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Study on recosting and options for the Organization in dealing with fluctuations in exchange rates and inflation

Note by the Secretary-General

The Secretary-General has the honour to transmit to the General Assembly the report of the High-level Panel of Experts on the study on recosting and options for the Organization in dealing with fluctuations in exchange rates and inflation. The Panel was established pursuant to paragraph 10 of Assembly resolution 68/246.

Report of the High-level Panel of Experts on the study on recosting and options for the Organization in dealing with fluctuations in exchange rates and inflation

Summary

Over the decades, the work of the United Nations has changed and expanded to meet the needs of Member States. The programmatic activities of the United Nations have evolved to deliver critical diplomatic, humanitarian and technical support around the globe. Member States have asked the United Nations Secretariat to take on more complex and difficult tasks. Increasingly, United Nations personnel are deployed to the field to bring vital services, often in challenging environments. Therefore, officials in the United Nations system have to cope with greater volatility. The present report offers recommendations to help the General Assembly and the Secretariat update the regular budget process to help manage uncertainty over the two-year budget period while meeting the objectives of the Organization.

Through many budget cycles, variances have opened between the initially agreed proposed budget and the final costs. The United Nations has partly dealt with the variances through a special process called "recosting". Addressing such budget variances through recosting takes additional time and effort and has occasioned long and difficult debates. The High-level Panel of Experts believes there is an opportunity to help Member States and the Secretariat improve the forecast of the budget estimates to reduce those variances and to manage remaining uncertainties. Finding a package of solutions could free Member States and the Secretariat to focus on other aspects of the important work of the United Nations. More streamlined processes and greater certainty about actual budget levels over the biennium would enable the Organization to advance its substantive objectives more effectively.

We recommend an integrated and complementary set of proposals. The proposals address both pressures external to the Organization, such as currency exchange rate fluctuations, and challenges internal to the Organization. In addition, we provide an overview of the steps necessary to enable the Secretariat to manage those costs. Our analysis has benefited from learning what has and has not worked in other international organizations. We include examples in the report and provide more information in the annexes.

Some proposals could be implemented immediately; others, such as implementing an effective hedging programme, would take time and have prerequisite actions that require the Secretariat to be able to measure its relevant exposures. The Panel offers its report at a key juncture. The General Assembly may wish to decide on a package of actions in 2014; accordingly the Secretariat could update processes in 2015 in time to shape the 2016-2017 regular budget, which begins on 1 January 2016.

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Annexes

Abbreviations and acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CPI	Consumer price index
EBRD	European Bank for Reconstruction and Development
ESCWA	Economic and Social Commission for Western Asia
FAO	Food and Agriculture Organization of the United Nations
IADB	Inter-American Development Bank
IAEA	International Atomic Energy Agency
ICAO	International Civil Aviation Organization
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IMIS	Integrated Management Information System
IMO	International Maritime Organization
IPSAS	International Public Sector Accounting Standards
ISO	International Organization for Standardization
ITU	International Telecommunication Union
OECD	Organization for Economic Cooperation and Development
SAP	Systems, Applications, Products in Data Processing
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children’s Fund
UNFPA	United Nations Population Fund
UNIDO	United Nations Industrial Development Organization
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNTSO	United Nations Truce Supervision Organization
UNWTO	World Tourism Organization
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Foreword by the Secretary-General

In its resolution 68/246, the General Assembly requested an independent study on recosting and options for dealing with fluctuations in exchange rates and inflation, drawing on, inter alia, the experience of other international organizations, and to report thereon to the Assembly through the Advisory Committee on Administrative and Budgetary Questions at the main part of its sixty-ninth session.

In response to that request, I established a High-level Panel of Experts in April 2014 to conduct the independent study and to report on its findings to the General Assembly. The Panel was composed of six members with extensive backgrounds in finance and budget at the national and international level from diverse regions. To ensure the independent nature of the study, a technical team of consultants was commissioned to support and work under the direct guidance of the Panel. Where requested by the Panel, the United Nations Secretariat provided technical assistance and information, including on the current recosting process and business practices.

The Panel conducted an in-depth analysis and study on managing the effects of currency fluctuations and inflation on the biennial budget and developed options for addressing additional expenditures arising from inflation and currency fluctuations in the context of the programme budget.

