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PROGRAMME BUDGET FOR THE BIENNIUM 1996-1997

Report of the Secretary-General

1. This report is issued in response to the request of the General Assembly in its resolution 51/220 of 18 December 1996 that the Secretary-General prepare a comprehensive policy paper which would examine all issues related to the question of all additional expenditures referred to in paragraphs 10 and 11 of annex I to Assembly resolution 41/213, including those relating to the maintenance of peace and security, inflation and currency fluctuation.

2. Paragraphs 10 and 11 of annex I to resolution 41/213 read:

> "10. A comprehensive solution to the problem of all additional expenditures, including those deriving from inflation and currency fluctuation, is also necessary. It is desirable to accommodate these expenditures within the overall level of the budget, either as a reserve or as a separate part of the contingency fund set up in paragraph 8 [of the annex]. The Secretary-General should examine all aspects related to the question and report, through the Advisory Committee on Administrative and Budgetary Questions and the Committee for Programme and Coordination, to the General Assembly at its forty-second session.
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> "11. Pending a decision by the General Assembly on the question dealt with in paragraph 10 above, the revised estimates arising from the impact of extraordinary expenses, including those relating to the maintenance of peace and security, as well as fluctuations in rates of exchange and inflation, shall not be covered by the contingency fund and shall continue to be treated in accordance with established procedures and under the relevant provisions of the Financial Regulations and Rules. The Secretary-General should nevertheless make efforts to absorb these expenditures, to the extent possible, through savings from the programme budget, without causing in any way a negative effect on programme delivery and without prejudice to the utilization of the contingency fund."

Additional expenditures relating to the maintenance of peace and security

3. Legislative mandates relating to peace and security which are established after the preparation of the proposed programme budget and which give rise to resource requirements have been subject to additional appropriations outside the scope of the contingency fund, in accordance with resolution 41/213. Such mandates have tended to be of limited duration, valid for one year or less at a time, and have rarely, if ever, extended beyond the end of a biennium.

4. As a result, funds appropriated for such mandates in a given biennium have not been carried over to the next biennium. They were relinquished in the context of the proposed programme budget only to be sought again as additional appropriations in the context of revised estimates or statements of programme budget implications when the mandate was renewed or extended. The following table illustrates this point.

	1990-1991	1992-1993		1994-1995		1996-1997		1998-1999
	Revised appropria-tions	Proposed programme budget	Revised appropria-tions	Proposed programme budget	Revised appropria-tions	Proposed programme budget	Revised appropria-tions	Proposed programme budget
ONUVEN (Nicaragua)	2 413.1	(2 413.1)						
Election verification in Haiti	5 378.0	(5 378.0)						
Afghanistan	13 698.6	(13 698.6)	7 764.3	(7 764.3)	1 854.3	(1 854.3)	5 665.2	(5 665.2)
Central American peace process	70.5	(70.5)	361.5	(361.5)	652.1	(652.1)	629.5	(629.5)
Iran/Iraq			4 368.8	(4 368.8)				
UNOMSA			13 044.9	(13 044.9)	28 215.5	(28 215.5)		
MINUGUA					10 069.0	(10 069.0)	32 880.3	(24 972.2)
MICIVIH					3 987.1	(3 987.1)	9 770.8	(9 770.8)
Burundi					1 094.5	(1 094.5)	1 841.5	(1 841.5)
Burundi, Commission of Inquiry							1 137.4	(1 137.4)
El Salvador							2 154.1	(2 154.1)
Rwanda, Commission of Inquiry							1 186.1	(1 186.1)
Others	934.0	(934.0)	1 604.1	(1 604.1)	4 091.0	(4 091.0)	2 635.7	(2 635.7)
Total	22 494.2	(22 494.2)	27 143.6	(27 143.6)	49 963.5	(49 963.5)	57 900.6	(49 992.5)

5. Given the recurring nature of such requirements over the last few bienniums, albeit not necessarily for the same mandates, the Secretary-General had sought to include in the outline of the programme budget for the biennium 1998-1999 a provision up front that would have obviated the need for seeking additional resources as and when such mandates were renewed or created in the course of that biennium. This proposal was not retained by the General Assembly.

