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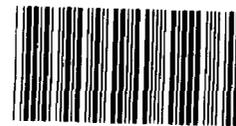
**Report To The Chairman  
Committee On Foreign Relations  
United States Senate**

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**Delaying U.S. Payments To International  
Organizations May Not Be The Best  
Means To Promote Budget Restraint**

The United States changed its method of paying annual contributions to selected international organizations from quarterly to a lump sum payment during the fourth quarter of each calendar year. The intent was to achieve a temporary U.S. budget reduction, improve the accuracy of U.S. budget requests, and impress upon the organizations the need for restraining budget growth.

Although the change effectively reduced the U.S. budget from fiscal year 1981 to 1983, it led to greater financial difficulties in the organizations, greater associated costs, and disapproval from other members. GAO offers alternatives for congressional and executive branch consideration.



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GAO/ID-83-26  
FEBRUARY 15, 1983

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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

B-204756

The Honorable Charles H. Percy  
Chairman, Committee on Foreign Relations  
United States Senate

Dear Mr. Chairman:

As requested by your letter of May 6, 1982, we are providing information to assist your committee in reassessing U.S. funding to international organizations.

As you know, the United States has been deferring its contributions to the United Nations and other selected organizations since 1981 as a transition to a new payment schedule whereby the entire U.S. assessments will be paid in the fourth quarter of the calendar year. This report contains our analysis of the effects of this policy both on the United States and the organizations themselves. Because delaying payments may not be achieving the desired effect of promoting budget restraint, we offer several alternatives for consideration.

As arranged with your office, we plan no further distribution of this report until 3 days from the date it is issued. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan  
Director



GENERAL ACCOUNTING OFFICE  
REPORT TO THE CHAIRMAN  
COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE

DELAYING U.S. PAYMENTS TO  
INTERNATIONAL ORGANIZATIONS  
MAY NOT BE THE BEST MEANS TO  
PROMOTE BUDGET RESTRAINT

D I G E S T

In its fiscal year 1982 budget request, the administration proposed a plan to the Congress to defer U.S. assessed contributions to selected international organizations. The deferral process, planned for implementation over a 4-year period, was designed to change the U.S. payment cycle from a quarterly basis to a single payment in the fourth quarter of each calendar year. Beginning in 1983, the full U.S. contribution is to be paid from the subsequent U.S. fiscal year appropriation. Expected benefits of delaying the payments were (1) reduced U.S. budget outlays for the next 3 years, (2) improved accuracy of administration budget requests, and (3) concrete demonstration of U.S. concern over the increasing budgets of international organizations. (See p. 1.)

The Congress approved the proposal with certain modifications, having been assured by the administration that the deferral was entirely consistent with U.S. treaty obligations and would in no way affect the ability of the United States to pay its full assessment in the calendar year due nor imply a lack of commitment to the organizations. For the 12 organizations subject to the deferral, an estimated \$433 million in calendar year 1983 assessments are to be paid after October 1, 1983. (See pp. 1, 2, and 3.)

Because the Congress will be reassessing U.S. funding to international organizations in 1983, the Senate Committee on Foreign Relations requested GAO to examine the impact of the new payment policy on the United States and the affected international organizations.

In making its assessment, GAO visited seven organizations that received over 90 percent of the deferred funds. (See p. 4.)

HOW THE ORGANIZATIONS  
HAVE BEEN AFFECTED

The extent to which organizations have been affected by the U.S. deferral policy varies. Some of the smaller organizations where the U.S. contribution is small and a few of the larger ones who entered the deferral in strong financial condition have been minimally affected by the later U.S. payments. The United Nations and some specialized agencies which depend upon the United States for 25 percent of their funds have, on the other hand, experienced tangible effects of the new U.S. payment policy. (See p. 6.)

In some cases GAO was not able to isolate financial difficulties attributable specifically to the U.S. deferral from continuing problems due to other factors, such as late payment and arrearages of other members, unrestrained budget growth, political withholding, and poor financial management.

While later U.S. payments are not solely to blame for financial difficulties at international organizations, they have contributed to existing cash flow problems. Cash shortages have depleted cash reserves at some organizations, which has necessitated internal borrowing. The International Labor Organization borrowed funds on the commercial market, and other organizations have taken steps to gain or exercise external borrowing authority should cash flow problems continue in 1983. Some organizations have increased authorized levels for cash reserves and others are examining whether they may also need to do so. The situation at some organizations would have been worse had not the strong U.S. dollar created currency gains to cushion the effects of the deferral. (See pp. 6 and 13.)

Despite the effects of the deferral, GAO was unable to identify any effect on the organizations' program activities. So far, organizations have been able to overcome difficult cash flow situations through compensating measures without having to change their approved programs of work. (See p. 6.)

HOW THE UNITED STATES  
HAS BEEN AFFECTED

While the United States will realize a one-time budgetary reduction of over \$400 million from fiscal year 1981 to 1983, as organizations take action to remain solvent, higher assessments may partially offset the gain. If organizations continue to take costly compensating measures instead of seeking budgetary reductions, it is questionable whether the U.S. deferral policy will significantly limit the growth of international organization budgets. (See p. 19).

The deferral policy has produced an unfavorable reaction from other member states, particularly the Geneva Group--an informal association of major contributors to international organizations. Among the concerns expressed were (1) the deferral could penalize members who pay on time by potentially increasing their assessments, (2) the policy did not differentiate between organizations that are considered well-run financially from those that are not, and (3) paying late violates U.S. legal obligations to the organizations and their members. Officials of U.S. missions contend that such negative reaction to the U.S. deferral policy could be damaging to U.S. relations. (See pp. 19 and 22.)

ALTERNATIVES TO CONSIDER

Because the deferral may not have had the desired effect of limiting budget growth, GAO offers alternatives for congressional and executive branch consideration. The alternatives range from continuing as planned under the new payment cycle to reversing the deferral process. (See p. 27.)

VIEWS OF PROGRAM OFFICIALS

GAO did not obtain formal written agency comments on this report. It did discuss the report with State Department officials and included their views as appropriate. Program officials commented that the United States--as well as many other member nations--has not been strictly complying with organizations' requirements to pay when due. Thus, they do not believe that the deferral policy

of paying later differs in this regard. They acknowledge difficulties associated with the deferral phase-in but believe that, once it is established, the organizations will adjust to the revised payment schedule.

They further believe that the deferral has produced savings that substantially offset associated costs.

GAO believes that because the U.S. assessment of 25 percent will not be paid until the last quarter of the year, the organizations may continue to experience problems under the revised payment schedule. Further, the amount considered by State Department officials to be saved depends on the present deferral payment policy continuing indefinitely. (See p. 23.)

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## ABBREVIATIONS

FAO	Food and Agriculture Organization
GAO	General Accounting Office
GATT	General Agreement on Tariffs and Trade
IMO	Intergovernmental Maritime Organization
IAEA	International Atomic Energy Agency
ICAO	International Civil Aviation Organization
ILO	International Labor Organization
OECD	Organization for Economic Cooperation and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization



## CHAPTER 1

### INTRODUCTION

The U.S. deferral policy on payments of regular budget assessments to selected international organizations was adopted in 1981 in response to the necessity to reduce U.S. budget expenditures and to demonstrate U.S. displeasure with the unrestricted growth in the size of international organizations' budgets. The policy was not designed to put the United States in arrears in its financial obligations to international organizations nor to imply a lack of commitment to them. In accepting the administration's proposal, as modified, the Congress expected the United States to pay its full assessments to these organizations in the calendar years when due.

