



## Dialogue on Globalization

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# Financing the United Nations

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## Summary

Financing the United Nations (UN) has been an issue of ever-returning political strife. Current debates on the scale of assessments and a freeze for the general budget are linked to questions of general fairness of cost-sharing, efficiency and managerial reforms at the UN. Such conflicts are likely to stymie the UN unless more ambitious alternatives to burden-sharing are pursued.

## Problems with UN Finances

The UN system with its various bodies and programs currently has a budget of almost US\$ 20 billion per year. While there is still no central data collection mechanism for financial contributions, a general categorization of UN finances can be made as follows: *First*, member states make payments to the UN system either through assessed, mandatory contributions or through voluntary contributions. *Second*, these contributions play a different role in financing the various parts of the UN system: Assessed contributions cover the regular budget for the UN, as well as peacekeeping operations. Voluntary contributions go to the UN funds and programs. Finally, both assessed and voluntary contributions are used to finance specialized agencies.

## Assessed Contributions to the Regular Budget

The UN's current annual regular budget is US\$ 1.8 billion. It covers UN activities, staff and basic infrastructure at the UN headquarters. The regular budget is financed by mandatory contributions of UN member states. Dues are calculated according to a scale of assessment agreed upon every three years. Assessments are based on a country's gross national income, adjusted for its per capita income. As a result, wealthier countries pay more, but there is a cap to the contributions to the UN budget so that no member state pays more than 22 percent. This limit was agreed upon after the United States, which accounts for about 30 percent of the global economy, in 1995 unilaterally decided to limit its contributions. Conversely, for the poorest countries there is a floor rate of 0.001 percent. The regular

budget is always adopted for a two-year period. The process begins one year ahead of time when the Secretary-General proposes activities and a spending plan to the General Assembly's Advisory Committee on Administrative and Budgetary Questions (ACABQ). ACABQ budgetary recommendations are generally accepted as baselines by the General Assembly's Fifth Committee on administrative and budgetary affairs. Since this committee is composed of delegates from all UN member states and operates by consensus, any one state can hold up a decision.

The regular budget, despite its political importance, represents less than ten per cent of all expenditures on the UN system. And while the regular budget has grown only one third over the last decade from about US\$ 1.2 billion in 1996 up to US\$ 1.8 in 2006, the costs for UN peacekeeping, US\$ 1.5 billion in 1996 have more than tripled over the same period.

## Assessed Contributions to Peacekeeping Operations

The budget for UN-peacekeeping operations will reach about US\$ 5 billion in 2006. It has to cover the expenses for 15 UN-peacekeeping missions with some 80,000 personnel. Peacekeeping constitutes a separate part of the UN budget for which member states pay assessed contributions following the scheme for the regular budget, but with important modifications. The least developed countries have a lower floor (0.0001 percent), which is compensated by the permanent members of the Security Council who have to pay a higher share. Consequently, the United States has a higher ceiling (25 percent). Peacekeeping budgets are approved per mission and only as long as these missions have a UN Security Council mandate, all of which complicates the UN's cash flow situation.

## Voluntary Contributions to Programs and Funds

Voluntary Contributions to UN programs and funds were US\$ 8.7 billion in 2003 (the last year for which the UN released data) and are currently estimated to be around US\$ 10 billion. These means support UN

development activities, for instance those of the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF) and the World Food Programme (WFP). Financial resources are provided through voluntary contributions of UN member states. Since contributions have to be confirmed by national parliaments afterwards and because the UN programs have to bear the risk of exchange rate shifts, there is always a discrepancy between the pledged and the received contributions.

### Assessed and Voluntary Contributions for Specialized Agencies

Currently, per year at least US\$ 3.7 billion are raised through both assessed and voluntary contributions to finance UN's specialized agencies. The UN has formalized relationships with 17 specialized agencies. Some of them, for example the International Labour Organization (ILO), predate the UN. Others, such as the World Health Organization (WHO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), and the Food and Agriculture Organization (FAO), had been established to help the UN fulfill its mandate. Specialized agencies are interstate bodies with their own legal and financial status, membership, and staff. The International Monetary Fund and the World Bank, despite formally being specialized agencies, are not summarized under the budget of the UN system, because of their financial volumes and voting modalities. For all other specialized agencies, member states pay their dues following the scale of assessment for the regular UN budget. These contributions amounted to US\$ 2 billion in 2005. In addition, member states also pay voluntary – extrabudgetary - contributions to these agencies earmarked to carry out special projects and activities. Such extrabudgetary means accumulated to US\$ 1.7 billion in 2003 (more recent data are not available).

### The Overall Status of UN Finances

Summing up the abovementioned budgets, the UN system with its various bodies and programs currently amounts to approximately US\$ 20 billion per year. Table 1 illustrates that the major contributors pay much more than their mandatory, assessed contributions. This discrepancy occurs because countries dedicate voluntary contributions to those UN funds and programs that deem them most promising and compatible with their own agenda. By earmarking contributions, countries can increase their leverage and pursue political influence on UN activities.

The UN is furthermore stifled by late payments. A number of UN financial crises were caused by late payments of the organization's largest contributor, the United States. However, that country is by no means alone: For 2006, only 40 member states have paid their dues entirely and on time. As a result of the financial impasse, the Secretary-General often has to cross-borrow money from peacekeeping operations, thereby postponing remuneration for troop providing countries. This has a cascading

effect on the budget for peacekeeping: in 2005 member states' arrears amounted to 62 percent of the assessed budget.

**Table 1: Top Contributing Countries (million US\$)**

Country	Total paid Contributions (2004) <sup>1</sup>	Assessed Regular Budget (2005) <sup>2</sup>	Assessed Peace-keeping Budget (2005) <sup>2</sup>
USA	4227	440	1282
Japan	1853	346	916
UK	1433	109	348
Germany	921	154	408
Netherlands	888	30	80
Italy	694	57	230
Sweden	693	18	47 <sup>3</sup>
Canada	688	50	132
Norway	659	12	32 <sup>3</sup>
France	644	107	342

#### Sources:

- 1) Final List of Top UN Financial Contributors Released for the Peacebuilding Commission's Selection Process. February 2nd, 2006, available at: [www.reformtheun.org/](http://www.reformtheun.org/)
- 2) UN Department of Management, Contributions Service
- 3) Calculations by the authors

#### Issues Ahead

- Spending cap: In December 2005, when member states adopted the budget for the next two years, the United States and European countries imposed a US\$ 950 million spending cap for 2006. The United States has stopped additional payments to the regular budget, unless the UN adopts major managerial reforms until June 2006.
- Scale of assessments: An agreement for the next three years will have to be reached this summer. The United States suggested that future assessments be based on countries' purchasing power parity, which would request higher contributions from rising economies such as India and China.
- Alternative distributions: Japan proposed that permanent members of the Security Council pay at least three percent to the UN budget, which is not yet the case for China and Russia. Other proposals aim at reducing the political influence of the big payers. One suggestion is to introduce a ten percent ceiling rate, which would lower the assessments of the US and Japan, at the expense of other countries. Sharing costs more evenly would reflect better the fact that the UN is an instrument of all nations and prevent it become dependent on any country individually.

#### Further Reading

- Global Policy Forum, [www.globalpolicy.org](http://www.globalpolicy.org)
- Reform the UN, [www.reformtheun.org](http://www.reformtheun.org)
- UN Association of the USA, [www.unausa.org](http://www.unausa.org)
- "Investing in the United Nations: for a stronger Organization worldwide." Report of the Secretary-General, 7 March 2006. A/60/692.