cent and at the same time S. Aga Khan and M.F. Strong proposed 10 per cent only would be the maximum for any country. The UN Secretary General's argument was that no single country should be in a position to threaten or to blackmail the UN. However for the Aga Khan and Strong, the difference would be made up by middle states thereby encouraging them to play a bigger role in the United Nations.

Other cuts in the US contribution to the

United Nations Budget was resulted from the United States Budget Deficit Reducing Act, the Gramm-Rudman-Hollings law, that made a cut of 4.3 per cent in 1986 for the non-defence items. And the overall short fall resulting from these two Acts in the payment of the American assessed contributions for 1985 was estimated to be in a range of $90.5 to 10.25 million.  

The decreasing value of the American dollar which is the budgetary and financial currency of the UN, made the UN financial crisis worse, that compelled the member countries into action and the Secretary General was forced to announce a series of economic measures in all fields including personnel matters.

The Secretary General informed the UN staff on 17 January 1986 of a 20 per cent reduction to be applied to travel costs, to the hiring of consultants, temporary assistance and over-time; the deferral of a number of alteration and maintenance projects; strict control and limitation of documentation.

On 24 February 1986 the Secretary General made it clear to the staff that at least one-tenth of


the funds required for the regular budget in 1986 would not be available. To make it convenient, he asked all heads of departments and offices to make identification for the savings which could be realised in 1986, amounting upto 10 per cent of their resources.

On 26 February 1986 the Secretary General tried his best to persuade all the member countries for voluntary contributions. And on 20 March, he made known to the staff that the UN was a short fall of $100 million, an amount which was needed to meet the operating costs of the organization and of which $15 million savings would result from the 17 January decisions. He now announced additional measures in personnel matters as follows:

a) A freeze in recruitment

b) non-extension of contract of staff members beyond 60 years of age

c) suspension of all promotions for six months,

d) deferment of the implementation of cost of living adjustments in the salaries of general service staff at the eight main duty stations and other staff and house keeping economies.

He also called for to reconvene the 40th session of the General Assembly on 28 April 1986 in order to consider the
urgent steps to create the required amount.¹³

The Secretary General made emphasis in his report to the General Assembly in April 1986 that the UN was confronted by financial difficulties of such magnitude as to have profound implications for the viability of the organization. In outlook, the crisis was financial. But it was above all a political one. It arised from disregard of obligations laid down by the Charter and from lack of agreement among member countries on how to finance and make use of the organization and for what purpose. The Secretary General did a good job by linking the financial and political crisis to the need for management improvement- a sharper focus on programme objectives, a more national use of staff resources, a streamlining of its structure and its operations could help in making clear budgetary problems.¹⁴

In addition to earlier approximately $30 million savings measures, the Secretary General submitted another measures to the General Assembly expected to provide another $30 million. There were¹⁵

¹⁴. Ibid.
¹⁵. Ibid. p.152.
a) deferment of major capital expenditures;
b) modification in the calendar of meetings and conferences and reduction in the provision of verbatim and summary records;
c) general reduction in the acquisition of furniture and equipment,
d) curtailment of the 1986 publications programmes and deferment of certain programme activities.

The European Community representative during the full debates time and again repeated the Twelve's commitment to sound financial management and fiscal check while the Group of 77's representative considered the political aspect of the crisis. They resisted the new proposal of US for weighted voting, that was nothing but an unilateral actions designed to force changes in the decision making process. The result would be abandonment of the democratic principle of sovereign equality of all states. These countreis supported the authority of the UN beyond expectation for reason that the UN was the platform they came to when their sovereignty was being threatened and when they required support for the just causes concerning self-determination and development. They needed a stronger and better UN to make it possible. The Group supported cost reduction proposal selectively on the basis of merit of each one.
The secretary general's proposals was fully supported by the soviet representative by asking some more such measure. However, the United States was made responsible fully on the basis of financial as well as political steps, which it had taken unilaterally. While the American representative defended his side with the argument that the United States was being blamed now only for the reason that it was late in joining the member countries who had not paid their assessed contributions in the past.

The reconvened General Assembly on 9 May 1986, allowed the Secretary General to implement most of the saving measures he had proposed. However made it clear to the Secretary General that they were temporary measures relating to 1986 and no project or programme would be eliminated for which adequate financial resources were available. On 7 July 1986, the Secretary General was required again to go to the General Assembly to inform that the financial crisis remained severe and that the economy measures had to be maintained.¹⁶

On 26 November 1986, a debate began in the Fifth Committee on the financial crisis. The Committee had before it a report of the Secretary General, in which the

financial short fall projected to 31 December 1986 was estimated at $76 million, plus $30 million for currency losses due to the depreciation of the American dollar. To meet day-to-day needs, the organization had determined to utilize and thus exhausted its $100 million working capital Fund as well as the funds available in the Special Account. In addition, it had resorted to borrowing, temporarily from peace keeping funds. The some extra amounts realised from the suspension of financial regulations which had also been utilised. J. Richard Foran, Assistant Secretary General for Financial Services, introducing the report, said that the combined total of withholdings and arrear was expected to be $284 million by the beginning of 1987, as compared to $242.4 million at the beginning of 1986. That figure substantially exceeded the resources of the organization. He appealed to member countries to make special contributions to the Special Fund, as all members had a responsibility to find solutions to the financial problems of the United Nations.