The independent report of the High-level Panel of Experts is now before you, presenting their findings and recommendations. I transmit the report to the General Assembly for its consideration. I hope that it will be useful to the Member States and for further discussion and practical resolution to the long-standing issue.

I wish to express my sincere appreciation for the Panel's valuable work and dedicated contribution to the study.

I. Background

1. Given the biennial nature of the budget of the United Nations, the Secretariat frequently revises, or "recosts" budget estimates from period to period within a biennium to adjust for variation in currency exchange rates; actual inflation experience; changes in standard staff costs, including payroll and common staff costs; and vacancy rates previously approved by the General Assembly.

2. In practical terms, recosting has resulted in upward adjustments of the proposed programme budget during the biennium, with the exception of 2000-2001, when recosting reduced the budget owing to the relatively strong state of the dollar in the United States of America.[1] Since budget year 2004-2005, the total realized final appropriations submitted to Member States have been higher than initial appropriation estimates owing in part to recosting (see table 1). On average, recosting over the first and second performance reports after the initial appropriations numbers are released to Member States has resulted in revisions of

[1] Recosting is not the only component of variance in initial appropriations. In some bienniums, new mandates and add-ons account for large portions of the variance in estimates. The present study focuses only on the effects of recosting.

71.5 million dollars per biennium.[2] Consequently, some Member States have become aggrieved by the upward revisions of required appropriations.

Table 1
Initial versus final appropriations

Budget years	*Final appropriation including recosting (millions of USD)*	*Recosting effect (millions of USD)*	*Recosting effect (percentage of final appropriations)*
2004-2005	3 655.8	409.6	11
2006-2007	4 193.8	208.9	5
2008-2009	4 800.0	342.0	7
2010-2011	5 416.4	190.3	4
2012-2013[a]	5 565.1	302.2	5
Total	**23 631.1**	**1 453.0**	**6**
Average of last 5 bienniums	4 726.2	290.6	6

[a] For the 2012-2013 budget a different approach was applied: the four biennial recosting moments were deferred at stages, and at the end non-conventional methods of funding the recosting increases were used.

3. Based on the existing recosting methodology, the Secretariat has identified fluctuations in currency and inflation rates as the main drivers of the recosting effect. The impact of currency fluctuations and inflation on the biennial programme budget of the United Nations has been of interest since the 1970s. The first working group of 13 Member States was set up in December 1973 to outline possible solutions to the problem, with an outcome that did not yield general alternatives beyond the current policies. Since then, a considerable body of work has been carried out by the Secretariat, legislative bodies, auditors and the Member States, resulting in the current methodology in which the Secretariat recosts the programme budget four times in the biennium. Annex I illustrates the impact of the four recosting parameters — in particular currency exchange rates and inflation — across the four phases on the programme budget over recent bienniums.

4. In order to address the issues with recosting and fluctuations in currency and inflation, in its resolution 68/246 the General Assembly requested the Secretary-General to commission an independent study on the recosting of the biennial programme budget and on options for dealing with fluctuations in exchange rates and inflation, and report thereon to the Assembly at its sixty-ninth session.

5. The Secretary-General has nominated a High-level Panel of Experts composed of six members with extensive backgrounds in the areas of international finance and budget. The Panel is supported by an independent technical team that has provided in-depth analysis and advice under the guidance of the Panel. A summary of the background and experience of the Panel can be found in annex II.

6. Please note that the views and opinions expressed in the present study are those of the High-level Panel of Experts and technical team and do not necessarily

[2] First and second performance reports only show revisions after the initial appropriation. The total recosting effect over the entire budget process is illustrated in table 1.

reflect the official policy or position of any agency, organization, institution and/or country represented by members of the Panel and/or technical team. Examples of analysis performed within the present study are only examples. They should not be utilized outside the scope of the study as they are based only on very limited and specific analysis performed in accordance with the terms of reference of the study. Assumptions made within the study and supporting analyses are not reflective of the position of any agency, organization, institution and/or country represented on behalf of the Panel and/or technical team.

II. Scope

7. Per the terms of reference, the study has focused on the regular United Nations programme budget, excluding the peacekeeping budget, and has produced options for addressing additional expenditures arising from inflation and currency exchange rate fluctuations. In addition, in the context of the programme budget, the present study has performed an assessment of options that have been presented in the past, for example split assessment, the purchase of forward currency contracts and the establishment of a reserve account or fund. Note that the study has not determined an acceptable level for the overall budget, for example real zero growth, nominal zero growth and so on. In addition, the study did not determine acceptable programmatic funding levels, salary levels or vacancy management.

