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Improving the financial situation of the United Nations

Report of the Secretary-General

Addendum

Summary

The present report updates the information on the financial situation of the United Nations contained in the previous report of the Secretary-General (A/57/498). It provides a review of the Organization's financial situation at 31 December 2002 and projections to 31 December 2003.

The report considers three financial indicators: available cash, unpaid assessed contributions and amounts owed to Member States. Total aggregate cash balances at 31 December 2002 were somewhat higher than at the end of 2001, unpaid assessed contributions were significantly lower and amounts owed to Member States were also somewhat lower. On the other hand, while there was cash available for the regular budget at the end of 2002, it had still been necessary to cross-borrow from peacekeeping accounts during the year and the number of Member States which had paid their regular budget assessments in full was lower. In addition, tribunal cash balances were negative at the end of 2002. On balance, however, 2002 was a good year and the financial situation of the United Nations showed continued improvement.

Current projections for 2003 indicate higher end-of-year cash balances for the regular budget and the tribunals, with cross-borrowing for the regular budget likely to be necessary only during one month. For peacekeeping accounts, it is forecast that cash will be significantly lower owing to lower receipts and a paydown of amounts owed to Member States, which should fall further during 2003. As there are restrictions on cross-borrowing from active peacekeeping missions and from the peacekeeping reserve fund, the Secretary-General has proposed to retain for the time being some balances remaining with closed missions. Continuing sustained progress in the financial situation of the Organization will, however, depend on Member States meeting their financial obligations to the United Nations in full and on time.

I. Introduction

1. The present report updates the information on the financial situation of the United Nations contained in the previous report of the Secretary-General (A/57/498). It also provides information on the financial situation of the Organization as at 31 December 2002 and projections to 31 December 2003.

II. Review of the financial situation as at 30 April 2003

A. Overview

2. As regards the first indicator of the Organization's financial health, total combined cash on hand at the end of 2002 was \$1,397 million compared with \$1,326 million at the end of 2001. In fact, cash on hand at the end of 2002 was the highest year-end total in the last seven years. As regards the second indicator, although still substantial, unpaid assessments were significantly lower at the end of 2002: \$1,684 million compared with \$2,106 million at the end of 2001. This was the lowest in seven years. As for the third indicator, amounts due to Member States were reduced to \$703 million from \$748 million at year's end 2001, likewise the lowest in seven years. These three achievements are worthy of recognition and reflect what was, on balance, a good year.

Aggregate cash position at 31 December 2002

3. The higher level of available cash at the end of the year was the result of a higher than projected level of contributions received. In 2002, total receipts of over \$4 billion exceeded the total amount assessed in 2002 by 12 per cent. Since 1996, similar reductions in total unpaid assessments have been recorded, except in 2000. These higher receipts are partially reflected in higher year-end cash levels.

4. Of total cash balances at the end of 2002, peacekeeping and tribunal cash totalled \$1,362 million and regular budget cash totalled \$35 million, for a grand total of \$1,397 million.

Regular budget cash position

5. Cash available for the regular budget, including related reserves, was forecast to be zero at year's end, rather than the actual result, which was \$35 million. This higher amount was achieved despite smaller payments than forecast from the United States of America, Brazil and Argentina and fewer Member States paying their assessments in full, and was the result of lower net disbursements than initially projected. Thus, instead of ending the year with no cash, the United Nations was able to end the year with a small amount of cash available for the regular budget, unlike the much more difficult years of 1996, 1997, 1998 and even 2001.

Cash position of the International Tribunals

6. As for the Tribunals, the year ended with a negative \$1 million cash position, against a forecast of a positive \$10 million. This is one of the worrisome trends that bears watching; cash levels are slipping a little more each year, forcing the United

Nations to cross-borrow from closed peacekeeping missions at year's end. Unpaid assessments are not going down.

Cash position of peacekeeping missions

7. Peacekeeping cash at the end of the year was \$1,363 million, a somewhat higher level than in the year before. With disbursements higher and the 2002 paydown of debt to Member States larger, the Organization nevertheless had a cash level slightly higher than at the end of 2001.

