



General Assembly

Distr.
GENERAL

A/43/929
9 December 1988

ORIGINAL: ENGLISH

Forty-third session
Agenda item 49

REVIEW OF THE EFFICIENCY OF THE ADMINISTRATIVE AND FINANCIAL FUNCTIONING OF THE UNITED NATIONS

Proposed programme budget outline for the biennium 1990-1991

Questions relating to the programme budget: use and operation of contingency fund

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on the proposed programme budget outline for the biennium 1990-1991 (A/43/524). The observations and recommendations of the Advisory Committee in the paragraphs below also address, in the context of that outline, the request of the General Assembly in resolution 41/213, annex I, paragraph 10, for a "comprehensive solution to the problem of all additional expenditures, including those deriving from inflation and currency fluctuation". 1/ In paragraphs 32 to 36 below, the Advisory Committee deals with the report of the Secretary-General on the use and operation of the contingency fund (A/43/324).

Proposed programme budget outline for the biennium 1990-1991

2. Introductory material is provided in paragraphs 1 to 6 of the report of the Secretary-General. The Advisory Committee notes from paragraph 6 that "a redeployment is proposed of other non-post resources away from expenditures that were complementary to staff to those that may substitute for staff". The Committee was informed that these non-post resources would be specifically identified in the context of the proposed programme budget for the biennium 1990-1991.

3. Significant programmatic aspects are dealt with by the Secretary-General in paragraphs 7 to 9 of his report. With regard to paragraph 7, the Advisory Committee recalls that the submission date of 15 August was agreed upon to permit the incorporation in the 1990-1991 outline of the programme and funding implications of legislative decisions taken during the spring and summer. The Committee notes that this was not done for the outline in question. Under the circumstances, it believes that prior to final approval of the outline by the General Assembly, account should be taken of changes in programme activities to be undertaken in the 1990-1991 biennium but approved in 1988 (see para. 13 below). It is the view of the Advisory Committee that the Secretary-General, in submitting an outline of the proposed programme budget for the following biennium, should exercise the best possible discretion to anticipate changes in programme activities to be introduced during the year in which the outline is considered, taking into account intergovernmental discussions of the proposals which are likely to modify the existing mandates.

4. The Advisory Committee concurs in the statement in paragraph 7 of the report that "it is understood that charges for unforeseen and extraordinary expenditures would be outside the scope of both the preliminary estimate of resources and of the contingency fund".

5. Significant financial aspects are discussed in paragraphs 10 to 28 of the report. The Advisory Committee notes from paragraphs 10 and 11 of the report that the starting point for the preparation of the proposed programme budget outline for the biennium 1990-1991 was the initial appropriations for the biennium 1988-1989 rather than the revised appropriations for that biennium. The Committee agrees that this is necessary, but also believes that, before the final approval of the outline by the General Assembly, account should be taken of updated forecasts for inflation during the next biennium and of the latest available rates of exchange (see para. 15 below).

6. In paragraph 17 of the report it is stated that "the indicative estimates of recurrent resources for the biennium 1990-1991 at 1988 rates, excluding adjustments for currency fluctuations and inflation, are of \$1,705.5 million, or 9.6 per cent lower than the revalued resource base for the biennium 1988-1989". The Committee notes that the total estimates for the biennium 1990-1991 are \$1,763.7 million at 1988 rates, compared with the initial appropriations of \$1,769.6 million for the biennium 1988-1989.

7. Revaluation of the resource base, which accounts for an increase of \$117 million, is analyzed in paragraphs 18 to 21 of the report. The Advisory Committee notes that this is a net figure, which includes an amount of \$168.5 million for special adjustments. The Committee was informed that this amount represents the additional cost (at 1988 rates) involved in budgeting the original 1988 staffing table with the same vacancy rates (3 per cent for Professional and higher level posts and 0 per cent for General Service posts) used for the proposed reduced 1990-1991 staffing table. The amount of \$168.5 million (at 1988 rates) added to the revalued resource base may be compared with a deduction of \$177.5 million (at 1988 rates) from the preliminary estimate for 1990-1991 for post reductions, as shown in paragraph 17 of the report. The difference is attributable to variations in the level, grade and duty station

composition of the proposed post reductions of 12.8 per cent for Professionals and higher level posts and 14.2 per cent for General Service posts from the "across-the-board" reduction represented by the adjustment in vacancy rates for the programme budget for the biennium 1988-1989.