III. Methodology

8. The findings and recommendations summarized herein are based on analysis of existing budget processes and material, data provided by the Secretariat, interviews with key stakeholders within the Secretariat, review of processes in other international organizations and independent research. The High-level Panel of Experts met in person and via conference calls. The Panel's judgements were informed by the analyses of the technical team.

9. The technical team leveraged the 2010-2011 budget as a sample base for its analysis and frequently interacted with the Programme Planning and Budget Division for additional information regarding current processes in the United Nations. Meetings with the Division were held in-person five times during April and May 2014, and included one meeting with the Treasury. Additionally, the technical team conducted teleconferences with the Accounts division, the Cost-of-Living Division of ICSC, and the Human Resources Policy Service of the Office of Human Resources Management. Those discussions enabled the technical team to develop the budget framework and analyse the roles and responsibilities and the organizational and technological infrastructure within the United Nations.

10. Based on data provided by the Programme Planning and Budget Division, the technical team developed the recosting methodology through a calculation example using posts in the Professional category for 2010-2011 as sample data for the "Executive direction and management" account of the "Economic and social development in Latin America and Caribbean" expenditure section in Santiago. In addition, the technical team developed a currency recosting example using the non-post "Utilities" account for the United Nations Office at Geneva, and an

inflation example using the non-post “Alterations and improvements” account for ESCWA in Lebanon (see annex VI).

11. With respect to post adjustment multipliers and cost-of-living adjustments, the technical team closely examined the methodologies of both adjustment factors based on the existing ICSC and Office of Human Resources Management frameworks, respectively.[3] The technical team also performed a sensitivity analysis on the simplified post adjustment multiplier projections developed by ICSC for budgetary purposes using the operational currency exchange rates and inflation rates for New York, Vienna and Santiago. Although that analysis was performed on sample multipliers, it enabled the technical team to gain an overall understanding of the multiplier’s relationship to market rates and other parameters.

12. The Panel requested new information from other international organizations; the questionnaires are presented in annex VII. The technical team reviewed existing budget and recosting practices across 18 United Nations system and international organizations in order to benchmark the current process used by the United Nations. The analysis is based on responses received in 2009 on recosting, currency and inflation management surveys and subsequent updates to those answers received by 17 June 2014 (see annex IX). In order to facilitate a more relevant comparison, the technical team developed additional questions on budget cycles, infrastructure, currency exchange rate and transfers and inflation (see annex VIII). The answers to those questions and previous studies performed on hedging and forward currencies and other risk management solutions have helped form the overall assessment of the processes of the United Nations.

IV. Description of the current state

13. The present section provides an overview of the current budget assumptions and processes, calculation parameters and assumptions and infrastructure that affect the biennial budget cycle of the United Nations.

A. Budget assumptions

14. The Secretariat develops the regular United Nations budget in United States dollars for 36 expenditure sections that represent the core programmatic activities (see annex III). Each expenditure section is composed of various local accounts that carry out day-to-day operations. For budget reporting purposes, the local accounts are categorized by post and non-post objects of expenditure and are aggregated to 15 cost stations, using 13 distinct currencies (see annex IV).

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[3] For post adjustment multipliers, please refer to the post adjustment booklet available from http://ICSC.un.org. For cost-of-living adjustments, please refer to the following sources: http://www.un.org/Depts/OHRM/salaries_allowances/salaries/icsc2012.pdf and http://www.un.org/Depts/OHRM/salaries_allowances/salaries/manual2013-02-20.pdf.

B. Budget process

15. The United Nations initiates the budget cycle during a preliminary budgetary process that begins two years before the implementation of a budget: preparation of the outline for the 2010-2011 budget began in January 2008. During that initial process, the Advisory Committee on Administrative and Budgetary Questions reviews the proposed budget outline and makes recommendations that can be endorsed by the General Assembly. The Committee for Programme and Coordination reviews any programmatic changes arising from the new and/or revised mandates after the adoption of the framework. Thereafter, the Fifth Committee reviews the proposed budget and Advisory Committee recommendations and considers potential adjustments. The Programme Planning and Budget Division recosts the budget over four sequential phases:

(a) Proposed programme budget phase;

(b) Revised estimates phase;

(c) First performance report;

(d) Second performance report.