#### THE U.S. DEFERRAL POLICY: HOW IT ORIGINATED AND ASSOCIATED OBJECTIVES

In its fiscal year 1982 budget, the administration proposed that \$160 million in assessed contributions to 15 international organizations be deferred until fiscal year 1983. This was to be the first step of a planned 4-year process whereby one quarter of the U.S. assessment would be deferred annually--a total of about \$600 million to be deferred over the 4 years. This would produce a new U.S. payment cycle, going from payments scheduled quarterly to a full annual contribution in the fourth quarter of the calendar year. The realignment of the payment cycle with the first quarter of the subsequent U.S. fiscal year was intended to improve the accuracy of future budget estimates by enabling the State Department to prepare its budget request after the organizations' budgets had been adopted rather than before, as had been the case. This practice would then obviate the need for later supplemental requests.

#### Congressional response to deferral proposal

The Congress was receptive to the deferral proposal and approved a modified version. Two organizations, the Organization of American States and the Pan American Health Organization, were removed from the deferral because the U.S. contribution comprised such a large share of their assessed budgets. For example, the United States alone contributes about 65 percent of the Organization of American States' budget. A third organization, the Inter-American Institute for Cooperation on Agriculture, was exempted later. The Congress also accelerated the deferral by rescinding fourth quarter calendar year 1981 payments totalling \$84 million due to the organizations. This congressional action, coupled with executive branch actions, resulted in reducing the planned deferral period from 4 years to 2-1/2 years.

The Congress also sought reassurance from the administration that the deferral was entirely consistent with all U.S. treaty obligations to international organizations and that it would in no way affect the ability of the United States to pay its full assessment in the calendar year when due. Administration officials' response was that the United States does not intend to go into arrears since it remains administration policy that all obligations will be met within the calendar year when due.

Reducing the U.S. budget  
by deferring payment

The Congress and the State Department agreed, that by reducing the international organization account over a specified period, the United States could gain a "paper savings" of one year's contribution. Although it was understood that some organizations would experience cash flow problems from the deferral, the need for budgetary restraint outweighed these considerations.

By partially deferring U.S. contributions to the subsequent fiscal year over the fiscal year 1981-83 period, the United States will realize a one-time budget reduction of over \$400 million. The assessed amounts, by calendar year, and the fiscal years in which funds were appropriated for payment, are shown below.

	<u>CY 1981</u>	<u>CY 1982</u>	<u>CY 1983</u> (estimated)	<u>Net requirement by fiscal year</u>
	----- (millions) -----			-----
U.S. Assessment	\$385.8	\$428.1	\$433.1	
Paid as follows:				
FY 1981	241.2	-	-	\$241.2
FY 1982	144.6	106.5	-	251.1
FY 1983	-	321.6	-	321.6
FY 1984	-	-	433.1	433.1

The budget reduction of \$433.1 million is derived by adding the assessments for calendar years 1981 through 1983 and subtracting the U.S. appropriation requirements for fiscal years 1981 through 1983.

The appropriation requests for fiscal years 1981 through 1983 have been lower than assessed levels due to the gradual deferral of payments. Beginning with fiscal year 1984, the United States plans to pay the entire assessment from one fiscal year appropriation.

Deferral as a means to influence budget restraint

At the time the proposal was being considered by the Congress, administration officials stated that the deferral, or new payment cycle, should "help create a fiscal environment within the organizations which will impress on them the United States concern about their increasing budgets."

During 1982 congressional appropriation hearings, the administration more strongly emphasized the deferral as a means to influence budget restraint in international organizations.

ORGANIZATIONS SUBJECT TO DEFERRAL

The deferral process will end in calendar year 1983. The closeout will be accomplished by deferring all of the organizations' calendar year 1983 assessments, estimated at \$433.1 million, until the last quarter of the calendar year--U.S. fiscal year 1984. From then on, although the organizations will generally submit their requests for payment in January, they will not receive U.S. payments until October or later in that year. The 12 organizations which are subject to the U.S. deferral policy and the estimated U.S. assessments for calendar year 1983 are listed below.

<u>Organization</u>	<u>1983 Assessments (est.)</u> (000 omitted)
United Nations	\$175,541
World Health Organization	59,642
United Nations Educational, Scientific and Cultural Organization	50,758
Food and Agriculture Organization	46,271
Organization for Economic Cooperation and Development	29,620
International Labor Organization	28,658
International Atomic Energy Agency	26,080
International Civil Aviation Organization	6,147
World Meteorological Organization	4,826
General Agreement on Tariffs and Trade	4,061
Intergovernmental Maritime Organization	757
World Intellectual Property Organization	<u>739</u>
Total	<u>\$433,100</u>

The estimated \$433 million is to be paid after October 1, 1983, from fiscal year 1984 funds. This figure represents an increase of more than \$100 million over the fiscal year 1983 appropriation request for these organizations, since the entire assessment should be paid from one appropriation request. During the deferral phase-in, assessments were paid from two fiscal year appropriations.

OBJECTIVES, SCOPE, AND METHODOLOGY

Because the Congress will be reassessing U.S. funding to international organizations in 1983, the Senate Committee on Foreign Relations requested that we examine the effect of the new payment policy on the United States and the affected international organizations. Specifically, the Committee wanted to know whether U.S. interests in the organizations were being served, what efforts were being made to engender international support, and what alternative actions would be available once the deferral policy was fully implemented in late 1983.

In selecting which organizations to visit, we considered the amount of the U.S. assessment and the percentage the United States contributes. With further consideration to time, staffing, and logistical constraints, we chose to visit the following seven organizations.

<u>Organization</u>	<u>Percentage of total 1983 deferral</u>
United Nations	40.5
World Health Organization	13.8
United Nations Educational, Scientific and Cultural Organization	11.7
Food and Agriculture Organization	10.7
Organization for Economic Cooperation and Development	6.8
International Labor Organization	6.6
General Agreement on Tariffs and Trade	<u>0.9</u>
Total	<u><u>91.0</u></u>

Data about the remaining organizations, in addition to the seven we visited, was acquired at the State Department's Bureau of International Organization Affairs, which carries out the Secretary of State's responsibility for U.S. participation in international organizations.

Interviews were conducted with officials of the (1) Bureau of International Organization Affairs in Washington, (2) U.S. Mission and United Nations in New York, and (3) U.S. missions and international organizations visited in Geneva, Rome, and Paris. We also met with representatives to the Geneva

Group, an informal association of major contributors to international organizations, and the Western European and Other Group, a similar association at the United Nations. Work was performed at these organizations during September and October 1982.

Legislative data pertaining to the deferral was acquired and information obtained through interviews was substantiated, to the extent possible, by documentation acquired at the Bureau and the locations visited. This included, but was not limited to, the international organizations' programs of work and budget; financial reports and statements; reports of conferences, councils, and committees; statements of contributions to the budget; Bureau and U.S. mission cables of record and programing documents; position papers and reports of U.S. delegates to organization conferences; and memorandums of Geneva Group meetings. This review was conducted in accordance with generally accepted Government audit standards.

## CHAPTER 2

### HOW THE DEFERRAL HAS AFFECTED

#### INTERNATIONAL ORGANIZATIONS

The extent to which organizations have been affected by the U.S. deferral varies. A few of the smaller organizations where the U.S. contribution is small and a few larger agencies which were in strong financial condition when the deferral process began have been minimally affected by the deferral. Hardest hit have been the United Nations and a few of the larger agencies to which the United States contributes 25 percent. These agencies were already having financial difficulties. The situation at some agencies would have been worse had not currency gains from the strong U.S. dollar cushioned the effects of the deferral.

