

## IS THE UN ANOTHER ENRON?

Would it be a low blow to compare the United Nations to the scandal-ridden US corporation Enron? IO Watch does not believe so. In addition to all the fundamental accountability problems noted above and discussed in the following subsection on Other Major Problems , in the new millennium:

-- increasingly global governance processes involve all major types of social organizations, not just nation-states;

-- the literature indicates that good governance issues for both multinational corporations and international organizations reveal many similarities (see the archive subsections on corporate and on other multilateral organizations' problems under the section on UN Management Accountability Struggles section;

-- and several years ago the executive heads of all the UN system organizations retitled their joint body the much grander and very businesslike "Chief Executives Board", after years of operation under the pedestrian old title of "Administrative Committee on Coordination".

The critical factor, however, is that both profit and non-profit organizations use funds entrusted to them by outsiders, and are, or certainly should be, fully transparent and accountable to them for their performance. The dangers of the basic misperception of organizations "on a pedestal" like the United Nations is very nicely stated in a 2004 public administration article:

*"The halo that appears to float over non-profit institutions - providing them with an aura of altruism - distracts attention from the basic fact that non-profits are, first and foremost, economic institutions ...*

*[An expert observes that to improve non-profits' management one must] view them as economic institutions with ... charitable missions ...*

*Managers of non-profit institutions understand that the organizations' survival depends on the managers' ability to secure a generous constituency. ...*

*The perception that non-profit organizations are small, fragile and non-threatening enterprises ... conceals their actual size, power, and competitive determination. [Their mythology and self-portrayal as solely altruistic] ... misinform the public and allow them ... to ensure a continued flow of salary and benefits for their managers and the preservation of the managers' power and status. ... [People need] ... to realize that ... the rule of caveat emptor applies even more importantly to transactions*

with non-profits than with marketplace transactions. Typically, [in the] ... marketplace, one receives something in return [but, with non-profits] ... individuals conduct transactions ... based entirely on faith. Such transactions are lamentable when one party is talking altruism but seeking self-interest. Who will protect generous - and gullible - donors?"

Barry D. Friedman, "How non-profit organizations fight off competition: Who will protect non-profit donors?", PA Times (USA), **May 2004**, pp. 5-6.

As this archive makes clear, the present-day UN is no longer just the old New York and Geneva "talk shop," although that is still a dominant feature. The UN makes great efforts to appear "small, fragile, and non-threatening" (as discussed in "Poor little UN" under Other Major Problems in the next subsection), but it has in fact expanded into a complex, multi-billion dollar organization whose loose and vague operations worldwide risk grave waste of resources, missed opportunities, and misplaced public and donor trust.

In fact, the UN performance problems already discussed, and the other major problems discussed in the next subsection, seems to have much in common with the massive governance and oversight failures at Enron which emerged in the global media during 2001 and 2002 (and have continued for some other major corporations in almost all parts of the world ever since).

Of course, UN defenders will argue, Enron is a business corporation, and the UN is "not a business." But when one reads the above quote from Friedman, and the following material, the two organizations' accountability situations seem more and more alike, with the exception that Enron's scandal has exploded, while the UN's remains under cover and -- most important of all -- outside the law (so far):

"The breakdown in checks and balances encompassed [*Enron's, the UN's?*] auditors, lawyers, and directors ... it extended to groups monitoring [it] from the outside.

"... the questions extend to the political influence wielded by [*Enron, the UN?*]. But increasingly the focus has turned to the entire framework of legislation, regulation and self-governance in which it operated.

[*Enron's, the UN's?*] failure seems sure to bring not just legislative changes but also sweeping reviews ... of how to assure that investors, employees, and other constituencies can have faith in what [*Enron, the UN?*] tell them. This was a massive failure in the governance system."

Richard W. Stevenson, and Jeff Gerth, "Collapse of Enron exposes 'regulatory black hole'", International Herald Tribune, **January 21, 2002**.

"It's the scariest type of scandal: a total system failure. Executives, lenders, auditors, and regulators all managed to look the other way while the company [*Enron, the UN*] ran amok."

In 1995 an article had profiled the UN's then top manager, Joseph Connor, a veteran accountant who took on the thankless effort to "impose fiscal sanity on an organization [the UN] tottering on the brink of insolvency", thanks to the refusal of member countries, and especially the United States to pay their dues.

"I've never seen anything so precariously balanced at this scale,' he said ... 'There's no capital and no reserves.'

At Price Waterhouse, Mr. Connor handled the books for ... blue chip companies. The United Nations, by contrast, 'is the type of company that we wouldn't have accepted as a client,' he said with a smile.

He called his job a juggling act ...

'In the textbooks it's called a Ponzi scheme: use current cash to pay past bills,' said Mr. Connor, who did not hide his distaste.

... [many member states] show little interest in [cutting outdated] ... projects. And executives at the United Nations lack the sort of management skills taken for granted in private business.

'In my first year at Price Waterhouse, I was reviewed five times,' Mr. Connor said. 'Here that doesn't happen. The United Nations [evaluates] ... every three years, which Mr. Connor described as 'ridiculous.'