B. Unpaid assessments

8. The regular budget assessment was \$1,149 million in 2002, a slight increase from previous years. Assessments for the International Tribunals in 2002 also increased slightly, by \$20 million to \$199 million.

9. Peacekeeping assessments issued during 2002 totalled \$2,284 million, a significant decrease from the \$3,041 million assessed during 2001. This was due in large part, however, to uncertainty about the effective rates of assessment for peacekeeping in 2003 which, in its turn, was due to the admission of two new Member States and the review by the General Assembly of the 2003 assessment rates of two other Member States during 2002. As a result of this uncertainty, peacekeeping assessments covering periods after 31 December 2002 that could otherwise have been issued during 2002 were deferred until the beginning of 2003.

Regular budget

10. Only 117 Member States paid their regular budget contribution in full in 2002. This represents a serious setback when compared with the progress achieved between 1994, when only 75 Member States paid in full, and 2000, when 141 Member States paid in full. The number decreased to 135 in 2001, and now further in 2002, to 1998 levels.

11. Of the Member States not fully paid up for the regular budget, and owing a total of \$305 million at the end of 2002, the United States owed \$190 million (62 per cent of the total), Brazil \$37 million (12 per cent), Argentina \$30 million (10 per cent) and 69 other Member States \$48 million (16 per cent).

International Tribunals

12. For the two International Tribunals, unpaid assessments at the end of 2002 totalled \$43 million, the same level as in 2001.

13. A total of 133 Member States had unpaid tribunal assessments at the end of 2002, but 5 Member States — the United States, the Russian Federation, Brazil, Argentina and the Republic of Korea — accounted for the largest amounts. Each of the five owed between \$3 and \$12 million, together accounting for roughly 84 per cent of the total amount uncollected. A total of \$7 million, or 16 per cent, was owed by 128 other Member States.

Peacekeeping

14. Outstanding assessed contributions for peacekeeping, however, have significantly decreased to the lowest number in many years, \$1,335 million, and it is to be hoped that this decline continues. At 31 December 2002, the breakdown of unpaid assessments shows that the United States owed \$536 million (40 per cent of the total), 9 of the 14 other major contributors owed \$494 million (37 per cent) and 161 others owed a total of \$305 million (23 per cent).

15. It should be noted, however, that, although the aggregate level of unpaid contributions has decreased dramatically, the amounts outstanding are concentrated in a few Member States. Specifically, 3 Member States owed 84 per cent of outstanding regular budget amounts; 5 Member States owed 84 per cent of outstanding assessments for the international tribunals; and 10 Member States owed 77 per cent of outstanding peacekeeping assessments.

16. On a more positive note, it should be observed that, despite the fact that peacekeeping assessments are issued not just once annually but throughout the year, several Member States had nevertheless paid their assessed contributions in full, for all years and for all types of assessments. Those paid in full, or owing less than \$100 at 31 December 2002, included Angola, Australia, Botswana, Cameroon, Canada, the Czech Republic, Denmark, Finland, France, Ireland, Kuwait, Latvia, Lithuania, Madagascar, Monaco, Norway, Seychelles, Sierra Leone, Singapore, South Africa, Sweden, Tuvalu and the United Kingdom of Great Britain and Northern Ireland.

III. Projections to 31 December 2003**A. Available cash****Regular budget**

17. Cash collections for the regular budget at the end of April 2003 were somewhat better than in 2001. By 30 April 2002, only 70 Member States had paid in full. As at 30 April 2003, 76 Member States have paid in full and it is to be hoped that the number of Member States paying in full during 2003 will reverse the negative trend in 2001 and 2002 and match or do better than in 2000, when 141 Member States paid their regular budget assessment in full by the end of the year.

18. The amount of payments received in the first four months of 2003 has also increased. By the end of April 2002, \$417 million had been received from Member States. As at 30 April 2003, the level of cash contributions actually paid totalled \$635 million, an increase of \$218 million.

19. Cash flow during the year has been a problem in the past, with a periodic need to cross-borrow to meet requirements under the regular budget. Figures for 1999, 2001 and 2002 and projections for 2003 reflect steady continuing progress in this connection, with earlier contributions from a number of Member States and less holding back of assessed contributions.