6. The pattern illustrated in the table clearly shows that, biennium after biennium, there is a need for resources for such mandates. Consequently, it is not only desirable but prudent to make provision for such mandates up front. This could be done in two ways. The outline could include such a provision and, subsequently, a one-line provision would be included in the proposed programme budget. That amount would then be appropriated, but its utilization would be subject to individual legislative mandates and approval by the General Assembly as and when it approved or renewed such mandates. Alternatively, the contingency fund could be modified to include two components, one for such mandates and another for those activities currently covered under the contingency fund provision. Of the two alternatives, the first would appear more suitable. It would provide for appropriations at the outset and obviate the need for additional appropriations in connection with the establishment or renewal of mandates.

Additional expenditures deriving from inflation and currency fluctuation

7. The question of additional expenditures deriving from inflation and currency fluctuation and methods of dealing with them has been on the agenda of the General Assembly more than once, and has been the subject of extensive reviews and studies over the years. The problem is complex and there are no easy solutions.

8. The Working Group on Currency Instability composed of 13 Member States, designated by the President of the General Assembly to consider alternative solutions to difficulties resulting from the effect of continuing currency instability and inflation on the budgets of the United Nations system, in its report submitted in September 1974 (A/9773), outlined a number of alternatives. These were reviewed by the General Assembly, which did no more than note that the Working Group had found no generally agreed alternatives to policies already utilized. The subject resurfaced on a number of occasions, but there has been no new development in terms of a solution.

9. The Secretary-General addressed the issue of inflation and currency fluctuation in a report submitted to the General Assembly at its forty-second session (A/42/225 and Add.1), in which he provided an analysis of changes made to the programme budget as a result of changes in rates of inflation and exchange and standard cost adjustments over three bienniums. The report showed that such changes could be as high as $122.7 million, as was the case in the biennium 1982-1983.

10. A number of points were made in the report:

(a) The impact of such adjustments can be such as to make any savings effected in the course of the implementation of the budget totally inadequate to meet them;

(b) Even if it were to be agreed that additional requirements arising from changes in rates of inflation and exchange and standard cost adjustments should be met through reduction of programme activities, the level of savings that might be required (and this could not be known in advance) and the inability of the Organization to effect such savings at short notice would force the adoption, on a continuing basis, of economy measures such as those that were taken at the time in response to the then financial crisis;

(c) The magnitude of adjustments due to changes in rates of inflation and exchange and standard cost adjustments is such as to make it virtually impossible to foresee from the outset the level of expenditures in a biennium.

11. The report went on to suggest that to determine the maximum level of expenditures at the outset would require a provision for potential changes of a size sufficient to meet all eventualities and that, on the basis of experience in the last few bienniums (1980-1981, 1982-1983, 1984-1985), a provision of $125 million would not appear unreasonable. Such a provision would be made by establishing at the beginning of a biennium, at the time of the adoption of the proposed programme budget, a reserve that would form part of the appropriation as a separate section and would be assessed. Any increases during the biennium, including increases that might arise prior to the approval of the proposed programme budget, would be met from the reserve. At the relevant appropriations stage, such additional requirements would be appropriated under the sections of the budget so affected, and the appropriation for the section relating to the reserve would be reduced commensurately. Where such changes would result in reductions, those reductions would likewise be reflected at the appropriation stage in sections so affected, and the appropriation for the section relating to the reserve would be increased accordingly up to the level approved for the reserve. Once the reserve had been replenished, further reductions would be credited to Member States.

12. The effect of such a procedure would be that increases during a biennium would not result in increases in assessments; these would have been provided for in advance. Should the need arise to replenish the reserve at the beginning of a biennium, however, this could result in sizeable increases in the level of assessment.