8. Turnover rates are discussed in paragraphs 19 and 20 of the report. In paragraph 19 a turnover rate averaging 3 per cent for Professional and higher level posts is proposed instead of the traditional 5 per cent for this category of staff. In the opinion of the Advisory Committee, convincing evidence has not been presented to justify such a departure from the traditional rate. Indeed, as shown in the Advisory Committee's report on revised estimates (A/43/651, para. 19), the vacancy rate of 16.6 per cent for Professional and higher level posts as at 31 July 1988 is well ahead of the 15 per cent rate used for the initial appropriations for the biennium 1988-1989 to represent the average vacancy required in order to achieve implementation by 31 December 1989 of recommendation 15 of the Group of High-level Intergovernmental Experts to Review the Efficiency of the Administrative and Financial Functioning of the United Nations. 2/ The Advisory Committee therefore recommends that a 5 per cent vacancy rate for Professional and higher level posts be used with a consequential reduction of \$16,155,000 (at 1988 rates) from the revaluation of the resource base.

9. Resource growth is treated in paragraphs 22 and 23 of the report. As stated, the largest single factor is a reduction in post numbers, with a consequential negative recurrent resource growth of \$177.5 million. A further \$3.5 million in negative resource growth results from the maturing of all United Nations bonds in the biennium 1988-1989.

10. With regard to the negative resource growth for the reduction in posts, this is based on the numbers of proposed posts shown in table 3 of the Secretary-General's report. As indicated in the heading to that table, it includes both recurrent and non-recurrent temporary posts. Therefore, the total of 11,248 shown for 1988-1989 includes 10,975 established posts, 251 recurrent temporary posts, and 22 non-recurrent temporary posts. This compares with a total of 11,422 posts shown in paragraph 16 of the Secretary-General's report on the revised estimates for the biennium 1988-1989 (A/C.5/43/1/Rev.1). The total shown in the tables of annex I to chapter I of that report includes 10,975 established posts under the expenditure sections, 194 posts under income section 3, 251 recurrent temporary posts under the expenditure sections and 2 recurrent temporary posts under income section 3. This total does not include non-recurrent temporary posts, as these were outside the scope of the post reduction exercise. The difference between the reduction of 1,438 posts shown in table 3 of A/43/524 and the target of 1,465 regular budget established and recurrent temporary posts proposed for abolition in A/C.5/43/Rev.1, paragraph 15, is explained by the fact that the reduction of 1,438 shown in table 3 of A/43/524 does not include a total reduction of 30 established posts under income section 3 but does include the reduction of 3 non-recurrent temporary posts under the expenditure sections.

11. In paragraph 17 of its report on the revised estimates (A/43/651), the Advisory Committee has, inter alia, recommended a net addition of 50 established posts to the programme budget for the biennium 1988-1989. The consequential effect

of this recommendation on the preliminary estimate for the biennium 1990-1991 would be to add \$5,308,000 (at 1988 rates, with a vacancy rate of 5 per cent).

12. Non-recurrent requirements are discussed in paragraph 23 of the Secretary-General's report (A/43/524). The Advisory Committee notes the statement that "when detailed programming is undertaken, these activities will be carefully examined to determine whether they would most appropriately be classified as recurrent or non-recurrent. Should any of them appear to be more appropriately classified as recurrent activities, they would be so classified and incorporated within the programme budget proposals by an adjustment to the revalued resource base."

13. In paragraph 7 of the Secretary-General's report, it is indicated that changes in programme activities to be undertaken in the biennium 1990-1991, but approved in 1988, would fall outside the scope of both the contingency fund and of the indicative estimate provided in paragraph 17 of that report. The report goes on to propose that, should such activities be approved by the General Assembly at its present session, they should be considered as additional to the resource estimate provided in the outline. The Advisory Committee concurs in this approach. Of the statements of programme budget implications and revised estimates that have been considered or are awaiting consideration, several include activities that are to be undertaken in or are proposed for the biennium 1990-1991. The Advisory Committee has been informed that the related estimated costs in the biennium 1990-1991, at 1988 rates, are as follows:

