

GAO

Report to the Chairman, Committee on  
Foreign Affairs, House of  
Representatives

November 1989

UNITED NATIONS

Issues Related to  
Payment of U.S.  
Contributions



National Security and  
International Affairs Division

B-235466

November 20, 1989

The Honorable Dante B. Fascell  
Chairman, Committee on Foreign Affairs  
House of Representatives

Dear Mr. Fascell:

This report responds to your request that we review the effects of payments withheld and deferred by the United States of its assessed contributions to the United Nations. Our review covered the United Nations and seven affiliated agencies for which the United States is assessed about 25 percent of their regular budgets.

## Results in Brief

U.S. officials have been concerned about budget growth in the U.N. system organizations and have worked to gain more influence over budget levels and program priorities. In part, because of some legislative and administrative actions aimed at stimulating reforms within the organizations, cumulative U.S. withholdings from the organizations we reviewed increased from about \$9 million through fiscal year 1985 to \$440 million through fiscal year 1989. In addition, from 1986 through 1988, the United States delayed the payment of additional millions, long beyond the years in which they were due, because of continuing resolutions, reprogramming negotiations, administrative decisions, and 1986 legislation deferring the availability of some funds until the next fiscal year.

U.S. payments withheld and deferred, combined with exchange rate losses and other member country arrearages, resulted in serious financial shortfalls within some U.N. organizations in 1987, which helped to stimulate U.N. budget decision-making reforms and some cost reductions. U.S. officials did not identify any programs of special interest to the United States that were cut because of the financial situations at the organizations; however, they did identify some adverse effects, such as the diversion of U.N. officials' and governing bodies' time and attention from the work of the organizations.

In its budget request, the administration requested nearly full funding for fiscal year 1990 and \$39 million for partial payment of arrearages to the U.N. organizations we reviewed. The administration has proposed that the total arrearages be paid over 6 years.

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The amounts owed by the United States were originally assessed primarily for activities that were budgeted and programmed in prior U.N. fiscal years. U.S. officials said that, in principal, the money is no longer needed for those activities because, if they were rescheduled in subsequent fiscal years, they were also included in the new budgets. Thus, it is important that any arrearage payments be made in such a way as to avoid unplanned program growth. Legislation has been introduced that would require any payment of U.S. arrearages to be made only for purposes jointly agreed to by the President and the U.N. organizations.

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## Agency Comments

The Department of State concurred in the substance of the report and agreed with our view that any arrearage payments should be made in such a way as to avoid unplanned program growth. (See app. III.)

We are sending copies of this report to the Secretary of State, and chairmen of concerned congressional committees and will make copies available to others upon request.

This review was performed under the direction of Nancy R. Kingsbury, Director, Foreign Economic Assistance Issues. Other major contributors are listed in appendix IV.

Sincerely yours,



Frank C. Conahan  
Assistant Comptroller General

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# Contents

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Letter		1
Appendix I		6
Issues Related to U.S. Payments of Assessed Contributions to U.N. Organizations	Background	6
	Effects of U.N. Financial Problems	10
	Payment of U.S. Arrearages	11
Appendix II		13
Objectives, Scope, and Methodology		
Appendix III		14
Comments From the Department of State		
Appendix IV		15
Major Contributors to This Report		
Table	Table I.1: Cumulative U.S. Withholdings Through U.S. Fiscal Year 1989	9
Figure	Figure I.1: Profile of U.S. Withholdings by Year	8

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# Issues Related to U.S. Payments of Assessed Contributions to U.N. Organizations

## Background

The regular budgets of the United Nations and its affiliated agencies are funded primarily through the assessed contributions of member states. In most U.N. organizations, assessments are due in full within 30 days of the billing date, usually in January of the year to which the assessment applies. However, many members, including the United States, have paid later in the year and some have spread partial payments throughout the year. Assessments are considered to be in arrears if they are not paid in full by December 31 of the calendar year in which they are due.

We reviewed the eight U.N. organizations in which the United States is assessed about 25 percent of their regular budget. These were the (1) United Nations, (2) Food and Agriculture Organization, (3) International Atomic Energy Agency, (4) International Civil Aviation Organization, (5) International Labor Organization, (6) United Nations Industrial Development Organization, (7) World Health Organization, and (8) World Meteorological Organization. According to the Department of State, cumulative U.S. arrearages through fiscal year 1989 amounted to about \$440 million for these eight organizations, which represents about 77 percent of the total cumulative arrearages that the United States owes international organizations and peacekeeping forces.