20. The projected combined regular budget cash balances maintain that positive trend, with only November currently forecast to be in deficit owing to uncertainties about the timing of some major contributions expected during the last quarter of the year. Nevertheless, it is expected that the Organization will end the year with a

positive regular budget cash balance, currently estimated at \$44 million — a good result if projections prove correct.

International Tribunals

21. The assessment level for the Tribunals for 2003 amounts to \$217 million. As the year started with a negative cash balance of \$1 million, it was necessary to borrow from closed peacekeeping missions in January. Cash availability during the course of 2003 is forecast to even out, however, with a positive balance of \$3 million at year's end.

Peacekeeping

22. Peacekeeping assessments for 2003 are projected at this stage to total \$2.1 billion, slightly less than for 2002. A corresponding reduction in receipts, along with the Organization's continuing commitment to paying down debt to Member States, is forecast to reduce available peacekeeping cash to \$929 million by the end of 2003. This projected balance is broken down between cash in active missions, at \$427 million, cash in inactive missions, at \$339 million, and the peacekeeping reserve fund, with \$163 million.

23. This breakdown is important because there are significant restrictions on the use of a large part of these funds. The General Assembly has decided that there should be no borrowing from active peacekeeping missions, and Assembly resolution 47/217 of 23 December 1992 provides that the peacekeeping reserve fund may only be used for the requirements of new and expanded peacekeeping operations, pending the receipt of assessed contributions. Accordingly, only the cash balances in inactive missions may currently be drawn on to meet temporary cash shortfalls in other accounts. Of the \$339 million available in the closed missions, an amount of \$169 million is currently being considered in the performance reports of the closed missions. If that \$169 million were to be returned to Member States, it would leave only \$170 million in cash to be utilized for temporary cross-borrowing when the regular budget or tribunals run out of cash, or when an active peacekeeping mission runs out of cash.

24. In the light of this projected decrease in peacekeeping cash, and as a matter of prudent financial management, the Secretary-General has proposed that the application of the relevant financial regulations and rules be suspended in respect of the closed missions currently being reviewed by the Fifth Committee, so that the Organization can retain a degree of financial flexibility until the financial situation improves.

Combined cash balances

25. Combined cash balances for peacekeeping, regular budget, tribunals and, for the first time, the capital master plan are projected to drop significantly, from \$1,397 million to \$990 million at the end of 2003. The projected year-end cash balance includes an amount of \$14 million for the capital master plan.

B. Debt to Member States

26. In considering the question of the debt that is owed by the Organization to Member States, it should be noted that determining the amount of debt the Organization can pay is not a simple exercise and must take into account the status of certification claims submitted by troop-contributing countries, as well as cash available. Nonetheless, the Secretary-General remains committed to seeing that Member States are reimbursed as quickly as possible.

27. At the beginning of 2002, the Organization owed \$748 million. Most of that amount was owed for contingent-owned equipment. A smaller amount was owed for troops. At the end of 2002, debt to Member States stood at \$703 million, \$45 million less than the amount owed at the beginning of the year. During 2002, substantial progress was made in paying down troop debt and, to a lesser extent, amounts owed for contingent-owned equipment. Overall, an amount of \$745 million was paid, an amount almost equivalent to the debt at the beginning of 2002 and higher than the original forecast.

28. In summary, significant progress has been made in reducing debt to Member States in 2002 and continuing progress is expected by the end of 2003 in this key indicator of the financial health of the United Nations. Total payments of \$939 million are expected in 2003 for certified troop and contingent-owned equipment claims. Thus, with additional claims projected to be \$731 million, the end result at 31 December 2003 should be a significant lowering of debt to \$495 million: \$129 million for troops and only \$366 million for contingent-owned equipment.

29. This positive projection reflects in part faster processing of contingent-owned claims. In its turn, it is expected to result in a reduction in peacekeeping cash balances by the end of 2003. Overall, at the end of 2003, the United Nations should be current with troop debt and have paid out contingent-owned equipment debt up to June 2003.

IV. Conclusion

30. In conclusion, most, but not all, indicators of the Organization's financial health have improved in recent years, and it is currently anticipated that 2003 will be another good year. Problems remain, however, and further progress will depend on Member States meeting their financial obligations to the Organization in full and on time.