Some organizations have experienced tangible effects from the later U.S. payments. Cash shortages have depleted working capital funds at some organizations and necessitated internal and external borrowing. Some organizations have increased the levels of working capital funds, and others believe they may have to do likewise. These actions, coupled with the loss of interest income, may ultimately result in greater member assessments. Finally, the deferral has caused considerable uncertainty among organization officials as to the amount and timing of U.S. payments.

Despite the effects of the deferral, we were unable to identify any effect on the organizations' program activities. Furthermore, it appears that most organizations have been able to compensate for the later U.S. payments. Some State Department officials believe that 1982 was a difficult year for the organizations and that, because they successfully cleared that hurdle, 1983 should be easier. Others believe that 1983 will be another difficult year because the organizations will not receive any of the U.S. assessment until the fourth quarter of the year.

In some cases, we were not able to isolate financial difficulties attributable specifically to the U.S. deferral from continuing problems due to other factors, such as late payments and arrearages of other members, unrestrained budget growth, political withholding, and poor financial management. It is evident however, that the U.S. deferral has contributed to the cash flow problems of some U.N. system organizations. Our analysis of the impact of the U.S. deferral on the affected organizations within the context of other factors also contributing to the current state of affairs follows.

## HOW THE DEFERRAL HAS AFFECTED THE UNITED NATIONS

For many years member states, including the United States, have been paying their U.N. assessed contributions later. Consequently, the United Nations has been having difficulty maintaining sufficient amounts of cash to pay for daily operations. However, recent action to further delay assessed contributions has worsened the already serious cash flow problem. The United Nations has tried to compensate for this cash flow problem by increasing its working capital fund from \$40 million to \$100 million and by borrowing from peacekeeping operations and a special account. It has also delayed payments to its employee pension fund. Other major contributors, however, have not accelerated their payments to compensate for later U.S. payments; therefore, cash flow difficulties continue.

### The altered U.S. payment pattern

As with most U.N. organizations, member assessments are due in full within 30 days of the billing date, usually made in January of the year to which the assessment applies. Most members, however, including the United States, have paid later and many have spread partial payments throughout the year. As a matter of policy, the United States generally paid quarterly until the deferral went into effect. U.S. contributions have, therefore, been late but not in arrears. Member contributions are considered to be in arrears if they are not paid in full by December 31 of the calendar year due. An exception occurred in 1981 when the United States was \$24 million in arrears because of a continuing budget resolution which did not provide enough funds to meet the entire 1981 assessment. These arrears were paid in full by August 1982.

In making the transition to the new payment schedule, the United States paid about half of its 1979 assessment and over two-thirds of its 1982 assessment after October 1 of these respective calendar years. Beginning in 1983, the entire U.S. assessment for the calendar year will be paid in the fourth quarter.

According to U.N. officials, some countries paid later than usual in 1982 because of the relative strength of the U.S. dollar, the weakness of their own economies, and the one-time extra assessment to the working capital fund which was added to the 1982 assessments. Both U.S. and U.N. officials rejected the suggestion that some members might be paying later in response to the U.S. deferral.

In October 1982, the Secretary General reported a further deterioration in the receipt of assessed contributions. His

report showed that as of June 30, 1982, only 29 percent of the total 1982 assessments had been paid compared to 42 percent as of the same date in 1981 and 65 percent in 1980. Although not placing the blame for this deteriorating situation solely on the United States, the report pointed out that had the United States paid half of its assessment by June 30 as it had previously, the percentage received would have been a more favorable 43 percent instead of 29 percent.

#### Effect on daily U.N. cash needs

We cannot determine the exact effect the U.S. deferral has had on U.N. daily cash needs. According to U.N. officials, however, later payments by the United States and other members caused the United Nations to increase the amounts and frequency of borrowing from internal accounts and to delay payments to the employee pension fund.

The United Nations estimates that it requires approximately \$50 million monthly to pay for daily operations. According to U.N. officials, it is imperative that these contributions be received promptly since about 80 percent is for salaries and other fixed costs which cannot be delayed.

Our analysis of cash flow at the United Nations for calendar years 1981 and 1982 showed a difficult situation even before the U.S. deferral began in late 1981. For 1981, U.N. expenditures exceeded income in 8 of the 12 months. Thus, it was necessary to borrow internally and to delay certain payments to meet daily expenses. The situation worsened in 1982 when the United Nations experienced a similar problem for 9 of 10 months. Figures for the last 2 months of 1982 were not available. According to U.N. officials, the United Nations borrowed and delayed payments more often in 1982 and the amounts borrowed and delayed were greater. These officials attributed these occurrences to the later payment of U.S. contributions.

#### Drain on the working capital fund

The U.N. working capital fund was established in 1946 as a source to meet regular expenditures and unforeseen or extraordinary expenses pending receipt of assessed contributions. Because so many member countries have paid their assessed contributions late, the working capital fund has not been adequately replenished. The General Assembly voted in 1981 to increase it from \$40 million to \$100 million. Member assessments were thereby increased by \$60 million, each in proportion to its rate of assessment.

In providing information to Congress, the State Department cautioned that the increase in the U.N. working capital fund should not be misconstrued as being attributable primarily to the U.S. deferral policy. The United Nations had been experiencing financial difficulties for a variety of reasons.

Furthermore, the fund had not been increased in 19 years although the U.N. budget had grown considerably during that period. We were advised that the \$100-million level was a compromise figure in that the Secretary General and others had proposed increasing the fund to as much as \$200 million in recent years.

Although the increase in the working capital fund cannot be linked solely to the U.S. deferral policy, the policy probably played a part in draining the working capital fund in 1982. Under U.N. financial regulations, member contributions must first be credited to working capital fund assessments before they are credited against regular assessments. Therefore, the first \$60 million in 1982 contributions was credited to the fund to raise the level to \$100 million. Despite this procedure, the fund balance was at \$4 million by June 1982. We can only conclude that the later payments by the United States and others caused the depletion of the working capital fund. U.N. officials do not believe the fund will soon be increased; however, should cash flow problems continue, a further increase might be necessary.

#### Internal borrowing

Depletion of working capital funds has led U.N. officials to examine other ways to meet immediate cash needs. During the last 2 years, the United Nations has resorted to internal borrowing from other accounts--the peacekeeping account, the Special Account, and the employee pension fund. It does not pay interest on funds borrowed internally; however, we found that such borrowing is not without its costs.

#### Borrowing from peacekeeping

U.N. peacekeeping activities are funded through member assessments and supplemented by voluntary contributions. The peacekeeping accounts have been in poor financial standing because of significant political withholding of assessments by members since 1956. The Soviet Union and the Soviet bloc countries accounted for most of the estimated \$206 million withheld from the peacekeeping accounts through 1982.

Despite the poor financial standing of these accounts, U.N. officials have found them to be a convenient source from which to borrow funds. Because of insufficient funds due to the withholding just mentioned, countries participating in peacekeeping operations are already only partially reimbursed for their troops and equipment. The amounts not reimbursed are still considered debts owed by the United Nations; however, it has become fairly well accepted that it will have great difficulty repaying these debts.

According to the United Nations, peacekeeping funds were diverted more in 1982 than ever before. It was necessary to borrow as much as \$25 million at a time from the peacekeeping

accounts during January through September 1982. U.N. officials explained that the accounts are repaid as soon as assessed contributions are received. The borrowing continues, however, on an almost constant basis--7 out of the first 10 months of 1982.