13. The Advisory Committee in its related report (A/42/7) expressed the view that the question merited further study and indicated its intention to look at the matter closely with a view to formulating specific recommendations to the Assembly at its forty-third session. The Committee expressed the view that, pending those recommendations, and in view of the particularly volatile situation with regard to currencies at that time, the adjustment system then in place should be maintained.

14. In its report to the General Assembly at its forty-third session (A/43/929), the Committee highlighted the difficulties inherent in forecasting currency and inflation. The Committee reviewed the practices of specialized agencies in this respect and went on to outline the variety of methods that were in use. The Committee concluded that there was an unavoidable cost to mitigating the effects of inflation and currency fluctuation. The Committee suggested that, faced with the situation, the General Assembly might wish to consider the continuation of the current system whereby the estimate of requirements is adjusted annually on the basis of the latest forecast by the Secretary-General of inflation and exchange rates.

15. The Committee quoted the Secretary-General's conclusion in his report (A/42/225 and Add.1), to the effect that, in the circumstances, it would appear that the current method of dealing with such adjustments, that is, increasing the appropriations and assessments whenever they give rise to additional expenditure and reducing the appropriations and assessments whenever they give rise to reductions might still be the least inconvenient way of dealing with such changes.

16. On the other hand, the Committee also pointed out that if the General Assembly decided to proceed with seeking a comprehensive solution to the problem, a mechanism to achieve a greater degree of certainty than then existed could be explored. Such a mechanism could be the establishment of a reserve that would cover additional requirements due to currency fluctuation, non-staff cost inflation and statutory cost increases for staff. The General Assembly in its resolution 43/214 agreed to the concept of a reserve to cover additional requirements due to currency inflation, inflation in non-staff costs and statutory cost increases for staff, and requested the Secretary-General to formulate a set of procedures for the operation of the reserve fund.

17. The General Assembly further decided to address, at its forty-fourth session, the question of setting up such a reserve for the biennium 1990-1991. In response to that request, the Secretary-General submitted a report on the establishment and operation of a reserve fund (A/44/665).

18. In that report, the Secretary-General recalled that in his earlier report (A/42/225 and Add.1) he had addressed the practical impossibility of absorbing such additional expenditures, given their potential magnitude and the inability to foresee them with any degree of precision. He went on to state that the purpose of the reserve fund, therefore, would seem to be to minimize, during any given biennium, and to the extent possible, changes in the level of the programme budget resulting from variations in the forecast included in the programme budget in respect of currency fluctuation, inflation in non-staff costs and statutory cost increases for staff or, as stated by the Advisory Committee in its report (A/43/929), to achieve a greater degree of certainty than then existed.

19. Seen in this context, the reserve fund must be established at a level adequate to meet the additional requirements that may arise, namely, those deriving from variations in the forecast included in the programme budget in respect of currency fluctuation, inflation in non-staff costs and statutory cost increases for staff. By definition, however, such requirements can be projected but not accurately determined.

20. The Secretary-General went on to state that if predictability and, hence, greater certainty, which is at the core of the new budget process, were to be assured by the determination at the outset of the level of resources to be available for a given biennium, such a reserve would need to be funded. The establishment of a reserve as a notional amount and the seeking of additional appropriations as and when warranted by variations in the forecast included in the programme budget in respect of currency fluctuation, inflation in non-staff costs and statutory cost increases for staff would be tantamount to the continuation of the present arrangements.

21. The report identified two possible ways to establish and fund a reserve: either as a separate fund outside the programme budget or as a section within the programme budget. In either case it would be funded though assessed contributions.

22. The Advisory Committee in its related report (A/44/729) expressed a number of difficulties with the concept put forward by the Secretary-General. The Committee pointed out that the idea of financing the reserve fund from the outset through assessment, even before the need for recourse to it had been identified, would seem to present Member States with an unnecessary additional burden. The Committee went on to point out that, on the basis of the proposal of the Secretary-General, Member States would not have, early in the budget process, a more precise idea of the final total amount to be paid than was currently the case and, in addition, would have to pay in advance for requirements that might or might not materialize.