In 1987, these eight U.N. organizations experienced serious financial shortfalls and cash flow problems because of the combined effect of U.S. withheld and deferred payments,<sup>1</sup> exchange rate losses, and other members' arrearages. Of these three factors, U.N. officials said that not knowing how much or when the United States would pay was the most serious financial management problem they faced. At the end of 1987, the eight organizations reported U.S. arrearages of \$426 million, estimated exchange rate losses of about \$292 million, and other members' arrearages of \$194 million. By 1988, when cumulative U.S. arrearages reached \$440 million, most of these organizations expected and planned for reduced U.S. contributions, and some took steps to deal with exchange rate fluctuations by assessing a portion of contributions in European currencies and by the forward purchase of currencies.

U.S. withheld payments increased dramatically between fiscal years 1986 and 1989 because of the cumulative impact of several legislative and administrative actions. We grouped these actions in three categories

<sup>1</sup> Actual U.S. contribution levels are subject to adjustments for reasons such as legislative restrictions. In this report, we use the term "withholdings" and "withheld payments" to refer to those portions of U.S. assessments that were not appropriated and, therefore, not paid. "Deferrals" or "deferred payments" refer to those portions of U.S. assessments that were appropriated, but paid after they were due.

covering withholdings (1) due to appropriation shortfalls, (2) aimed at stimulating reforms, and (3) keyed to specific U.N. activities to which the United States objects.

First, for fiscal years 1986 through 1989, the United States appropriated an estimated \$300 million less than the amount required to fully fund U.S. assessed contributions to these eight U.N. organizations. For example, Public Law 99-177, commonly referred to as the Gramm-Rudman-Hollings Act, requires across-the-board spending reductions, or sequestration, if federal outlays exceed annual deficit ceilings. In fiscal year 1986, \$18 million was withheld from these organizations in compliance with the 4.3-percent Gramm-Rudman-Hollings sequestration. Subsequently, in an effort to develop an alternative plan for deficit reduction that would avoid the need for sequestration in fiscal year 1989, negotiators from the House and Senate leadership and the administration participated in a "budget summit" in late 1987. In line with the resulting budget summit compromise, the Department of State's budget request for fiscal year 1989 was limited to a 2-percent increase over the level appropriated for fiscal year 1988. The amount appropriated for fiscal year 1988 for the eight organizations was already about \$100 million less than the amount required for nearly full funding of the calendar year 1987 assessments. Moreover, the calendar year 1988 assessments for most organizations increased substantially, primarily due to the decline in the value of the dollar. Consequently, the 2-percent increase limit contributed to an appropriation shortfall of about \$140 million in fiscal year 1989.

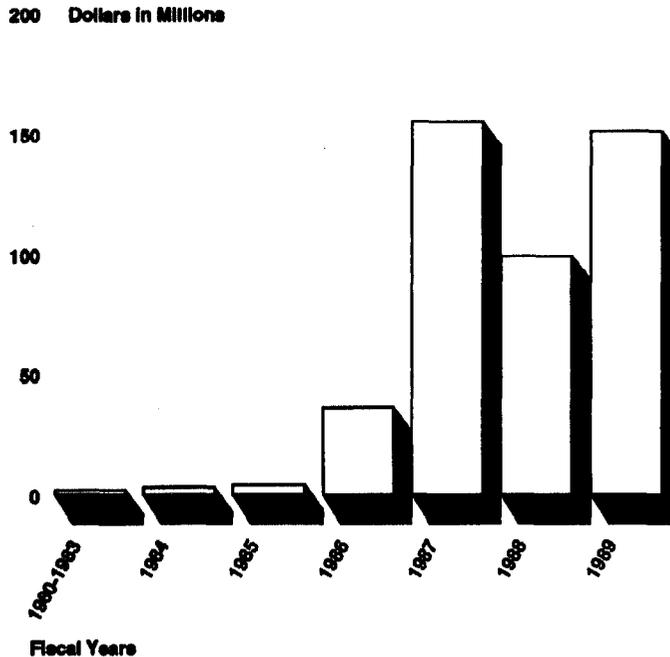
Second, in fiscal years 1985 and 1987, the United States withheld about \$125 million in an effort to stimulate certain reforms in the U.N. system, primarily changes in budget decision-making procedures and in tax equalization fund assessments. Of this amount, \$79 million was withheld in fiscal year 1987 pending changes in procedures for voting on budgetary matters, pursuant to section 143 of Public Law 99-93, referred to as the Kassebaum-Solomon Amendment. In fiscal years 1985 and 1987, two other legislative restrictions resulted in withholding an additional \$7.8 million from the United Nations. By administrative action, from fiscal years 1987 through 1989, the United States withheld about \$38 million in tax equalization fund adjustments. This amount represents the difference between what the Department of State believes an organization should reimburse U.N. employees for payment of U.S. taxes and what the United States was assessed by the organizations for this purpose.