A U.N. peacekeeping official said that one country had decided to withdraw its troops from a peacekeeping operation because of insufficient payments by the United Nations. This official said that if borrowing from this account reaches a level where peacekeeping efforts are jeopardized, he will suspend access to the account.

#### Borrowing from the Special Account

The U.N. Special Account, established in 1965 as a start toward eliminating the U.N.'s accumulated deficit, is composed of voluntary contributions and earned interest. The balance of the Special Account as of June 30, 1982, was about \$71 million.

U.N. officials found it necessary to borrow \$28.5 million from the Special Account in 1981 and \$4 million more in 1982 to meet regular budget expenditures. The cost of such borrowing equals the amount of interest that could have been earned. Although a definitive cause and effect relationship cannot be drawn between the U.S. deferral and U.N. borrowing from the Special Account, it should be noted that such borrowing did not occur in 1979 and 1980. It should also be noted that although U.N. officials have borrowed from this account to meet temporary cash shortages, it was never intended for this purpose.

#### Delayed payments to employee pension fund

The U.N. pension fund is financed through both U.N. and employee contributions. The fund has a ceiling of about \$2.5 billion, and, as with all pension funds, it is used to provide retirement benefits to employees. To avoid violating U.N. regulations which preclude borrowing from the pension fund, officials have instead delayed U.N. contributions to the fund. In this way, the United Nations was able to temporarily use these funds to meet regular budget expenditures.

According to U.N. officials, payments to the pension fund were delayed more often in 1982 than in any other year. These officials said that contributions averaging \$11 million were delayed 6 out of the first 8 months of 1982, and these delays were as long as 20 days. The United Nations has estimated the cost of these late payments to the pension plan in 1982 at more than half a million dollars in potential earnings.

#### Effect on U.N. programs

We were unable to identify any programs which were affected adversely by the U.S. deferral. Mission officials advised us that the Secretary General is not authorized to finance some

programs in the regular budget and not finance others. Should a financial crisis arise, he would have to delay payment to all U.N. programs.

### Uncertainty created by the deferral

State Department officials and officials at the organizations we visited agreed that one detrimental effect of the U.S. deferral was the uncertainty it created. Without the knowledge of when to expect payments from the United States, the largest contributor, officials were hampered in deciding how to deal with the deferral.

Financial officers were unable to gauge whether payroll and other fixed expenditures could be met, whether funds should be borrowed and, if borrowed, how much and when. The uncertainty created over U.S. payments was compounded by a phenomenon of later payment by other U.N. members.

State officials advised us that uncertainty was an unintended effect of the deferral. Under the plan originally proposed by the administration, the U.S. payment schedule would have gradually been changed over a period of 4 years, allowing the organizations adequate time to adjust. Each organization would also have been informed what proportion of the U.S. assessment could be expected during each quarter of the transition period. As the deferral was accelerated from 4 to 2-1/2 and finally to 2 years or less, the result was an ever-changing U.S. plan for payment.

One State budget officer explained that U.S. administrative requirements have further complicated the ability to advise the United Nations and other organizations about when to expect U.S. payments. Requirements, such as gaining assurance from the organization that funds will not be used to benefit the Palestine Liberation Organization, for example, delay payments. Reprogramming notifications to the Congress, if necessary, take 15 days. Simply getting a check issued from Treasury often takes 2 weeks. These requirements, combined with the U.S. deferral, have made it difficult for State officials to diffuse the uncertainty over U.S. payments at the affected organizations.

### HOW THE DEFERRAL HAS AFFECTED MAJOR U.N. SYSTEM ORGANIZATIONS

In visiting four of the largest U.N. specialized agencies--FAO, ILO, UNESCO, and WHO--as well as GATT and OECD,<sup>1</sup> we found

<sup>1</sup>Food and Agriculture Organization, International Labor Organization, United Nations Educational, Scientific and Cultural Organization, World Health Organization, General Agreement on Tariffs and Trade, and Organization for Economic Cooperation and Development.

that the effects of the deferral at all but two paralleled those at the United Nations. The severity of the problems, however, varied among organizations depending on their financial strengths as the deferral took effect. As at the United Nations, program activities at the organizations did not appear to be affected by the deferral. WHO and UNESCO were less affected by the later U.S. payments than the others for reasons outlined later in this chapter.

We also gained a somewhat different perspective on the problem from our field visits. Mission officials tended to view the financial situations at the organizations as much more serious than did their State Department counterparts. They also tended to emphasize the political repercussions of the deferral policy as particularly damaging. We encountered a great deal of protest from organization officials who believed that the U.S. policy unfairly penalized all organizations without regard to their attention or inattention to budget restraint. The feeling was, that if a legitimate reason for the deferral was to urge the organizations to restrain budget growth, it was unfair to penalize those which had made significant progress in the same way as those which had not. Our analysis of the financial problems experienced by some organizations we visited follows.

#### Cash flow difficulties

The cash flow situation at a few of the organizations affected by the U.S. deferral has been critical during the past year. The difficulty in meeting daily expenses should not, however, be attributed entirely to the U.S. deferral. As at the United Nations, contributions should be received evenly throughout the year due to high fixed costs. Therefore 75 percent of the contributions should be received by September 30. As shown in the following table, however, the percentage of contributions received as of September 30 has slipped from the desirable 75 percent over the last 3 years at the organizations we visited.

Percentage of Current Year's Contributions  
Collected as of September 30

	<u>1980</u>	<u>1981</u>	<u>1982</u>
U.N.	74	53	49
ILO	67	48	51
FAO	77	59	49
UNESCO	73	48	49
WHO	73	58	61
GATT	83	84	75

Organization officials believe the late payment pattern is a function of weak economies worldwide rather than a conscious policy, such as that of the United States, to defer contributions. However, the fear that the U.S. action might encourage

other major contributors to take similar actions is widely shared among the officials with whom we spoke.

Whatever the true reasons, contribution delays have contributed to cash flow problems at some organizations. The situation has been most acute at ILO. Arrearages and delays in receiving contributions have depleted ILO internal cash reserves, reduced interest income, and resulted in ILO borrowing money to maintain program operations.

Although not considering the U.S. deferral as the only source of the organization's problems, ILO officials believe it has been a significant factor behind recent cash flow difficulties. The United States has, since its readmittance to the organization in 1980, fully deferred its contributions to ILO until the fourth quarter. To illustrate ILO's difficulties, during 1980 and 1981, ILO withdrew a total of \$18.5 million from its working capital fund and temporarily borrowed another \$1.5 million from other internal accounts. These measures were still inadequate to offset cash deficits, and ILO borrowed from commercial banks. Interest charges and unfavorable exchange rate fluctuations resulted in a \$1.3 million additional cost to the organization.

At least two other cash flow situations occurred in 1982--at OECD and GATT. OECD would not have been able to meet a required payment to the French social security system in the first quarter of 1982 without borrowing had not the United States agreed to pay, on an exception basis, 25 percent of the U.S. assessment in January as OECD officials requested. Under the deferral plan the U.S. payment would have been made in July. U.S. officials at GATT made an appeal that the U.S. contribution be paid immediately, warning that the agency would be forced to seek bank loans to meet its payroll for the remainder of the year if the U.S. payment was not received by October 15. The GATT Secretariat informed the U.S. mission on October 7, 1982, that it had requested a line of credit from a Swiss bank to draw upon by the end of the month for payroll expenses. GATT received the remainder of the U.S. assessment in late October to avert the need to draw on the credit.