<u>A/C.5/43/No.</u>	<u>Title</u>	<u>1990-1991</u> \$US
5	Economic and Social Council revised estimates	35 200
20	United Nations Institute for Disarmament Research	325 800 a/
32	Least developed countries: Mozambique	37 400
39	Verification in all its aspects	151 000
48	Nuclear disarmament	67 000
49	International arms transfers	286 300
1/Rev.1	Revised estimates (Board of Auditors; ORCI)	544 600 b/
24	Integrated Management Information System	<u>12 817 500 c/</u>
	Total	<u>14 264 800</u>

a/ Projection based upon average subvention 1985-1988.

b/ Consideration not yet completed by the Fifth Committee. Amount shown is based on recommendation by the Advisory Committee (A/43/651, paras. 70 and 72)

c/ Consideration not yet completed by the Fifth Committee. Amount shown is based on recommendation by the Advisory Committee (A/43/7/Add.10).

14. Treatment of 1990-1991 currency fluctuations and inflation rates is dealt with in paragraphs 24 to 26 of the Secretary-General's report. As can be seen from those paragraphs, resource requirements have been based on the December 1987 exchange rates and 1988 inflation rates.

15. Bearing in mind what is stated in paragraph 5 above, the Advisory Committee requested information on the amount of the adjustment to the preliminary estimate for the biennium 1990-1991 of \$1,763.7 million if it were recosted to 1989 rates and then recosted to 1990-1991 rates, taking into account the Advisory Committee's recommendation in paragraph 8 above to increase the vacancy rate for Professionals and higher level posts to 5 per cent, the net addition of 50 posts to the budget (see para. 11 above) and the additional requirements referred to in paragraph 13 above. The Advisory Committee was informed that the total adjustment to 1989 rates would be an addition of \$84,921,200. The subsequent adjustment to 1990-1991 rates would require a further addition of \$130,542,500.

16. As shown in the table below, the total preliminary estimate recommended by the Advisory Committee for the biennium 1990-1991 at 1990-1991 rates is \$1,982,523,700.

Thousands of US dollars

1. Secretary-General's preliminary estimate at 1988 rates	1 763 642.2
2. Turn-over rates from 97 per cent to 95 per cent at 1988 rates	(16 155.0)
3. Net addition of 50 posts at 1988 rates	5 308.0
4. Additional requirements at 1988 rates	<u>14 264.8</u>
Sub-total at 1988 rates	<u>1,767,060.0</u>
5. Adjustment due to recosting at 1989 rates	84 921.2
6. Adjustment due to recosting at 1990-1991 rates	130 542.5
Total	<u>1 982 523.7</u>

17. In keeping with General Assembly resolution 41/213, it is also necessary to address the problem of all additional expenditures, including those deriving from inflation and currency fluctuation. As stated in paragraph 10 of annex I to Assembly resolution 41/213, "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 above".

18. The question of how to deal with the effects of inflation and currency fluctuation is one of long standing in the United Nations system and has been

studied extensively over the years. Indeed, in 1973 the Advisory Committee submitted a report to the General Assembly at its twenty-eighth session on the effects of continuing currency instability on the budgets of organizations in the United Nations system. 3/ This report took into account a report on the same subject by the Administrative Committee on Co-ordination (ACC). The report of ACC was annexed to the Advisory Committee's report. In 1974, in connection with the programme budget for the biennium 1974-1975, a report of the Working Group on Currency Instability (A/9773) was submitted to the General Assembly at its twenty-ninth session. From 1975 to 1985 the effect of continuing currency instability on the budgets of the organizations in the United Nations system regularly appeared as an item on the agenda of the Assembly.

19. The difficulties inherent in forecasting, for budgetary purposes, rates of currency exchange and of inflation have been described by the Advisory Committee in its report on Co-ordination to the General Assembly at its thirty-ninth session (A/39/592, paras. 5-17).

20. During its current consideration of this problem the Advisory Committee focused on how to deal with variations from the forecast rates and met extensively with officials of the United Nations Secretariat and of the specialized agencies and the International Atomic Energy Agency (IAEA). A summary of the practices of the specialized agencies and IAEA has been included in this year's report of the Advisory Committee on administrative and budgetary co-ordination between the United Nations, the specialized agencies and IAEA (A/43/760).

