

Liquidity Crisis

I. Introduction

1. Description of the committee

- a. As one of the most important international organizations, the United Nations has been in charge of resolving matters of security, international peace, and most conflicts. The organization is divided into six main organs, one of which is the General Assembly. The UN's internal organs aren't only focused on peacekeeping, but also on aiding humanitarian, sanitary, and environmental crisis, in addition to creating programs promoting cultural preservation and sustainable development. More specifically, the General Assembly is in charge of appointing the Secretary-General of the UN, appointing the non-permanent members to the Security Council, and making recommendations via resolutions. It is also the only UN organ in which all member states have equal representation.

2. Statement of the Issue

a. Introduction to the Topic

- i. As of 2021, the United Nations has a total of 193 active members. Even so, the organization does not count with a fixed budget, and instead, relies on member states paying a certain amount annually to contribute as a condition to retain their membership. The contribution is different for every member and is determined by a "complex formula that factors in gross national income and population." (Shendruk, Hillard, & Roy, 2020). As a result, the budget relied upon by the UN varies yearly.

II. History and Description of the Issue

1. Definitions

a. Key concepts that need to be defined to structure debate

- i. Liquidity crisis
 1. A financial situation that relates to a lack of money.
- ii. Cash buffer
 1. An emergency fund.
- iii. Financial constraints
 1. Any factor that affects the ability of someone or something to pay.
- iv. Fund cuts
 1. Cutting or reducing the distribution of money towards a certain organization or institution.
- v. Difference between deficit and debt
 1. There is a deficit when expenses exceed revenues in a given year.
 - a. Ex: A government wins \$300 from taxes, and spends \$500. In this case, they would have a deficit of \$200
 2. These deficits accumulate over time and form what is called a debt.

- a. Ex: Year 1 accumulates a deficit of \$200, and year 2 accumulates a deficit of \$400. The total debt is \$600.

2. Origins and Causes

a. Brief discussion of the distant history of the situation

- i. As powerful and influential as they are, the United Nations is not exempt from facing economical issues like a liquidity crisis. In April 1996, the organization's lack of funds forced it to cut back its staff members and offer a \$80,000 cash bonus to members who voluntarily left the organization. This resolved the financial issue and allowed the UN to continue operations normally. However, the current pandemic has had multiple repercussions on the global economy, and consequently, on the UN's budget. The difference between now and back then, is that the UN doesn't have the financial cushion that it had in 1996.

b. Recent History

- i. The United Nations has been facing a liquidity crisis for the past few years. In 2018, the organization was faced by a \$448 billion deficit, which forced it to borrow \$135 million from peacekeeping operations. A year later, the deficit increased even more, reaching \$520 billion and forcing another loan from the almost depleted peacekeeping budget. Unfortunately, the situation continued to worsen since the deficit for 2020 was \$600 billion and there was little to no money available for loans in the peacekeeping budget. Furthermore, the strategy utilized in 1996 will not be available for use again due to the peacekeeping's loanable cash funds not being nearly enough for the operation; "In both years, we ended the year with nearly all regular budget liquidity reserves exhausted, thus starting the new year with hardly any liquidity buffer." (Pollard, 2020).
- ii. Luckily, the crisis has been noted and addressed, as Secretary-General Antonio Guterres publicly recognized the issue and proposed measures for 2021; "the liquidity crisis has not abated and severely hampers the Organization's ability to fulfill its obligations to the people we serve." (Deen, 2020). The proposed budget for the 2021 program has a net reduction of 2.8% from 2020's budget; however, this budget reduction also means the cutting of 25 working spots.
- iii. Additionally, due to the global economic crisis of 2020, only 135 member states paid their full quota for the regular annual budget before December, which negatively impacted peacekeeping operations and committees; one of these members is the United States of America. The United Nations Administration and Management Committee has found that the US's quota exceeds the sum of \$5.1 billion. The United States defended itself by stating that throughout the years, it has been the single greatest financial contributor to the UN and that it had given \$2.3 billion in contributions that sole year. Despite this, some countries representatives, like Guyana's, don't approve of the fact that the US is taking advantage of its influence in the

organization and refusing to pay; “It is unacceptable that this Member State clings on to its special privileges, while slowly bankrupting the Organization and the multilateral system” (GA, 2020). On the other hand, the delegate from Japan has expressed his concern about the situation and stated that “the Organization’s program budget has expanded over the years. Member States’ resources, ultimately drawn from their taxpayers, are not unlimited. Resource requirements should be set at realistic levels, while the Secretariat must keep striving to use the approved budget in the efficient, effective, and accountable manner” (GA, 2020).