The cash flow situation at FAO also appeared to be uncertain during 1982. In October 1982, the Director General reminded the U.S. Secretary of State of past due U.S. assessments totaling \$35 million. He urged prompt payment and stated that unless payments from members improved very significantly, external borrowing would be inevitable to assure implementation of the approved program of work.

#### Measures taken to compensate for cash shortages

The most frequently employed measure to compensate for cash shortages at the organizations we visited was drawing from

working capital funds. Once these funds were exhausted, the organizations borrowed internally from other available accounts and then examined the possibility of borrowing on the commercial market. Several organizations are examining other possible measures to compensate for anticipated cash shortages.

Depletion of working capital funds

As at the United Nations, each of the organizations we visited, except OECD, has a working capital fund that may be used to bridge the gap between expenditures and when contributions are actually received. The established working capital fund levels for the organizations we visited (based on 1982 U.N. and GATT reports) are listed below.

<u>Organization</u>	<u>1983 gross budget or estimate</u>	<u>Working capital fund</u>	<u>Fund as percent of budget</u>
	------(millions)-----		
ILO	\$119.3	\$9.5	8.0
FAO	207.4	13.3	6.4
UNESCO	208.5	20.0	9.6
WHO	261.5	11.1	4.3
GATT	22.9	.1	.4
U.N.	753.1	100.0	13.3

We found that working capital funds at some organizations we visited were drawn upon almost continuously throughout 1982 and were quite often exhausted. For this reason, some organizations have renewed attempts to increase working capital fund levels. The FAO Conference voted in November 1981 to increase the working capital account from \$6.5 million to \$13.25 million. The increase was reportedly necessary to meet cash flow and liquidity problems which were partially attributable to delays in receiving assessed contributions.

Other organizations are prepared to increase their funds but have not yet done so. For example, one GATT document reported that the GATT Director General continued to be convinced that the working capital fund should be established at 10 percent of the budget. The reason cited was the U.S. intention to defer its payments to the organization. At ILO, the Director General advised the U.N. Advisory Committee on Administrative and Budgetary Questions that, should the cash flow problems experienced in 1981 continue, it too would have to increase its working capital funds. Finally, WHO officials suggested to us that, although the organization is not now experiencing cash flow problems, anticipated difficulties in 1983 related to the U.S. deferral might require a substantial increase in working capital funds to cover operating expenses.

### Borrowing to make up further shortages

Once working capital funds were exhausted, organizations were generally able to avert external borrowing by drawing from other internal accounts. We found that most organizations have accounts other than their working capital funds which they can temporarily tap to meet shortages. FAO, for example, has a Special Reserve Account which was established as a cushion against currency exchange fluctuations. This account, which was increased to \$18 million for 1982, is now also used to cover shortfalls in working capital.

Other accounts available to some of the organizations include accounts for prior period unliquidated obligations, terminal payments, and miscellaneous income. In addition to these sources, some organizations have been able to delay certain payments, such as those to employee pension plans, as the United Nations did.

Despite the availability of these internal funds, several organizations nearly exhausted these resources in 1982 and were on the verge of commercial borrowing to meet immediate cash needs. ILO, however, is the only organization which has had to do so since the deferral began; it borrowed \$8 million in November 1981 to cover a cash shortage just before the U.S. payment.

OECD has obtained short-term commercial loans in the past to meet temporary cash shortages. OECD officials told us that they would borrow again should the need arise; however, they are not anxious to do so at today's rates of interest. As mentioned, GATT went as far as opening a line of credit with a Swiss bank in October 1982; however, using that money became unnecessary when the U.S. payment was received a week or two later. UNESCO is ready to borrow, if necessary, and has open lines of credit at several large banks.

According to one mission official, the FAO Director General was able to gain external borrowing authority, which he had previously sought, based partially upon the U.S. deferral. The WHO Director General does not have blanket authority to borrow on the open market but must seek specific approval by the Assembly on a case-by-case basis. So far, WHO has not found it necessary to resort to commercial borrowing.

### Other measures being considered

Increasing working capital funds, internal and external borrowing, and delaying payments have thus far been sufficient to make up for temporary cash shortages. Organization officials, however, are concerned over the financial outlook for 1983, the final year of the U.S. deferral transition period. With no scheduled U.S. payment until the fourth quarter of 1983, officials fear that cash flow problems will recur. They are

particularly concerned that other members may follow the U.S. example and pay later, thus jeopardizing already precarious financial conditions.

Based on these fears, organization officials have begun to explore ways to stem the pattern of later payment of assessments. Although no formal proposals have been made, some officials are examining whether instituting penalties for late payment of assessments would be feasible. The International Telecommunication Union and the Universal Postal Union currently impose late-payment fees and their collection rates on assessments are dramatically better than others in the U.N. system. Officials at the organizations we visited doubted that a late-payment proposal would be approved because a multitude of late-paying small countries would be affected just as the larger contributors would be. Nevertheless, assessing late charges on U.S. payments which would routinely be at least 8 months late could result in substantial penalties.

Another possible measure would be for the organizations to continue applying budget surpluses to prompt-paying members as credits toward their assessments but to deny late-paying members their share of the credits. Or, additional sanctions could be applied. These and other measures, such as interest charges, to encourage more prompt payment of assessments would, of course, need to be approved by the respective Assemblies.

#### WHY UNESCO AND WHO WERE LESS AFFECTED

WHO and UNESCO were much less affected by the U.S. deferral policy than the others we visited. Prior budgetary surpluses and availability of internal accounts to compensate for shortages somewhat insulated these organizations from the effects of the later U.S. payments.

Although disagreeing philosophically with the U.S. deferral policy, WHO officials indicated to us in October 1982 that "money was not a major problem" for WHO at that time. In fact, we found that the U.S. deferral policy has had little effect on WHO operations. WHO finished the 1980-81 biennium with a surplus of \$20.4 million, largely from exchange rate gains. Other internal accounts to supplement the \$11-million working capital fund increased from \$72.5 million in December 1981 to \$101.7 million in September 1982. These funds have easily covered short-term deficits.

UNESCO has likewise been insulated from the effects of the deferral. Like WHO, it has benefitted from currency gains due to the strong U.S. dollar. In addition, UNESCO uses a number of accounts and techniques to assure adequate cash flow under adverse economic conditions. For example, for the 1981-83 triennium, the organization maintains a \$20-million working capital fund, an Appropriation Reserve Account to offset approximately

three-quarters of the expected inflation, and a \$71-million Currency Fluctuation Account as budgetary safeguards.

To provide additional cash flow protection, UNESCO

--invests surplus funds, which yielded \$2.1 million in additional income for the 1981-83 triennium;

--retains unused, prior-period contributions for the maximum allowable period before returning the surpluses to members; and

--budgets for staff positions then leaves many of the positions vacant.

These techniques and the special accounts just mentioned have effectively protected UNESCO from cash flow problems which other organizations have experienced.

#### HOW THE DEFERRAL HAS AFFECTED OTHER ORGANIZATIONS

We did not visit IAEA, ICAO, WMO, IMO, or WIPO.<sup>2</sup> We did discuss the U.S. deferral, as pertaining to these organizations, with State officials and examined financial and other reports to obtain an understanding of how the deferral had affected these organizations. Based on this work, it appears that, for various reasons, they may have been less affected by the deferral than the larger specialized agencies.