21. As can be seen in the report, a variety of methods are used by the agencies to deal with the effects of fluctuations in the rates of exchange and inflation. For example, a number of Swiss-based agencies, such as the Universal Postal Union (UPU), the International Telecommunication Union (ITU), the World Meteorological Organization (WMO) and the World Intellectual Property Organization (WIPO) express their budgets in Swiss francs (A/43/760, paras. 110, 172-173, 186 and 213); the International Maritime Organization (IMO), headquartered in London, expresses its budget in pounds sterling (*ibid.*, para. 193). Since the greatest portion of their expenditure is in the local currency, the attendant uncertainty of expressing their budgets in United States dollars is ameliorated.

22. "Split assessments", or collecting contributions in more than one currency, are utilized by the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations Industrial Development Organization (UNIDO) and IAEA (*ibid.*, paras. 66, 78, 247 and 263), while the International Labour Organisation (ILO) utilizes forward purchase of its currency needs (*ibid.*, paras. 35 (c)-37) and the Advisory Committee has been informed that the Food and Agriculture Organization (FAO) has also recently entered into such contracts for a portion of its currency needs. FAO also utilizes a reserve account, while the World Health Organization (WHO) has what it calls an exchange rate facility (A/43/760, paras. 54-55 and 143-148).

23. The operations of the United Nations are world wide. No way has yet been found to control inflation or currency movements on a global basis or to predict these factors with absolute certainty. The effects of inflation and currency

fluctuation can be minimized but the ways and means to do so are not without their attendant costs. For example, requiring part of the assessments to be paid in currencies other than the United States dollar, while mitigating losses in times of a falling United States dollar, would work the other way in times of a strengthening dollar. Moreover, it can be demonstrated that in times of a falling United States dollar, the total cost to a number of contributors of their final assessments for a particular financial period is lower, in terms of their own currency, than it would be had the dollar remained stable and the United Nations budget had not increased. There are also many practical difficulties associated with mixed currency or "split" assessments including, in the absence of large cash reserves, problems associated with cash flow (not receiving currencies in the right mix for current cash needs).

24. Another example concerns forward purchasing. This technique involves entering into contracts with banks for the delivery at a future date of a specific amount of one currency that will be paid for on the future date with another currency, the exchange rate having been fixed on the day the contract is made (see A/9773, para. 42). It should be pointed out that while "locking in" a fixed rate of exchange will save money in times of a falling dollar, it will lose money in times of a rising dollar. Moreover, the cost of forward purchase consists mainly of the differential between the prevailing interest rates for the currencies involved. Thus, forward purchase of a higher interest currency using a lower interest currency, such as the purchase by ILO of United States dollars with Swiss francs, generates a premium to the buyer. Conversely, the purchase of a lower interest currency using a higher interest currency, as would be the case with the United Nations, would result in a net cost to the purchaser. This cost rises with the degree of certainty required (i.e. how far in the future the contracts are for and the percentage of total foreign exchange requirements involved). The cost would, of course, be lower to the extent that the amount to be purchased would be less than the full requirement and if contracts were entered into closer to expected delivery dates. However, the degree of certainty for the total cost of the exchange requirement would decline proportionately.

25. The establishment of reserve accounts, to the extent they are funded, also has potential costs. For example, savings from currency transactions that are allowed to "sit" in a United Nations reserve account pending possible use in future are therefore not available for return to Member States, which could use them for their own account (including the earning of interest) pending some future further assessment.

26. Thus, there is an unavoidable cost to mitigating the effects of inflation and currency fluctuation. Faced with this situation, the General Assembly may wish to consider a continuation of the present 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. As stated by the Secretary-General in paragraph 41 of his report to the Assembly at its forty-second session on inflation and currency fluctuation and the level of the contingency fund (A/42/225):

"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 expenditures and reducing the appropriations and assessments whenever they give rise to reductions, might still be the least inconvenient way of dealing with such changes."

27. However, if the General Assembly decides to proceed with seeking the comprehensive solution to the problem of all additional expenditures referred to in annex I, paragraph 10, of its resolution 41/213, a mechanism to achieve a greater degree of certainty than now exists could be explored. Such a mechanism could be the establishment of a reserve that would cover additional requirements due to:

- (a) Currency fluctuation;
- (b) Non-staff costs inflation;
- (c) Statutory cost increases for staff.

28. The reserve would have an overall total dollar amount that would be based on a projection of requirements for each of the components listed above. The projected requirements for each component would be expressed in terms of a percentage of the preliminary budget estimate contained in the outline to the proposed programme budget and would constitute a ceiling in each case.