16. A detailed example of the budget cycle, illustrated with the 2010-2011 budget, is provided in annex V.

17. During the biennium, local accounts periodically upload local currency payroll data and other actual expenditures through IMIS, which converts all estimates to United States dollars. The United Nations Budget Information System aggregates each account to 1 of the 15 cost stations using the functional currency assigned for each of the cost stations, as noted in annex III. The Programme Planning and Budget Division consolidates and recosts the estimates over a biennium across four operational parameters:

(a) Currency exchange rates;

(b) Inflation;

(c) Standard costs (payroll and common staff costs);

(d) Vacancy rates.

18. Base estimates for non-post items are only recosted for currency and inflation rates, while net salaries and common staff costs for post items are recosted across all four operational parameters. The recosting effect represents the difference in total estimates between each phase of the budget. Therefore, revisions in subsequent phases are based on earlier estimates and assumptions. Detailed recosting calculation examples of non-post items have been provided in annex VI.

19. During the proposed programme budget phase, such as the one performed in February 2009 for the 2010-2011 budget, the Programme Planning and Budget Division uses the approved currency and inflation rates from the first performance report of the previous budget as a base for projections for the new biennium: in the context of the 2010-2011 budget, that would be the first performance report of the 2008-2009 budget, submitted in October 2008. However, standard costs and vacancy rates are generally not updated during that phase.

20. The Secretariat revises and updates estimates from the proposed programme budget phase during the year before the biennial budget, and the Fifth Committee reviews the initial appropriation estimate to be released to Member States at the end of the year. During the first and second performance reports, the Programme Planning and Budget Division monitors the budget implementation and the Fifth Committee considers the revised and final appropriations. When they are approved, Member States are expected to provide annual contributions in United States dollars within 30 days of receipt of the initial, revised and final appropriation requirements (see table 2).

Table 2

Recosting process (illustrated with the 2010-2011 sample budget)

Parameters	Oct-2008 First performance report for 2008-2009 budget	Feb-2009 Proposed programme budget 2010-2011	Dec-2009 Revised estimates for proposed budget 2010-2011	A	Oct-2010 First performance report for 2010-2011	B	Oct-2011 Second performance report for 2010-2011	C
1: Currency exchange rate		• 2009 rates as approved in the first performance report for 2008-2009	• Lower of average 2009 monthly rates or Dec. 2009 spot rate		• Actuals up to Oct. 2010; Nov.-Dec. estimates use Oct. 2010 rates • 2011 at lower of 10-month average or Oct. 2010 spot rate		• Actuals up to Oct. 2011; Oct. 2011 spot rate for remainder of year	
2: Inflation		• Projections developed for Professional, General Service and non-posts for 2010/11	• Updated post adjustment multipliers, cost of living adjustments and CPI		• Actuals for 2010 • projections for 2011 based on updated post adjustment multipliers, cost of living adjustments and CPI		• Actuals for 2010 and 2011	
3A: Salary adjustments		• 2010/11 adjustments as approved in the first performance report for 2008-2009 OR as proposed by the Secretary-General	• Per proposed programme budget 2010-2011 OR as proposed by the Secretary-General		• Payroll adjustments based on actuals for Jan.-Sep. 2010, by category and level, per duty station		• Actuals become part of overall expenditure	
3B: Common staff costs adjustments					• Projected as a rate of net salaries per duty station • Rate is the higher of the average of the last 33 months and the realized rate over the last 9 months			
4: Vacancy rates		• Adjustments as approved in the first performance report for 2008-2009 OR as proposed by the Secretary-General	• Per proposed programme budget 2010-2011 OR as proposed by the Secretary-General		• As approved in initial appropriation OR as proposed by the Secretary-General		• Actuals become part of overall expenditure	

A Initial appropriation B Revised appropriation C Final appropriation

C. Currency and inflation rates

21. On the basis of the existing recosting process, the Secretariat has identified that changes in currency exchange rates and inflation have largely driven the recosting effect over recent bienniums.

22. The operational currency exchange rate that the Programme Planning and Budget Division selects for budgeting purposes is based on a methodology that has been recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly. The Board of Auditors has also found the methodology acceptable. The rate is based on the lower of the spot rate and the average monthly spot rates[4] and therefore allows for the development of the lowest budget estimate.[5] For inflation rate projections, the Programme Planning and Budget Division selects a forward-looking CPI by country and by year developed by the Economist Intelligence Unit.