IAEA was able to accumulate a \$32-million surplus over the past 3 years because of currency exchange gains. This surplus will be used to bridge the gap between expenses and the receipt of contributions. An internal study has also projected that if favorable exchange rates and the same pattern of payment by members continues, the IAEA will have no cash flow problems before November 1983. If the U.S. payment is made by then, the agency should not experience a shortage. This analysis, of course, assumes that the United States will resolve its dispute with the IAEA over the Israeli credential issue and continue its payments as scheduled.

The low U.S. rates of assessment to IMO and WIPO--4.53 and 5.8 percent, respectively--probably insulated these organizations somewhat from the deferral. One State official advised us in November 1982, that IMO had increased its working capital fund from \$250,000 to \$600,000 in 1981, prior to the U.S. deferral. He said that IMO, unlike most organizations, had not

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<sup>2</sup>International Atomic Energy Agency, International Civil Aviation Organization, World Meteorological Organization, Intergovernmental Maritime Organization, and World Intellectual Property Organization.

yet had to draw down the fund to meet expenses. State Department officials did not know of any particular financial difficulties at WIPO at this time.

One State official characterized 1982 as a difficult year for ICAO, which was forced to draw down its \$1.5 million working capital fund earlier in the year. The official told us that ICAO was able to get through its cash flow difficulties without having to resort to external borrowing, which was rejected as a costly solution to the organization's problems. We could not identify any specific problems associated with the U.S. deferral at WMO.

#### VIEWS OF PROGRAM OFFICIALS

To meet our reporting timeframe, we did not obtain formal written agency comments. We did, however, discuss report matters with responsible State Department officials and incorporated their views as appropriate. Program officials acknowledge that the international organizations had difficulties associated with phase-in of the deferral but believe that, once it is established, the organizations will adjust to the revised payment schedule.

We believe that the policy of paying 25 percent of the organizations' assessments in the fourth quarter of their calendar years will contribute to continuing cash flow problems. Should other members, especially major donors, not pay in a more timely manner or decide to follow the U.S. example, the situation could worsen.

## CHAPTER 3

### HOW THE DEFERRAL AFFECTS THE UNITED STATES

The deferral was effective in temporarily reducing the U.S. budget by over \$400 million but less effective in encouraging organizations to reduce their budgets. As discussed in chapter 2, organizations experiencing cash flow problems plan to borrow or increase reserves; some have already done so. Such actions result in somewhat higher budgets; consequently members may face higher assessments. For this and other reasons, some representatives to the Geneva Group and the Directors General of several organizations we visited voiced considerable disapproval of the U.S. deferral policy. U.S. mission officials are concerned that such negative feelings toward the U.S. policy could be counter-productive and damaging to U.S. relations.

#### ACTIONS TAKEN TO COMPENSATE FOR FINANCIAL PROBLEMS PARTIALLY OFFSET GAIN

Organizations have found ways to compensate for their cash flow problems which have been caused or aggravated by the U.S. deferral. Such means, if implemented, could represent additional cost to the United States and other members and thus partially offset the temporary budget reductions attained. Actions planned or taken and associated costs are as follows.

##### Increases to working capital funds

The cost of increasing working capital funds is passed on to the organizations' members in the form of higher assessments. The United States shares in this in proportion to its rate of assessment which, in most cases, is 25 percent.

The United Nations and FAO have already increased their funds. These increases cost the United States \$15 million and \$1.7 million, respectively. If the GATT increased its working capital fund to 10 percent of the budget, it would cost the United States an additional \$0.3 million.

##### Internal and external borrowing

As discussed in chapter 2, if working capital proves to be insufficient to compensate for payment delays, the organizations resort to borrowing from other internal sources and, if necessary, from external sources. But even if working capital levels are not increased, other costs are associated with their draw-down and the internal borrowing from other sources in the form of lost interest income from funds which could have been invested. For example:

--FAO estimated in November 1981 that if members had paid their contributions in good time and

if the current interest rates prevailed, miscellaneous income would have amounted to about \$22 million, compared to \$7.6 million in the approved budget. Had the difference been distributed to the members as a surplus or credit, the U.S. share would have been \$3.6 million.

--WHO officials likewise calculated that prompt U.S. payment of its assessment in 1982 would have reduced member assessments by about \$7.1 million, of which \$1.8 million would have been returned to the United States.

--OECD officials said they may withhold the distribution of surpluses over the next 3 or 4 years to build a reserve or establish a working capital fund. This would cost the United States up to \$2 million in lost credits over a 4-year period.

--ILO officials estimated that late contributions in 1981 cost the organization about \$3.5 million, requiring increased member contributions to cover the deficit. The U.S. share was about \$880,000.

Because of such actions, officials at several organizations emphasized that prompt-paying members are unfairly paying higher than necessary assessments due to late payments by the United States and other members.

#### Organizations considering penalties for late payment

Instituting penalties on late payments is being considered to stem the pattern of later payment of assessments. The International Telecommunication Union and the Universal Postal Union--two relatively smaller organizations both of which were excluded from the U.S. deferral--charge interest on unpaid amounts at the rate of 3 percent a year for the first 6 months and 6 percent each year thereafter. These charges are modest compared to prevailing market rates, but they have apparently encouraged more timely payments because both organizations' collection rates are much better than others in the U.N. system.

Should larger organizations adopt similar penalties, associated costs could be substantial. For example, had a larger organization, such as WHO, charged interest at the same rate for 1982, the United States would have incurred a penalty of \$1.8 million based upon its \$60-million assessment due for 9 months. Based on the same application, the late charge to the United States on its 1982 assessment to the United Nations would have been about \$5.7 million. As noted in chapter 2, however,

officials at the organizations we visited were doubtful that a proposal to institute a late payment charge would be approved by the members.

CONTROLLING BUDGET GROWTH

The United States strongly believes that international organizations should make a sustained effort to hold down budgets. The United States and the major contributors continually press to reduce budget costs and vote no or abstain on budget approval to demonstrate their displeasure.

Several organizations have attempted to reduce real growth to near zero levels, but nominal growth remains high due to inflation. With inflation running above 10 percent in some European countries, organizations tend to factor similar increases into their budgets. The United States believes that organizations can make the necessary adjustments to substantially absorb inflation.

The chart below, compares the U.N. organizations' budget-growth levels and the U.S. voting record. It should be noted that even if the United States and the Geneva Group members vote no on a budget proposal, they may be outvoted by the developing countries whose larger representations traditionally favor program expansion.

U.N. System Budgets and  
U.S. Voting Record

<u>Organization</u>	<u>Budget period</u>	<u>Total percentage increase in budget</u>	<u>Program growth</u>	<u>U.S. position</u>
U.N.	1982-83	14.7	0.0	No
FAO	1982-83	30.4	5.8	No
IAEA	1983	10.5	1.2	Yes
ILO	1982-83	9.5	4.7	Abstained
WHO	1982-83	10.0	2.25	Yes
UNESCO	1981-83	28.0	6.0	No
WMO	1980-83	48.0	1.5	Yes
ICAO	1981-83	31.8	0.3	Yes
IMO	1982-83	20.6	4.7	Yes

Although the United Nations shows no program growth, the budget increased by more than 14 percent. FAO and UNESCO increased their programs and factored substantial growth into their budgets, but it should be noted that the UNESCO budget covers 3 years, the FAO budget 2 years, and the IAEA budget one year.