[His predecessor in 1992 and 1993, Dick Thornburgh,] remains pessimistic. 'Its an impossible job if the leadership ... is not committed to reform', he said in an interview. 'I think there is an obvious devotion to the status quo at the upper levels of the U.N.' "

Christopher S. Wren, "The U.N.'s master juggler: An accountant copes with deadbeats and bad debt," New York Times, **December 8, 1995**.

Mr. Connor appears to have done a remarkable job in keeping the UN afloat until the United States finally paid its arrears and the financial crisis eased in the late 1990s. As the latter part of the above quotation indicates, however, the real UN problem seems to lie with the entrenched UN management culture and its worldwide programme operations, with its disregard for expenditure control, lack of good financial management at the operating level, weak oversight, and lack of real commitment to reform and management accountability.

In fact, both Enron and the UN have operations scattered all over the globe. Both have very complex "off the books" partnerships with others (in the case of the UN, its dominant "extrabudgetary" programmes). Both have a strong public relations operation but weak financial management, reporting and transparency (see the archive subsections on Non-implementation of the resolution and UN management system reform attempts .) Both have many insiders profiting from insider games (the UN barons and cronies), weak auditors (the UN's OIOS and the JIU), Secretariat legal units which malfunction and ignore problems and

propriety, poor audit committee functioning (the UN has no audit committee at all for the \$6 to \$10 billion it spends each year), and a weak and compliant board of directors (the UN's General Assembly). And both are, not surprisingly, major accountability failures.

There was and is quite appropriate concern that Enron is just the tip of the corporate iceberg, and that the same accountability, management oversight, transparency, and reporting failures and patterns may soon crop up in more and more multinational corporations worldwide (and they certainly occur in governments as well).

Eric Pfanner, "Investor beware: The next Enron may be lurking in Europe or Japan", International Herald Tribune, **January 26-27, 2002**,

Louis Lavelle, "Enron: How governance rules failed", Business Week Europe, **January 21, 2002**, p. 38,

"The twister hits: Nothing about Enron's demise was surprising, nor is what must be done", The Economist, **January 19th, 2002**, pp. 63-65.

Bethany McClean, "Why Enron went bust: Start with arrogance. Add greed, deceit ...", Fortune European edition, **December 24, 2001**, pp. 53-58.

"Why a few Enrons would do Europe good", Business Week Europe, **December 24, 2001**, p. 18.

"Post-Enron lessons", editorial, The Washington Post, **December 5, 2001**.

"Enron board agreed to fateful moves, inquiry shows", International Herald Tribune, **January 22, 2002**.

"Restoring trust in corporate America: Why CEO's must speak up: How institutional investors are pushing reform: Special report", Business Week Europe, **June 24, 2002**, pp. 37-46.

"Mirrors at the funhouse: Accounting at Enron", International Herald Tribune, **December 15, 2001**.

"Enron board agreed to fateful moves, inquiry shows", International Herald Tribune, **January 22, 2002**.

Already, prescriptions to combat these grave failures are available. They could apply equally well to the UN situation:

-- enact self-regulation with teeth (for the UN, Member States should make sure they finally begin to "watch the watchdogs");

-- bar consulting to audit clients (not only the OIOS, but the JIU has become far too cozy with management and playing with more abstract programme and policy issues rather than concentrating on firmly assessing performance against objectives, ensuring "proper use of funds", and uncovering wrongdoing);

-- mandate rotation of (all the "old boy" relationships and archaic practices of the UN external "expert" oversight bodies other than the auditors, who do rotate): the other groups urgently need fresh, and professional, blood);

-- impose more "forensic auditing" (as above, develop a strong fraud deterrence programme, rather than just routine management audits or UN-style *ad hoc* investigations);

-- limit auditors' moves to companies (reduce the cronyism and flow between diplomatic missions in New York and UN external "expert" oversight bodies);

-- clean up the accounting rules (finally get a proper handle on all the complex UN fund flows, programmes, and operations for a transparent picture of events and results).

"Accounting in crisis: Special report", Business Week, European edition, **January 28, 2001**, pp. 38-55, and especially "Reform is urgent. Here's what needs to be done", pp. 49-54,

"Mirrors at the funhouse: Accounting at Enron", International Herald Tribune, **December 15, 2001**,

"Lawyers lining up to dissect collapse", International Herald Tribune, **December 5, 2001**,

"Q&A: If you violate the law, you will pay for it", Business Week, **December 24, 2001**, p. 35, and

Allen Sloan, "The Enron effect: As the accounting scandal spreads.... Will anything really change", Newsweek, **January 28, 2002**.

Actually, in IO Watch's opinion, the still-hidden UN accountability scandals may be worse than those at Enron. For one thing, the UN is misusing obligatory contributions of worldwide taxpayers' money, while Enron's worldwide investors were at least cautioned that investment involves risk, and they had the discretionary freedom to avoid it.