23. For posts in the Professional category, the Programme Planning and Budget Division submits the operational currency exchange rate and inflation rate to ICSC, which subsequently develops a post adjustment multiplier for budgetary purposes. The Division applies the multiplier to its estimates and derives a currency exchange rate effect based on the overall change in estimate due to the multiplier, and the change in operational currency exchange rates. The remainder, i.e. the portion of the net change that is not attributed to the currency exchange rate, is attributed to inflation. Similarly, for posts in the General Service category, the Division forecasts cost-of-living adjustments with the consumer price indices from the Economist Intelligence Unit. The Division replaces forecasts based on those indices with actual changes in costs of living based on data provided by the Office of Human Resources Management. As with post adjustment multipliers, the Division derives a currency and inflation effect for General Service staff based on the net change in estimate due to the cost-of-living adjustment. Non-post adjustments are generally made directly to base estimates using the operational currency and inflation rates.

D. Post adjustment and cost-of-living adjustment

24. Post adjustment is an amount paid in addition to net base salary. The adjustment is based on a post adjustment multiplier which is derived from a post adjustment index. ICSC develops those metrics using a methodology and policy approved by the General Assembly. The adjustment factors are designed to maintain earnings parity of worldwide Professional staff with those working at Headquarters in New York. Note that, as the Assembly has approved the mandate of ICSC, the Secretariat does not have influence over the post adjustment calculation methodology and uses the multipliers provided at their stated values.

25. In order to measure the total cost of living at a particular duty station, ICSC periodically compares cost-of-living data between New York and other locations. In particular, ICSC tracks prices in a basket of goods and services at a particular duty station, or "in-area" costs, local housing prices, medical insurance premiums,

[4] As suggested by the Advisory Committee on Administrative and Budgetary Questions.

[5] Note that the rate is based on the lower rate using the United States dollar as the operational rate. When viewed from the foreign currency perspective, it results in the higher rate: the *weaker* rate relative to the United States dollar.

pension contributions and remittances to an employee's home country "out-of-area" costs.

26. The data are collected through place-to-place surveys that are conducted once every four years, although the duration is usually longer for headquarters duty stations. ICSC collects the prices of more than 300 specified goods and services, housing and domestics costs of staff members and household expenditure costs of staff members. Based on those data, ICSC determines weightings for each product and subsequently builds sub-group indices (e.g. food and footwear) which are then aggregated to group indices (e.g. food and alcoholic beverages and clothing and footwear). ICSC combines the group indices with the housing index to establish the in-area cost-of-living index between New York and the local duty station. Subsequently, ICSC combines the in-area index, including housing, with the out-of-area index, pension contributions and medical insurance costs to develop a total post adjustment index for a given duty station. Finally, ICSC derives a post adjustment multiplier from the calculated index value.

27. In order to review and monitor post adjustment classifications, ICSC categorizes duty stations into Group I duty stations, or "hard currency" stations, and Group II duty stations, or "soft currencies" stations, and performs periodic reviews at intervals. During interim periods between place-to-place surveys, ICSC adjusts the in-area component in most duty stations using local consumer price indices, published by national statistical offices but reweighted, to the extent possible, to reflect the expenditure patterns of United Nations staff. In countries in which local consumer price indices are not readily available, ICSC conducts annual place-to-place surveys. It is important to note that although the post adjustment multiplier is derived from the post adjustment index, the multiplier will not necessarily reflect exact movements in the underlying index. ICSC has developed a set of operational rules for Group I and II duty stations to prevent sharp fluctuations in the multiplier from period to period.

28. For budgeting purposes, ICSC uses a simplified post adjustment index and typically holds medical insurance, pension contributions and out-of-area factors constant. As the multiplier used for budgeting purposes is forward-looking and based on prospective rates, ICSC only makes adjustments to the in-area and housing components based on operational currency and inflation rates provided by the Programme Planning and Budget Division. Nevertheless, in the derivation of the multiplier, ICSC follows the same operational rules for Group I and II duty stations used with the regular post adjustment multipliers. As expenses are incurred, the Programme Planning and Budget Division replaces the forecasted multipliers with the regular multipliers used to determine actual payroll experiences.