DEFERRAL IS BELIEVED TO HAVE  
ADVERSE EFFECT ON U.S. RELATIONS

U.S. mission officials were concerned that the deferral policy was having a negative influence on U.S. relations with

other Geneva Group members and thus could be counterproductive to efforts to reduce budget growth. Some concerns which U.S. officials and other Geneva Group member nations expressed follow.

- The United States unilaterally applied the deferral without consulting with the Group, thereby threatening its cohesion.
- Paying late is a violation of U.S. legal obligations to the organizations and members.
- The policy is ineffective in rewarding or punishing those organizations which may be performing well or poorly.
- By regulation, organizations are responsible for carrying out the entire approved budget and not selectively financing portions as the deferral suggests.
- The deferral penalizes members who pay on time by potentially increasing their assessments, while at the same time the United States shares in the benefits of miscellaneous income.

#### Geneva Group not consulted

Some Geneva Group officials were disturbed because the United States had not consulted with other Group members before implementing the deferral policy. The Group's strength lies in its ability to present a combined front on specific issues, and collectively the Group has a better chance of influencing budget decisions and pressing for budgetary constraints. The officials viewed the deferral as a unilateral action instituted to "benefit" the United States. Consequently, they believe the deferral made a "mockery" of consultation with the Group, thereby threatening the Group's cohesion. Such feelings can be politically costly to the United States in terms of gaining Group support on future issues.

#### Failure to comply with financial regulations

The U.S. decision to pay late fails to comply with the organizations' financial regulations which require payment when due. For example U.N. financial rule 5.3 requires full payment of assessed contributions by February of each calendar year. Originally, the United States, introduced quarterly payments to avoid large U.S. Treasury drawdowns and to preclude international organizations from earning interest on U.S. contributions. However, under the deferral, the United States further delayed payment to the last calendar quarter, which deliberately fails to comply with the international organizations' financial regulations as a matter of stated U.S. policy.

Deferral unfairly penalizes  
some members

Later payments by the United States can potentially result in higher costs to all members, including those who pay on time. Members object to the higher costs and the fact that the United States could benefit from any miscellaneous income realized on their prompt payment.

Members also believe the deferral should not have been applied unilaterally but rather should have differentiated between the good financial managers and the poor ones. If the deferral was intended to promote budget austerity, those organizations complying with U.S. objectives should have been excluded.

Although Geneva Group members agree there is a need to promote budget austerity, they do not regard the deferral as an appropriate method to achieve zero growth. The Group has actively pressed for budget control by recommending that organizations

- eliminate low-priority budget items,
- partially absorb inflation and exchange rate fluctuations, if possible,
- clearly define program priorities, and
- strengthen evaluation mechanisms.

In other words, the Group believes that budget austerity should be pursued while planning, developing, and reviewing the budget and program of work rather than by delaying payment. In fact, the organizations' Secretariats believe they have an obligation to their memberships to carry out approved programs and budgets despite temporary cash shortfalls, thus negating the outcome the United States intended.

Finally, one inconsistency in the U.S. pursuit of budget austerity is that the United States continues to promote new initiatives. During discussion of OECD's 1983 budget, for example, the United States introduced several new initiatives in the trade and investment areas. These programs of priority interest to the United States would require increased staff resources. State Department officials advised us that new programs should be advanced but should be followed by a reallocation of resources.

VIEWS OF PROGRAM OFFICIALS

Program officials believe that the U.S. budget reduction of \$400 million under the deferral represents a savings to the

United States, not a postponement of payment obligation as stated in the report, and that this savings substantially offsets any costs associated with the deferral.

In our opinion, the budget reduction can only be considered a savings if the present deferral payment policy continues indefinitely.

Program officials stated that in the past, by paying quarterly, the United States had not complied with the organizations' financial regulations to pay when due. They agree that while the deferral payment pattern continues to be in non-compliance, the main issue is that the United States does not intend to go into arrears--meaning not paying in full during the calendar year.

We recognize that the United States, by paying quarterly failed to comply with the organizations' payment regulations; however, now it will be paying in the last quarter as a matter of stated U.S. policy. Further, the possibility of continuing resolutions at the level of prior year appropriations makes the risk of arrears greater.

## CHAPTER 4

### ALTERNATIVES TO CONSIDER

One purpose of the deferral was to impress upon international organizations the seriousness with which the United States views the growth rates of their budgets. The consensus of officials we met with overseas, however, was that it has not had significant effect on budget restraint. On the other hand, the deferral has aggravated cash flow problems already being experienced and, in some cases, has contributed to somewhat increased costs to the United States and other contributors. We were also told that the deferral has had a negative impact on U.S. influence in the U.N. organizations. Consequently, we are offering alternatives for congressional and executive branch consideration.

#### HAS THE DEFERRAL ACHIEVED ITS OBJECTIVES?

First, the deferral policy did permit the United States to realize a one-time reduction in the U.S. budget of over \$400 million, but only postponed the payment of U.S. obligations to international organizations. Second, the policy should result in more precise U.S. budget estimates because the new payment cycle will enable the State Department's request to be prepared after the organizations' budgets have been adopted.

It is questionable, however, whether much progress has been made toward the third objective of the deferral; that is, to encourage international organizations to restrain the growth of their budgets. Instead of seeking budget reductions, the organizations have taken costly measures to compensate for temporary cash shortages which may ultimately result in higher--not lower--budgets.

Although certain administrative economies may have been achieved within some organizations, their Secretariats believe that they are obligated to all members to carry out the approved programs of work and budget despite temporary cash shortages. These programs and the associated budgets are, for the most part, established on the basis of majority vote. The majority, in most organizations, comprises developing countries, many of which favor program growth and which, because of the relatively small size of their respective contributions, are not overly concerned with the associated costs. This situation may contribute to the limited effect the deferral is said to have on budget growth. It is still too early to predict what effect the deferral may have on consideration of the 1984-85 biennial budgets which will take place in 1983.

#### CONCLUSION

The costs attributable specifically to the deferral cannot readily be isolated. Many organizations were already

experiencing financial problems prior to the deferral, much of this because of a growing trend by members to pay late and the associated inability to plan accordingly for contingencies. Consequently, in some cases, it was difficult to quantify effects directly attributable to the deferral. As noted, however, the deferral did contribute to the problems.

How well each organization has dealt with cash flow problems has depended upon how strong it is financially--the level of internal funds to draw from (such as working capital) to meet current obligations pending receipt of member contributions. Some have increased such funds, and one organization has borrowed externally to meet payroll and other fixed costs. Others are preparing to take similar measures. Sanctions against late payments are also being considered. Such actions have resulted in, and may further result in, additional costs to the United States and other members. The situation could have been worse at some organizations had not currency gains from the strong U.S. dollar cushioned the effects of the deferral.

The most serious cost associated with the deferral, in our opinion, is its detrimental effect to the one major mechanism available to influence restraint in budget growth--the Geneva Group, an organization of developed country contributors, such as the United States, Great Britain, and Germany.

Through concensus and unified effort, the Group can exert influence at the early stages of program formulation and budget preparation. Reaction to the U.S. deferral has, however, been unfavorable. The later U.S. payment may likely result in other members paying more. Additionally, they view the United States as failing to meet its financial obligations. In the past, the United States emphasized payment of arrearages and was the leading proponent of the necessity for members to pay their obligations.

Other Geneva Group members generally share the U.S. concern for budget growth and have been pushing for budget restraint. They do not believe, however, that unilateral application of the deferral is an acceptable method of promoting budget austerity. They believe that a fairer policy should somehow differentiate between those organizations which are considered to be well-managed financially from those which are not. They further believe that budget reductions should be stressed during discussion of the program of work and not when payments are due.