3. Impact

a. Effects in general terms

- i. In September 2020, the OECD (Organisation for Economic Co-operation and Development) predicted that by the end of 2020 the GDP would decline 4.5% before picking up to 5% by 2021 (OECD, 2020). Therefore having massive unemployment rates, where it is estimated to rise from 5.4% in 2019 to 9.4% in the fourth quarter of 2020. Governments are preparing for a second wave of Covid 19, especially when the cumulative output loss of only Japan and Germany combined, over 2020 to 2021 has been around 9 trillion USD (WEO, 2020).
- ii. All subnational (states and municipalities) governments around the globe are being highly affected economically in short and medium terms. Their finance would be damaged specifically in revenue, expenditure, borrowing needs and debt management. Though, the European Union expects to have a bigger revenue rather than expenditure. Larger municipalities, bigger than 250,000 habitants, will have high negative impact, rather than places with 10,000 habitants or less will have a 41% less impact (OECD, 2020).

b. Heavily affected regions/countries

- i. As the global pandemic took hold banks and governments took measures to support the economy due to the necessary close downs. In Europe there have been several studies per region dictating their economical status. In France, according to the Cazenue report, the net lost revenue was reaching 5 billion dollars, where 2.4% were subnational losses. The municipalities would contribute to the net a 46% followed by departments with a 36% and regions with a 18%. The country was predicted to be more affected in tax revenue having a 70% loss; where the most damaged taxes would be the real estate transactions (DMTO), the tax on business value-added (CVAE), the tax on transport, the value-added tax (VAT, though this will be limited thanks to a guarantee mechanism) and the tax on energy consumption (TICPE). Then in Germany, many subnational governments are seeing a budgetarial deterioration causing the rising of expenditure. Many are reverting their debt financing their budget deficits, increasing their borrowing money. The Federal Ministry of Finance indicated a loss of tax revenue 11%, a

municipalities loss for 15%, local level a 25% (local businesses). According to the Association of German municipalities the municipal income tax will fall 7.4%.

- ii. North America made their own stats where Canada's municipalities have lost 10 billion CAD and 15 billion CAD in the first three quarters 2020 invested in revenue. The Federation of Canadian Municipalities also mentioned that the provincial governments will fall 35 billion CAD transitioning the last months of 2020 to 2021. Meanwhile, in the United States a study made by the Council of State Governments dictated that their state revenue fall is 169 billion USD , 253 billion USD in general fund receipts and 29 billion USD in Medicaid. The most Urban Institute mentioned the most damaged taxes where the personal income taxes declined by 63%, sales taxes dropped 15.8% and corporate income taxes fell 63%. There is an estimated drop of municipal revenue of up to 5.5% (34.2 billion USD) affecting the infrastructure investment the country has.
- iii. Several countries are being affected directly by the liquidity crisis even before the virus. In the United Nations Integrated Transition Assistance in Sudan and in the United Nations Assistance Mission in Afghanistan, the population is recovering socially and economically from the Sudan war and the terrorism they have suffered.
- iv. The United Nations themselves are suffering from a liquidity crisis as the global pandemic rages. The financial crisis is caused by Member States withholding or delaying payments.

III. International Response and Bloc Analysis

1. UN solutions

- a. On July 16 there was the first UN meeting to discuss the liquidity crisis. During this meeting the members came up with ways to diminish the crisis. One of them was the IMF issuance of Special Drawing Rights (SDRs) , which are a set of proposals that each country can follow. The reallocation of the SDRs is when country members with sufficient international financial reserves reallocated their SDRs to the countries in need (developing countries). A new issuance of the SDRs is also an alternative that would require 85% of the voting power of the IMF members. This can happen if the reallocation is not effective and is an issuance of \$1 trillion USD for low income countries, the middle income countries will receive \$330 billion of additional international reserves. Other alternatives include New issuance with reallocation of SDRs, Use SDRs to finance SDG or COVID-19 response related funds, and More expansive uses of SDRs.
- b. Other UN agencies proposed solutions non-including SDR are Asset purchasing programmes to support market access, Improve capital account management tools, Risk sharing instruments to cushion and build resilience to external shocks, Central bank currency swaps, and more. These are proposals that are made for the international community and how they support countries with sustainable debts to

maintain their financial market. These aid the internal trade and the private sectors, which can uphold countries' economies.

2. Relevant NGOs (non-governmental organisations)

- a. There are 12 major international NGOs supporting the 2020. The Action Against Hunger organization is helping countries providing food and medicine hygiene kits. Amref Health Africa is another NGO that is helping build and maintain critical health systems; and is helping African countries have a financial donation in the medical sector. The other NGOs are: Health Communications Resources, ActionAid, Kaarvan Crafts Foundation, Motivation, PHASE Worldwide, Relief International, All We Can, The Brooke, The Freedom Fund, and The HALO Trust.

IV. Annotated links for further research

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11. "Follow-up on the High-Level Event on Financing for Development in the Era of COVID-19 and Beyond." United Nations Discussion Group III: Global Liquidity and Financial Stability, 2020. https://www.un.org/sites/un2.un.org/files/dg3_-_global_liquidity_and_financial_stability_background_document.pdf