**Appendix I**  
**Issues Related to U.S. Payments of Assessed**  
**Contributions to U.N. Organizations**

Third, from fiscal years 1980 through 1989, the United States withheld about \$15 million as its proportionate share of costs related to specific U.N. activities to which it objects, such as those providing benefits to the Palestine Liberation Organization and the South West Africa People's Organization.

Figure I:1 shows the increase in U.S. withheld payments from the organizations we reviewed for the purposes mentioned above since fiscal year 1980.

**Figure I.1: Profile of U.S. Withholdings by Year**



Source: Department of State

**Appendix I  
Issues Related to U.S. Payments of Assessed  
Contributions to U.N. Organizations**

Table I:1 shows estimated cumulative U.S. withholdings through fiscal year 1989, for the eight U.N. organizations we reviewed. As a comparison, the calendar year 1988 U.S. assessments for each of the organizations are included.

**Table 1.1: Cumulative U.S. Withholdings Through U.S. Fiscal Year 1989**

Dollars in millions		
<b>Organization</b>	<b>Withholdings</b>	<b>Cumulative 1988 assessment<sup>a</sup></b>
United Nations	\$279	\$214
Food and Agriculture Organization	82	65
International Atomic Energy Agency	1	39
International Civil Aviation Organization	2	8
International Labor Organization	27	41
United Nations Industrial Development Organization	18	21
World Health Organization	28	75
World Meteorological Organization	3	9
<b>Total</b>	<b>\$440</b>	<b>\$472</b>

Source: Department of State

<sup>a</sup>U.S. fiscal year 1989 appropriations fund calendar year 1988 assessments. The numbers provided represent the Department of State's estimate of U.S. requirements based on January 1988 exchange rates and certain adjustments.

The United States changed its method of paying annual contributions from quarterly installments to a lump-sum payment in the fourth quarter of the calendar year. The U.N. fiscal period is the calendar year. This method of payment was phased in between U.S. fiscal years 1981 and 1983. Since then, the United States has paid its calendar year assessments with funds appropriated for the following U.S. fiscal year. For example, calendar year 1989 assessments, which were due at the beginning of 1989, will be paid with the fiscal year 1990 appropriation.

Continuing resolutions in fiscal years 1987 and 1988 meant that the amounts appropriated for these eight U.N. organizations were not known until the end of the U.N. fiscal year. For example, the continuing resolution appropriating funds for U.S. fiscal year 1988 was signed on December 22, 1987, 9 days before the end of the U.N. fiscal year for which the funds were programmed. Reprogramming negotiations, administrative decisions, and 1986 legislation deferring the availability of some funds until the following U.S. fiscal year, resulted in the payment of some appropriated funds long after the year in which they were due. These delayed appropriations and the late payment of some appropriated funds added to the uncertainty about how much and when the

United States would pay and contributed to the cash flow problems of the organizations. For example, because of the combined effect of these factors, in calendar year 1986, the United States paid the World Health Organization \$10 million of its \$63 million assessment for that year.

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### **Effects of U.N. Financial Problems**

U.S. withheld and deferred payments, combined with exchange rate losses and other member country arrearages, resulted in financial shortfalls within some U.N. organizations. This helped stimulate U.N. budget decision-making reforms and some cost reductions.

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### **U.N. Agencies Made Some Cost Reductions**

U.N. organizations took several steps to deal with their financial problems, including economy measures, such as freezing recruitment and promotions and postponing or cancelling publications, meetings, travel, and the procurement of equipment. They also used their reserve funds and some retained budget surpluses from prior years. The organizations reported that these economy measures reduced expenditures by about \$220 million in 1986 and 1987. U.S. officials also believe that the organizations' 1988-1989 budgets were generally lower than they would have been if the organizations had not been faced with financial problems.

U.S. officials said the economy measures taken in 1986 and 1987 were largely a short-term reaction to the financial crisis rather than a systematic reconsideration by those agencies of their operating structures. For example, cost savings due to personnel reductions were achieved by not filling vacant posts, rather than by restructuring organizations and eliminating positions.

Other steps taken by the organizations represented temporary savings or, in some cases, may have represented added costs to member states. For example, the organizations reported that they used about \$350 million from reserve funds which, under normal procedures, would be replenished in future years, in part by additional assessments on member states. Also, some of the organizations retained about \$53 million in budget surpluses from prior years that would otherwise have been used to reduce the assessments of member states.