23. The Committee recommended that consideration of a reserve fund should be deferred until the forty-sixth session, at which time it should be taken up again on the basis of a further report by the Secretary-General. The Assembly, in its resolution 44/200 B, decided to keep the question of a comprehensive solution to the problem of all additional expenditures, including those deriving from inflation and currency fluctuation, under consideration and to consider it again at its forty-sixth session. The Assembly did not however revert to the question at its forty-sixth session.

24. The establishment of an outline of the programme budget and a contingency fund under General Assembly resolution 41/213 reflected the desire of Member States to know at the outset of a biennium the level of resources that would be required during that biennium. That goal has been partially achieved. The Secretary-General, through the outline, is given a guideline to proceed. The initial level of the budget and the potential addition through the mechanism of the contingency fund are known in advance. Subsequent changes due to inflation and currency fluctuation have given rise to automatic adjustment in the budget. The renewed call to address this issue again may be seen as a desire for greater predictability.

25. Changes in respect of inflation and currency fluctuation over the previous and current bienniums are as follows:

	Currency fluctuation	Inflation and standard cost adjustments	Total
	(Millions of United States dollars)		
1994-1995 biennium			
Proposed programme budget	(22.2)	281.5	259.3
Initial appropriations	(51.0)	(41.6)	(92.6)
Revised appropriations	66.1	(92.5)	(26.4)
Final appropriations	45.7	7.3	53.0
Total	38.6	154.6	193.2
1996-1997 biennium			
Proposed programme budget	20.9	156.0	176.9
Initial appropriations	91.0	(1.1)	89.9
Revised appropriations	(60.1)	5.1	(55.0)
Total	51.8	160.0	211.8

26. What these figures reveal - or rather confirm - is that changes due to currency fluctuation and inflation are significant. Furthermore, currency fluctuations are volatile and unpredictable, and may result in increased requirements or in reductions. These can be substantial but cannot be foreseen in advance.

27. To ensure greater predictability and minimize, during any given biennium and to the extent possible, changes in the level of the programme budget resulting from currency fluctuation, inflation in non-staff costs and statutory cost increases for staff or, as stated by the Advisory Committee in its report (A/43/929), to achieve a greater degree of certainty than now exists, two possible courses of action may be envisaged. The first would be to absorb the costs of increases resulting from inflation and currency fluctuation. In view of the amounts involved, the absorption of such costs would lead to a significant erosion in the real volume of resources available in the programme budget. The issue is compounded by the nature of currency fluctuations. As these cannot be foreseen in advance, and since the Organization is unable to effect savings of a significant magnitude at short notice, it would be necessary to initiate at the outset of a biennium savings measures such as those that have been required to comply with resolution 50/214 in the current biennium. This alternative does not appear desirable.

28. The second possible course would be the establishment of a reserve fund as initially envisaged by the Secretary-General in his report to the General Assembly at its forty-fourth session (A/44/665). The reserve could be funded from assessed contributions and replenished through savings due to variations in

the forecast included in the programme budget in respect of currency fluctuation, inflation in non-staff costs and statutory cost increases for staff or through further assessed contributions, as necessary. At the relevant appropriations stages, the adjustments resulting from such variations in the forecast would be submitted to the General Assembly for approval. The amount approved by the Assembly would be included in the appropriations. When the adjustments represented additional requirements, they would be funded through the reserve. When they represented net reductions, they would be credited to the reserve up to the approved level of the reserve. Any surplus beyond that level would be credited to Member States. At the beginning of each biennium, the reserve would be replenished to its approved level, such replenishment to be effected through assessed contributions if necessary.

29. The disadvantage of such a system is, as has been pointed out by the Advisory Committee, that Member States could be presented with an unnecessary financial burden, having to pay in advance assessments that might prove to be unnecessary.

30. Under the circumstances, the current mechanism for dealing with inflation and currency fluctuation may still be the most appropriate.