29. For General Service staff, the Programme Planning and Budget Division does not apply a distinct multiplier to salary estimates. Rather, the Division forecasts adjustments using consumer price indices from the Economist Intelligence Unit, and directly changes estimates based on comparator public and private organization salary data provided by the Office of Human Resources Management. The Division calls those changes cost-of-living adjustments. The General Assembly has established and maintained that conditions of service for locally recruited staff should reflect the best and prevailing conditions found locally for similar work. Therefore, it has authorized and approved the Office to link salaries for locally recruited staff to those of "dynamic, progressive employers" in a given locality,

which may limit the ability of the Secretariat to influence the assumptions and mechanics used to develop these adjustments.

30. The Office of Human Resources Management determines salary adjustments through comprehensive salary surveys performed every five years and periodic interim adjustments using either mini-surveys or indexation. The determination of the applicable procedure is made on the basis of local conditions. The decision on the appropriate manner to adjust salaries is generally taken at the time of the comprehensive surveys.

31. With respect to mini-surveys, a local salary survey committee collects updated information on basic salaries on the same set of cash benefits and cash allowances used in the comprehensive survey. The mini-surveys are designed to closely parallel the comprehensive survey and have the advantages of fuller coverage and more precise results. The methodology is consistent with that of the comprehensive survey: no new benefits are introduced in the mini-surveys and any significant changes in comparator employer practice since the comprehensive survey is fully documented and reported to the responsible agency to facilitate the data analysis.

32. If the majority of employers in the comprehensive survey adjust wages by means of an index, the Office of Human Resources Management will generally use the indexation procedure to adjust wages in interim periods. An adequate index used to adjust wages should have the following characteristics:

(a) It should be a reputable index, published on a regular (monthly or quarterly) basis without lengthy delays;

(b) It should normally relate to the same geographical area covered by the salary survey;

(c) When related to specific economic sectors, it should largely correspond to those covered in the salary survey.

33. Whenever an index, for example a wage index, CPI or labour market index, is used, it should be reduced by a factor that would be most appropriate to local conditions, provided that the adjustment would not exceed 90 per cent. The indices selected are those that have most closely mapped United Nations salary movements in the past, and can therefore be considered a proxy to conducting an actual survey with comparator employers. Additionally, headquarters duty stations, the Office of Human Resources Management uses a set of operational rules to determine when to apply salary adjustments: adjustments are generally made at the earlier of a 5 per cent movement in the reference index or the passing of every 12 months. Note that those interim adjustments are not designed to maintain purchasing power of salaries, or their values in terms of convertible currency; rather, the procedure is intended to ensure that United Nations salary scales are adjusted with the same frequency as that of the majority of comparator employers.

34. In summary, the application of post adjustment multipliers and cost-of-living adjustments for budgeting purposes determines the changes in levels of cost and requirements in local offices.

E. Organization, roles and responsibilities

35. The United Nations organizational hierarchy for budgeting purposes is complex and multi-tiered. Depending on the types of local offices, larger regional offices or commissions generally consolidate expenditure and payroll reports of smaller offices, often over various layers, and submit aggregated reports to the Secretariat in New York. Generally, local offices submit requests for operational cash on a monthly basis to the Accounts Division in New York, which facilitates operational cash transfers. The requests received by the Accounts Division are aggregated totals and are not broken down by individual line-item expenditures. The Accounts Division maintains cash funds for all United Nations budgets, including regular, ex-regular and peacekeeping, as a single pool, although it does maintain separate currency pools for United States dollars, Swiss francs and euros. If local offices must make payments in non-United States dollar currencies in excess of $100,000, they send a request directly to the Treasury in New York, which facilitates the cash transfer. Payments in non-United States dollar currencies valued under $100,000 are usually handled by local banks. Local offices away from headquarters duty stations also have delegated authority to approve and execute technical cooperation funds received from voluntary contributors. Local offices report those funds to the Secretariat in New York through semi-annual financial statements.

F. Technology

36. IMIS is the major reporting system in which local offices submit updates of payroll and expenditures to the relevant regional offices or commissions. As larger offices consolidate the reports, they submit aggregated data to the Secretariat in New York. There are currently eight different instances of IMIS in the United Nations organizational hierarchy and each has different reporting times. Subsequently, the Programme Planning and Budget Division develops and recosts the budget via the United Nations Budget Information System, a budget creation system created in the early 2000s.