Two years later, the Secretary General made it clear in 1988 that economies instituted in 1986 would remain in force until such time as the situation required.
This led the freeze on recruitment to be continued along with a ban on employment extensions beyond the mandatory retirement age of 60; implementation of promotions would be deferred again, temporary help and travel would be curtailed, representation allowances for D-2's and above cut by 50 per cent.

Perez de Cuellar, the Secretary General pointed out in 1988 that all vacant posts would be examined critically to determine which were essential to meet programme mandates. He made it clear that the number of vacancies to be filled would be an absolute minimum.¹⁷

The long range objective, the Secretary General said, was to bring about a more comprehensive and fundamental reform of the structure of the Secretariat by streamlining it, making it leaner and more efficient, and improving the management of human resources. These all long term objectives would be realised with the help of Group of High-level Intergovernmental Experts to Review the Financial and Administrative Functioning of the UN, or "Group of Eighteen."

The creation of the Group of Eighteen was for the first time proposed by the Foreign Minister of Japan.

on 24 September 1985, in the General Assembly, debate while the Group of Experts, finally established by the General Assembly on 18 December 1985 through Resolution 40/237 for one year term. The Group began work in February 1986, holding 67 closed meetings during four sessions over a six months period. Its mandate was not to address the immediate and short term financial problem of the United Nations, however to identify medium and long term measures for further improving the efficiency of the administrative and financial functioning of the UN, which would contribute to strengthening the effectiveness of the UN in dealing with political economic and social issues. 18

The Group of Experts presented the forty pages report to the Secretary General, Javier Perez de Cuellar on 18 August 1986 by its Chairman Tom Eric Vraalsen of Norway. The report was considered by the General Assembly at the forty first session. Through the report, the Group recommended that the Secretary General be requested to implement the recommendations within his purview as soon as possible, and within a set time, and that report to the Assembly by 1 May 1987 on them.

The Group did not be able to reach a consensus on a reform of the planning and budget mechanisms. It viewed that member countries were not fully involved in the medium term plan nor in the programme budget. However, its members could not agree on the role which should be played by the Committee for Programme and Coordination (CPC) in relation to ACAB.19

The Group formulated 71 recommendations to streamline the structure of the organization which the experts described as too complex, fragmented and top heavy. The Group came to know that the UN's own intergovernmental machinery for dealing with political, economic and social problems, including operational activities, has an overly complex structure, lacking in cohesion and making co-ordination difficult.19

The wide ranging proposals of the Group, covered personnel measures, Secretariat structure, inter-governmental machinery, and monitoring budget and implementation procedures.

The Expert Group recommended that the Committee on Conferences be strengthened to make it effective for

significant reductions in the number of United Nations Conferences, meetings, and of resolutions, reports and other documents; consolidation of United Nations departments and offices throughout the world, UN bodies should meet at their respective established headquarters. In order to strengthen the coordination of operational activities at the national level, the central coordinating role of UNDP should be re-affirmed. It also recommended for a few hierarchical layers to be suppressed.

The Group proposed that the overall number of regular budget posts should be reduced by 15 percent within three years and 25 per cent cut in the number of Under Secretaries and Assistant Secretaries General either paid from regular budget or extra budgetary sources within a period of three years or less. It also recommended that political departments and the economic and social sectors should be restructured. The Group also made it clear that the Management Advisory Service, which was established to advise on management techniques and to evaluate management structures and weaknesses, was of little usefulness and should be abolished. The department of Administration and Management should be streamlined and the level of official travel should be reduced by 20 per cent.
The Group also proposed that the Internal Audit Division, part of the Department of Administration and Management be declared an independent unit. 20

The Group further recommended for more involvement by member countries in setting priorities for United Nations activities, and in developing budget procedures. Particular attention had to be made for restructuring in the area of economic and social activities, which the experts pointed out, required 31 per cent of assessed contributions under the regular budget more than any category. 20

The Group of Eighteen made it clear that personnel management and policy was affected as a result of the considerable political and other pressures that had influenced the selection of staff. The Secretary General was directed to exercise greater leadership in personnel matters and protect the authority of the official incharge of personnel. It proposed that the recruitment of staff at the F.1 to P-3 Levels should be done through national competitive examinations, and for F-4 and P-5 levels, individual tests should evaluate the drafting

ability of candidates. The Group made emphasis for more recruitment at the entrance of the door that is at junior professional level (P-1 to P-3) in order to ensure a vigorous Secretariat.

The Group recommended that the measures should be called for to ensure the recruitment of more women and persons from developing countries and staff members should be eligible for permanent appointments after three years service in the UN. A job rotation system among the various duty stations should be developed for professional staff members. The International Civil Service Commission should not only establish personnel standards also monitor their implementation by the organizations.