Most importantly, while Enron and the UN both have the same geographic framework (headquarters in the United States plus numerous overseas operations), in the Enron case there is and will continue to be intense governmental and media investigation in the United States. Quite bluntly, "people will go to jail." If the UN continues to be totally free of any such pressure, however, its pampered senior officials will carry on forever with their entrenched immunity and impunity, because the legal issues will never even be raised or serious sanctions considered.

If the UN continues to protect its wayward senior officials from public oversight and legal scrutiny in the new millennium, it only encourages even more destructive behavior and damage to its programmes and reputation. In addition, the UN has a long tradition of blaming Member States for its troubles, as discussed in various subsections of the Other Major Problems section which follows, and particularly for the UN-administered Iraq oil-for-

food programme discussed there. Yet the insights of Shirley Hazzard, offered years ago, still seem to apply whenever the Secretariat gets into trouble:

"Accountability, that source of institutional health, had been excluded from United Nations experience; and, along with it, indivisibly, the stimulus of direct public engagement and response. 'It is not a United Nations Organization', Aleksander Solzhenitsyn was to say, in his Nobel address of 1972, 'but a United Governments Organization.' **In offering itself as the mere creature of its member governments, the United Nations system entered a state of arrested moral development, marked by the habitual emblems of immaturity: demands for approval, and incapacity for individual or collective self-questioning.**"

Shirley Hazzard, "Breaking Faith: I", The New Yorker, September 25, 1989, pp. 63-99, [76].

As a semi-final and somewhat humorous, but not irrelevant note, the ominous implications of one other major and pending UN development should be added, as described in the three following quotes:

Somewhere ... I once read an article listing '25 ways to tell that a company is about to go bankrupt.' Along with the building of a new corporate headquarters, I seem to remember that ... large, expensive, self-congratulatory social functions .... were considered one of the surest signs of impending collapse. If that is so, the United Nation's 50th anniversary celebrations are worth a closer look.

Secretary-General Butros Butros-Ghali said that [despite new challenges] the UN has not been given the resources required.

Unfortunately, [he] was only half right in his analysis of the UN's financial predicament. .... While it is true that the UN is approaching bankruptcy, .... what the UN needs is to stop frittering its resources on programmes and departments that are unnecessary, unimportant, and extravagantly wasteful.

If the 166 world leaders .... gathered in New York this week want to see [the UN] last another 50 years, perhaps they should stop preening for the cameras and ... return to the UN's core business and put an end to 50 years of wasteful diversification."

Anne Applebaum, "What a waste -- and not just the birthday party", The Spectator (UK), October 24, 1995.

"The check is not in the mail but a U.N. official lobbied President Bush for a \$1 billion interest-free loan so the United Nations could renovate its crumbling headquarters that marks the Manhattan skyline. ....

Completed in 1952, the distinctive glass skyscraper has water dripping through its roof, toxic asbestos lining the ceiling tiles, no sprinklers in case of fire and erratic heating and cooling systems. ....

The new plan calls for building a 30-story office tower in a nearby park that would house staff during the renovation and then become a permanent home for U.N. agencies now renting space in other buildings.

An interest-free loan would enable the 191 nations in the world body to finance the project over 25 to 30 years ...."

Evelyn Leopold, " UN lobbies for \$1 billion loan to fix glass tower", Reuters, July 14, 2003.

[Note: the UN physical building is indeed a mess, but it is worth noting that this major project seeks to double the size of UN headquarters as two

skyscrapers, even as the UN complains of its many severe staffing cuts of the past decade.]

"Most of the 3,600 people who work at UN headquarters will be relocating temporarily in 2007 to a new \$330 million, 35-story building to be constructed one block south ... The master plan to gut and refurbish the emptied headquarters complex -- subject to approval of a \$1.2 billion loan proposed in President George W. Bush's 2005 budget -- is to finish in time for staff to return in 2012."

Warren Hogue, "The UN's home is aging, but not gracefully", International Herald Tribune, **April 23, 2004**.

There is also a much more serious new development to cite in this Enron versus the UN comparison. In July 2004, after exhaustive multi-year investigations by a large Federal legal task force in the United States, and after intermediate criminal charges had already been filed against some 30 people, the former top executives of Enron were also arrested and charged with multiple counts of financial fraud, which cost tens of billions of dollars to investors and put thousands of employees out of work.

Floyd Norris, "Bringing down the symbol of Enron: Goal seen as not letting Lay escape", International Herald Tribune, **July 9, 2004**,

Kurt Eichenwald and Christine Hauser, "Former Enron chief is charged: Lay turns himself in and is released on \$500,000 bail", International Herald Tribune, **July 9, 2004**, and

Simon Romero, "Once a hunter, company has become a 'carcass'", International Herald Tribune, **July 9, 2004**.

Meanwhile, major and multiple investigations have now been launched and may run for several years, in the UN-administered Iraq oil-for-food programme, as discussed in the Other Major Problems subsection which follows. The rest of the story, and particularly that of accountability and sanctions, remains to be told in both the Enron and the UN cases.