37. The United Nations is currently transitioning away from those systems to Umoja, a centralized SAP-based enterprise resource planning system that includes software designed to facilitate and streamline information between all operational units within the Secretariat. Currently, the United Nations has rolled out Umoja for the peacekeeping budget and, based on preliminary use and first experiences, it appears that the system is able to provide real-time downstream visibility into line-item expenditures in local offices. However, budget reports currently available in the deployed modules are presented only in United States dollars. In addition, according to the current implementation schedule, Umoja is not expected to be ready for regular budget use before the formulation of the 2018-2019 budget.

V. Assessment of the current state

38. The United Nations faces procedural and infrastructural constraints in the preparation, reporting and management of its budget that have important implications for recosting. The use of simplified methodologies for capturing currency and inflation effects has hampered the Secretariat's ability to effectively

forecast initial budget estimates. Coupled with the limited internal visibility of the currency composition of spending and lags in reporting, the Secretariat is unable to measure its major external and internal risks.

39. External risks are driven by market forces that are out of the control of any single agency or institution, such as the volatility in currency rates and inflation. The present study defines internal risks as risks that are unique to the United Nations and can be influenced by the actions of the General Assembly, the Secretariat or other United Nations agencies. In other words, the risks are driven not by external market forces but are the result of policies that require approval from the Assembly or action within the United Nations. As the Assembly approves mandates to individual agencies and departments, the Secretariat cannot currently manage all drivers of costs prior to the Assembly amending existing policies and other agencies implementing policy changes within the United Nations system.

A. Currency and inflation assumptions

40. Currency and inflation assumptions used in line with the current recosting methodology simplify and do not necessarily match actual inflows and outflows experienced in local accounts. Given the iterative nature of the budget process, the impact of the simplifications is reflected across budget cycles. With respect to currency exchange rates, the Secretariat recosts the budget for 13 functional currencies that do not represent the actual currency exposure of the United Nations.[6] For instance, although the Secretariat assumes that all payments in the Nairobi cost station are made in the Kenyan shilling, the majority of expenditures in local accounts at that cost station are made in United States dollars. Analysed retrospectively, the operational currencies reported in the budget do not match. The actual currency mix of the United Nations consists of, on average, disbursements made in 70 currencies across 850 local accounts.[7] The actual currency exposure of the United Nations is largely concentrated in United States dollars, Swiss francs and the euro.[8]

41. The operational currency exchange rate, based on the lower of the spot and average monthly rates in a year, exposes budget projections to volatility in spot rates and increases the risk of upward revisions against a weakening United States dollar. Furthermore, the lowest budget estimate does not necessarily represent an accurate estimate as upward revisions reflect the actual cash requirements of the United Nations. The inability to accurately measure the budget's actual currency risk exposure hinders the Secretariat's ability to improve its budget forecasts. From a risk management perspective, those operational rates constrain the Treasury's ability to enter into effective hedges, as the rates are neither reflective of current forward market rates nor does the currency mix of the budget reflect the actual risk exposure of the United Nations.

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[6] Post adjustment multipliers and cost-of-living adjustments indirectly account for fluctuations in the currency mix of the budget. Although staff members can elect to take remuneration in currencies of their choosing, the currency rate used is equal to the United Nations operational rate, not the market rate.

[7] The exact number of accounts and currencies used is variable and changes slightly in each biennium.

[8] As determined retroactively by the study on forward contract purchasing performed by two global banks in 2011 (A/66/578).

42. The inflation effect, calculated as the remainder between movements in post adjustment multipliers or cost-of-living adjustments and currency exchange rates, is not representative of actual fluctuations in local prices. That is because post adjustment multipliers and cost-of-living adjustments are not designed to track core inflation; rather, they indirectly track various external and internal parameters as they seek to maintain purchasing parity with New York and reflect local wages, respectively. Therefore, while the magnitude of the overall recosted budget at the final appropriation reflects actual institutional expenses and cash requirements, the Secretariat is unable to forecast more accurately, as it applies a simplified methodology in forecasting.