Should the United States not make future payments in the last quarter of the calendar year, as intended, the conditions noted above will be further aggravated. This would not be in keeping with pledges made when the policy was under consideration and would be further detrimental to U.S. influence. Continuing resolutions, in the past, have caused the United States to go into arrears. This becomes a more critical factor in view of the new schedule for U.S. payment.

## ALTERNATIVES TO CONSIDER

The U.S. deferral process will end in 1983 when the United States is scheduled to pay its full assessed contribution in the last quarter of the calendar year. The fiscal year 1984 appropriation request for the organizations subject to the deferral will be about \$100 million more than the 1983 request.

Because the deferral may not have had the desired effect in limiting budget growth and may have been counterproductive in this regard, what are the alternatives? Continuing, as planned, under the deferral remains an alternative in view of the administration's emphasis on domestic budget restraint. Other alternatives range from withdrawal from certain organizations to a complete return to the former quarterly payment schedule. The alternatives, as we view them, and their associated advantages and disadvantages follow.

1. Continue with the payment schedule intended by the deferral, making the full U.S. payment in the last quarter of the calendar year.

### Advantages

- As noted earlier, this provides the advantage of having the organizations' approved budgets available to improve the accuracy of U.S. budget requests.
- The organizations should know, with some degree of certainty, that they will receive full U.S. payment at that time and can plan accordingly.
- Given additional time and as the new payment cycle becomes established, the organizations may adjust better to it. This would seem to be contingent, however, upon early payments by other donors.
- State Department officials pointed out that paying later permits U.S. budget savings by retaining funds longer in the U.S. Treasury.

### Disadvantages

- The organizations will have to operate for three-quarters of their budget year without the U.S. contribution--in most cases, 25 percent of the total assessment. Since a large percentage of their budgets include fixed costs, such as payroll, cash flow problems and additional budget costs may continue.

- The organizations and some other members believe this policy violates membership obligations.
  - Risk of arrears due to continuing resolutions is greater.
  - Probability of continued discord and resentment by other members and associated reduction in the U.S. ability to retain a leadership role. The policy may reduce the incentive of others to pay in a timely manner.
  - The unilateral nature of the deferral affects all organizations in a like manner, regardless of efforts to hold down budget growth.
2. Continue the process but withhold payments to organizations which are not performing satisfactorily.

Advantage

- A means of selectively expressing dissatisfaction with budget performance or other unfavorable policies or actions. Payment can be withheld for up to 2 years without being subject to penalties or sanctions, such as loss of voting rights. Although this would not meet the obligation to make payments when due, it would be based upon specific matters of principal or contention.

Disadvantages

- Could further exacerbate the existing element of discord with the potential of increasing resistance by the organizations and the majority membership to U.S. intervention.
  - Would be unacceptable to other members of the Geneva Group who do not favor withholding contributions as a means of wielding influence.
  - U.S. arrears would probably force costly compensating measures, such as external borrowing, and result in higher member assessments.
3. Continue the process but selectively reverse the deferral policy for those organizations demonstrating financial restraint.

Advantages

- Would provide a positive means to encourage budget restraint.

--Organizations making strides toward budget restraint would not be unduly penalized as under the present policy.

#### Disadvantages

--Criteria would have to be agreed upon as to the circumstances under which organizations would qualify for earlier payments. Otherwise, action might appear arbitrary.

--Additional appropriations would be required to reverse the policy.

4. Withdrawal from organizations which are not performing satisfactorily or when membership is no longer considered essential to U.S. interests.

#### Advantages

--This has a precedent. In 1978, the United States withdrew from ILO because of increased "politicization" of ILO activities. As conditions improved, the United States resumed membership in 1980. ILO officials cited the U.S. absence as a major reason for reduction in real-term budget growth between the 1978-79 and 1982-83 budget periods.

--Although this may be considered an action of last resort, it is procedurally acceptable and would, in a manner of speaking, "lay all the cards on the table." Thus, announcement of intent to withdraw could in itself stimulate a willingness to seriously consider the issues involved.

#### Disadvantages

--In June 1982, the State Department responded to a Senate Foreign Relations Committee request for a report listing those international organizations which serve U.S. national interests in a manner commensurate with the cost of membership and those which no longer mandate U.S. membership. The Department report discussed the purpose, major benefits and consequences of U.S. withdrawal for 75 organizations. While stressing that such review is a continuing process, the analysis concluded that U.S. withdrawal from any of the organizations was not in the best interest of the United States.

--In addition to the State Department, other U.S. Government agencies, as well as private groups and organizations, have vested interests in many international organizations. Obtaining a consensus on withdrawal would be difficult.

5. Reducing the percentage of contribution the United States pays.

Advantages

--This has a precedent. By congressional action in 1972, a new ceiling of 25 percent was established for U.S. contributions to selected international organizations.

--Further reduction--to 20 percent, for example--would result in substantial U.S. budgetary savings.

Disadvantages

--Would be a long-term process.

--Would represent additional financial burden to affected organizations and would draw opposition from other members, especially the major donors, because it could result in increases in their assessments.

--State Department officials said it would be impossible to negotiate.

6. Reversal of the deferral--return to the original payment cycle.

Advantages

--This alternative is favored by U.S. mission and Geneva Group officials at the locations we visited and, of course, by officials of the international organizations visited.

--Return to the previous system, whereby payments are scheduled on a quarterly basis, would ease the organizations' cash flow problems and reduce or eliminate associated costs represented by working capital increases, external borrowing, etc.

--Perhaps of most importance, the former U.S. payment schedule is more acceptable to the organizations and other members.

--Would afford the United States more flexibility in using payments as leverage regarding budget matters.

Disadvantages

- Would, for a time, represent substantial additional budget outlays to the United States. This, however, could be viewed as a reversal of the temporary savings attained by the deferral.
- Would offset the advantage of realignment of the payment cycle to facilitate U.S. budget requests.

Since 1969, we have issued several reports concerning U.S. participation in international organizations (see appendix). Among other things, we have stressed the need for increased emphasis on improving the U.S. budget review of international organizations and an earlier participation in preparing plans and programs. We continue to believe that such improvements are necessary and important in promoting economy and efficiency and in limiting budget growth. As we have noted, we have seen no evidence that the deferral has been an effective means of attaining this goal.

SELECTED GAO REPORTS ON U.S. PARTICIPATION  
IN INTERNATIONAL ORGANIZATIONS

<u>Title</u>	<u>Date</u>
U.S. Participation in the World Health Organization (B-164031)	01/09/69
U.S. Financial Participation in the Food and Agriculture Organization of the United Nations (B-167598)	11/17/69
U.S. Participation in the International Labor Organization Not Effectively Managed (B-168767)	12/22/70
Numerous Improvements Still Needed in Managing U.S. Participation in International Organizations (B-168767)	07/18/74
Actions Recommended to Alleviate Serious Financial Problems Facing United Nations (B-168767)	08/02/74
U.S. Participation in International Organizations (ID-77-36)	06/24/77
U.S. Participation in the World Health Organization Still Needs Improvement (ID-77-15)	05/16/77
Need for U.S. Objectives in the International Labor Organization (ID-77-12)	05/16/77
The United States Should Play a Greater Role in the Food and Agriculture Organization of the United Nations (ID-77-13)	05/16/77
U.S. Participation in International Organizations: An Update (ID-79-26)	08/10/79
Identifying Marginal Activities Could Help Control Growing U.N. Costs (ID-81-61)	09/30/81

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