The Group also recommended that the service of Under Secretaries General and Assistant Secretaries General not to exceed ten year in order to renew periodically the leadership of departments and offices. Staff unions and associations should not violate the managerial responsibilities of the Secretary General and they should utilize their own funds to finance and their activities. As the staff entitlements being excessive, the education grant for post secondary studies should be eliminated, the mandatory retirement age of 60 should be strictly applied and the annual leave credit reduced from 6 to 4 weeks.
The Group proposed that the Joint Inspection Unit (JIU) should be directed to give more emphasis on evaluation and its name should be changed in "Joint Inspection and Evaluation Unit". The appointments of the inspectors should be made on the basis of merit and there must be a cooperation between JIU and the external auditors.

The Group clarified that it had only begun a reform process, which would have to be continued by other inter governmental bodies and by the Secretary General.\(^\text{21}\)

The General Assembly seemed to have warded off the impending breakdown in the United Nations Secretariat for the reason of financial crisis. The solution, however, seemed to be more a compromise than a major reform. It could be helpful in the short run, perhaps by persuading the USA to release the $ 110 million which it had withheld, or by encouraging the Soviet to give one third of their assessed contribution in advance, thereby enabling the employees to get their salaries. In the long run, it might emerge as a ticklish problem, with 21 countries having veto power over the UN programmes, which might result in constant bickering over the budget formulations.

\(^{21}\) Ibid. pp. 154-155.
It does appear strange that the United States had agreed to such an unworkable solution. Is it for the reason, it did not really want the United Nations to collapse and that it needed a pretext to release the $110 million? Or is it because it did not want the Soviet Union to steal a march on it as the Saviour of the United Nations by releasing the money required? One can not say anything with certainty.

Whatever the pattern of the budget for the future, one could not everemphasise the need for rationalisation and economy advocated by the "Group of Eighteen" to review the United Nations' administrative and financial functioning. The proposals were examined by the Fifth Committee which seemed very reluctant to agree to even modest economy drives such as staff reduction, or rationalisation of the procedures of the General Assembly. However, the General Assembly did adopt in resolution 41/213 of December 1986, the report of the high level expert group as a sound foundation on which reform could be implemented within the next three years.

On the eve of his re-election in 1986, the Secretary General Perez de Cuellar seemed to agree in principle with most of the recommendations of the 'Group of Eighteen' and had even tried to demonstrate his seriousness
by cutting of posts of Under Secretary General and Assistant Secretary General. However, he changed his stand later, when he called for greater flexibility in implementing reforms. He expressed concern at the danger to careers and the rights of employees, he doubted the merit of amalgamation of agencies handling similar subjects or the discontinuation of the functions of any organ regardless of whether it was of use or not. He also complained of inadequate research or consensus in respect of the budget. The Secretary General again reversed his position at the moment when the "Group of Eighteen" proposals were brought before the Plenary meeting by stating in his report that he was firmly convinced that the 71 recommendations should be earnestly pursued, and that they provided a foundation on which the expenses of the organizations could be put on a second basis in addition of streamlining and consolidating the Secretariat machinery and General Assembly procedures. 22

The Secretary General was almost convinced by the speeches at the Fifth Committee that delay in implementing reform might mean disaster for the United Nations.

22. UN Doc. A/41/663.
The West Europeans, other groups as well as Japan, made it clear that they were no longer ready to tolerate delay and incompetence in financial matters.

What had really been done by the United Nations in the field of reforms recommended by the Expert Group? To cut down the Secretariat staff of 11423 with a concentration in the higher ranks, the group advised a 25 percent reduction in the number of Assistant Secretaries General and Under Secretaries General that had risen to the figure of 87, while they advised recruitment of more junior professionals to make the organization dynamic and more efficient.

It seemed to be a small strange that the lower ranked employees had been the real victims of the financial cuts. Those who were serving water in the conference rooms, whose combined salaries amounted not more than $100,000 a year which was less than that of one Assistant Secretary General at $107,000, suddenly found themselves terminated under an executive order which deprived even Presidents and Prime Ministers of the customary glass of water during the meetings. The junior professionals of the Department of Public Information, the technical personnel and clerks who constitute the infrastructure of the organization, had also been thrown away than other higher ranking officials.
Moreover, at the time of writing the report, the decisions of the General Assembly was not known to the Group regarding its recommendations. Any how, the Group's report announces a turning point in the evolution of the organization. However, the reform it recommended was not an end in itself but a means of improving the services the organization renders to member countries. The emerging world scenario, with the major conflicts on the way to solution, is bound to impose extra responsibilities on the United Nations, such as political economic and human. It would be paradoxical, and discordant if the organization faces financial emergencies precisely at the moment when it has to meet the demands of a more constructive phase of international affairs.

To maintain the equality of the purchasing power of United Nations salaries for staff in the professional and higher categories in duty stations throughout the world, ACC and FICSA requested the ICSC to take up the problem of post Adjustment system under article 11 of its statute. This problem has been studied in the next chapter (VII).