29. The Secretary-General would not have automatic recourse to the reserve. The following safeguards would apply. To the extent the reserve is unfunded, the Secretary-General would seek additional appropriations, when necessary, through performance reports and revised estimates in much the same manner as is currently the case, thus assuring scrutiny and control by the General Assembly of these expenditures. Requests for additional appropriations in respect of each component could, if desired, be limited to the amounts approved for that component. If it were decided to fund all or a part of the reserve in advance, procedures could be established requiring prior concurrence or approval for recourse to the fund; procedures could also be established for replenishment of the fund. The limits for each component could continue to apply.

30. Based on the principles set forth in the paragraphs above, a complete set of procedures for the operation of the reserve and consequent changes to the United Nations Financial Regulations and Rules could be formulated by the Secretary-General and submitted for approval to the General Assembly at its forty-fourth session. At that time, the size of the reserve could also be considered in the context of the proposed programme budget for the biennium 1990-1991 and on the basis of the latest prevailing rates for currency and inflation.

31. In this connection the Advisory Committee emphasizes that no solution will really work until the current financial crisis of the United Nations is finally settled. Accurate forecasting of needs and requirements based upon full implementation of the approved work programme is at the heart of sound programme budgeting. This cannot be accomplished unless and until proper cash flow is

assured through replenishment of existing reserves such as the Working Capital Fund and prompt payment of assessments by Member States.

Contingency fund

32. The size of the contingency fund is discussed in paragraphs 27 and 28 of the Secretary-General's report. A note by the Secretary-General on use and operation of the contingency fund has been submitted to the General Assembly (A/43/324).

33. In connection with procedures for the use and operation of the contingency fund, the Advisory Committee notes that the proposals of the Secretary-General in the annex to his note (A/43/324) follow the guidelines for the contingency fund contained in the annex to General Assembly resolution 42/211. The Advisory Committee therefore concurs in the proposals of the Secretary-General. The Committee also endorses paragraph 4 of the note, which concerns consequential changes to the rules of procedure of "the respective legislative bodies".

34. In paragraph 28 of the report on the proposed programme budget outline for the biennium 1990-1991 (A/43/524), the Secretary-General proposes that "the rate of 0.75 per cent should be adopted for the biennium 1990-1991 on the understanding that the Assembly should continue to keep under review the appropriateness and adequacy of this level". The Advisory Committee has no objection to the foregoing and accordingly recommends a contingency fund of 0.75 per cent of the preliminary estimate at 1990-1991 rates or \$15 million, in round terms, for the budget outline for the biennium 1990-1991. At this stage, no advance appropriation should be made in respect of the contingency fund, but amounts, within its limit, should be appropriated as needed.

35. The Advisory Committee notes that the General Assembly, in paragraph 1 (d) of annex I to resolution 41/213, indicates that the size of the contingency fund shall be expressed as a "percentage of the overall level of resources", while in paragraph 8 of the same annex it is stated that the contingency fund shall be expressed as a "percentage of the overall budget level".

36. The Advisory Committee believes that it would be more consistent with the goal of setting a firm ceiling in the year the outline is considered if the size of the contingency fund did not fluctuate with the difference between the preliminary level of resources indicated in the outline and the level of the approved budget. In the opinion of the Committee the contingency fund should remain at the level set in the budget outline, with the understanding that the amount so approved is a ceiling, which need not be reached but cannot be exceeded. A similar approach could be taken with the reserve discussed above. Otherwise, every time the appropriations change (i.e., through recourse to the contingency or reserve) the size, in money terms, of the contingency fund and the reserve would change and predictability, which is at the core of the new budget process, would be eroded.

Notes

1/ This question was first addressed by the Secretary-General in his report in document A/42/225. In paragraph 118 of its first report on the proposed programme budget for 1938-1989, Official Records of the General Assembly, Forty-second Session, Supplement No. 7 (A/42/7), the Advisory Committee stated that the question merited further study and that it would submit a report to the General Assembly at its forty-third session.

2/ See Official Records of the General Assembly, Forty-first Session, Supplement No. 49 (A/41/49).

3/ Official Records of the General Assembly, Twenty-eighth Session, Supplement No. 8A (A/9008/Add.1-34), document A/9008/Add.16.