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### **U.N. Agencies Adopted Budget Reform Measures**

U.S. officials have been seriously concerned about rapid budget growth in the U.N. organizations, and a major U.S. objective has been to gain more influence over budget levels and program priorities. In 1986 and 1987, most of the agencies adopted some form of a consensus-based

budget decision-making procedure, which the President determined met the U.S. requirement. However, because the economy measures taken by the U.N. organizations in 1986 and 1987 were largely a temporary response to their immediate financial problems, it is uncertain whether the new budget procedures will, in the long term, achieve the U.S. objective of reducing budget growth in the U.N. organizations.

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### **Other Effects of Financial Shortages**

U.S. officials told us that they could not identify any U.N. programs of special interest to the United States that were eliminated because of the financial problems. However, they stated that a great deal of time and attention were diverted from the work of U.N. organizations and that there was an overall slowdown in program activities. Crisis management and the development of contingency plans consumed the time of agency officials. In 1987, financial problems were also a major item on the agendas of the organizations' governing bodies.

Other member states voiced disapproval of the United States for not paying its assessed contributions. They believed that this had a negative impact on the organizations, resulted in other members paying more, and set a bad example.

Some U.S. officials also expressed concern about a possible shift in power and influence within the U.N. organizations. In particular, the Soviet Union and Japan began playing a more active role in some U.N. organizations.

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### **Payment of U.S. Arrearages**

In September 1988, the administration announced that it would seek full funding for U.N. assessments and explore the feasibility of paying U.S. arrearages. Subsequently, in its fiscal year 1990 budget request, the administration requested nearly full funding and \$39 million for partial payment of arrearages to the eight organizations. The Department of State has proposed a plan for paying all U.S. arrearages over a 6-year period.

In our November 1988 transition report, Department of State Issues, we noted that the Department of State needed to develop, in partnership with the Congress, a clear program that (1) consolidates the gains achieved from its withholdings, (2) guards against potential program deterioration stemming from the current financial weaknesses, and (3) allocates arrearage payments to useful purposes.

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**Appendix I**  
**Issues Related to U.S. Payments of Assessed**  
**Contributions to U.N. Organizations**

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The United States owes some of the U.N. organizations relatively large sums of money, compared to their annual budgets. Furthermore, the amounts owed were originally assessed primarily for activities that were budgeted and programmed in prior fiscal years. U.S. officials said that, in principal, the money is no longer needed for those activities because, if they were rescheduled in subsequent fiscal years, they were also included in the new budgets. Thus, it is important that any arrearage payments be made in such a way as to avoid unplanned program growth. State's proposal to pay arrearages over a multiyear period should help minimize unplanned growth.

Another approach to deal with this issue is currently under consideration in proposed legislation which provides that any payment of U.S. arrearages be made only for purposes jointly agreed to by the President and the U.N. organizations. This provision is in the version of the fiscal years 1990 and 1991 authorization bill passed by the House of Representatives. A Senate bill did not contain this provision and, as of October 18, 1989, the matter was in conference.

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# Objectives, Scope, and Methodology

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Our objectives were to determine the significance of U.S. withheld and deferred payments; and to review the steps taken by the organizations to deal with the financial situations that resulted from the U.S. actions.

We reviewed records and interviewed officials at the Department of State, Bureau of International Organization Affairs, and the U.S. Missions to the United Nations and affiliated organizations in New York, Geneva, Rome, and Vienna. We also interviewed U.N. system officials at these locations and representatives of the Australian, British, Canadian, and French missions to the U.N. organizations in Geneva. Our review was performed from October 1987 to July 1989 in accordance with generally accepted government auditing standards.

Because the U.N. system organizations are outside our audit authority, our review of U.N. documents was limited to those that are generally available to member states. As a result, we did not test internal controls nor verify data provided by the organizations.

# Comments From the Department of State

ASSISTANT SECRETARY OF STATE  
WASHINGTON

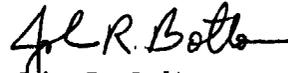
October 12, 1989

Dear Mr. Conahan:

On behalf of the Secretary, I would like to repond to your invitation to comment on your draft report to the Congress entitled: UNITED NATIONS: Issues Related to United States Payments. The Department of State believes the report is well done and agrees with the basic conclusion.

We agree that it is important that any arrearage payments be made in such a way as to avoid unplanned program growth. The Administration has indicated that organizations will be held accountable for use of U.S. arrearage payments in advancing the interests of the United States and other member states by assuring these payments are directed toward special activities mutually agreed upon by the United States and the respective organization. For most UN organizations, for the first several years, arrearage payments would be used to rebuild reserves, e.g., monies would be used to restore working capital funds.

Sincerely yours,



John R. Bolton  
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