43. The General Assembly has authorized the post adjustment methodology of ICSC in order to maintain purchasing parity with New York for all Professional staff regardless of location. As a result, the methodology of ICSC is not designed to track inflation as measured by CPI in a particular duty station; rather, it tracks a variety of costs that enable the comparison and measurement of differences in costs of living for United Nations staff. Certain parameters, such as medical insurance, pension contributions and out-of-area remittances, appear to be unique or internal to United Nations staff and not representative of fluctuations in the market. Furthermore, ICSC adjusts the in-area component of the post adjustment index to reflect consumption patterns of United Nations staff and also uses a special set of operational rules for the derivation of the post adjustment multiplier, which prevents drastic fluctuations in compensation relative to movement in the underlying index. As a result, fluctuations in the post adjustment multiplier do not only reflect fluctuations in external, market-driven parameters. Rather, the multiplier includes a set of internal assumptions, such as staff consumption patterns, staff medical insurance and pension contribution costs and operational rules to control fluctuations in the multiplier, that are specific to the United Nations. The parameters enable ICSC to maintain purchasing parity for Professional staff. Consequently, assuming the multiplier only reflects fluctuations in inflation and currency exchange rates for budgeting purposes does not disaggregate all the drivers of variation in costs related to the Professional category. Note that, while the Secretariat could consult with ICSC with the objective of improving the presentation of the various drivers and providing an enhanced differentiation between external and internal impacts, neither the Secretariat nor any other agency including ICSC itself can modify current ICSC methodologies, assumptions and agreed lists of entitlements without the approval of the General Assembly.

44. Comparator salary surveys for General Service staff are designed to track trends in labour markets over time and enable the United Nations to adequately compensate staff relative to local conditions. Therefore, adjustments in salary levels can indirectly reflect macroeconomic trends not solely reflective of fluctuations in currency exchange rates and inflation. In other words, assuming that changes in General Service salary costs represent "cost of living adjustments" due to inflation simplifies the effect that fluctuations in local prices may actually have on local salaries. Consequently, the Secretariat's forecasts for General Service costs, which are based on consumer price indices from the Economist Intelligence Unit, do not match with the elements used in the salary level based on surveys conducted by the Office of Human Resources Management. As a result, the Programme Planning and Budget Division's stated inflation effect indirectly reflects a variety of labour market, macroeconomic and local compensation trends.

45. Therefore, an important cause of the recosting effect lies with the inability to account for all of the external and internal assumptions captured within the post adjustment multipliers and cost-of-living adjustments. While post adjustment multipliers and cost-of-living adjustments do reflect eventual institutional requirements, the Secretariat has been unable to isolate and study the effects of the various parameters that indirectly affect the budget. Over the years, layers of choices have become embedded in the respective methodologies. Without accurate measurement of its exposure to inflation, or to any other external or internal cost parameter, the Secretariat will not be able to forecast inflation accurately.

B. Internal visibility and flow of information

46. While currency exchange rate and inflation assumptions have affected the Secretariat's ability to develop accurate budget forecasts, the lack of internal visibility and information have resulted in several organizational efficiency issues that have exacerbated the recosting risk. For instance, limited real-time centralized visibility of foreign currency expenditure at the various local accounts does not enable the Programme Planning and Budget Division to compile detailed expenditure data on the basis of the actual currencies in which the expenditures are incurred. Consequently, the Secretariat has been unable to measure its relevant risk exposures on a real-time basis and implement an effective risk management programme.

47. In the current organizational hierarchy, budget processes are highly centralized within the Secretariat in New York. The Secretariat gathers data on 850 local accounts using legacy reporting and budget preparation systems. In addition, staff within the Secretariat have limited capacity and are therefore unable to constantly monitor expenditure patterns and the effects of recosting for individual local accounts.[9] For instance, only three members within the Policy Coordination Unit of the Programme Planning and Budget Division currently perform recosting activities on a part-time basis. Consequently, given the complexity and scale of the recosting process, the Secretariat is unable to analyse variances over time consistently.

48. The Secretariat does not have the visibility necessary to monitor cash requirement patterns for individual local accounts in different budgets. For example, the Accounts Division does not have the tools necessary to monitor all local account resource requests from different budgets. In addition, the Secretariat is unable to monitor funds from voluntary contributors in real time across all local offices. Those funds often add a degree of unpredictability in cash requirements: voluntary reserves affect the total operational cash requirements that local offices request from the Secretariat. Consequently, the Secretariat faces further challenges in reconciling those estimates with the budget. The unpredictability of those contributions also limits any potential hedging programme, as positions could over- or under-hedge the required exposures based on cash reserves in local accounts. Therefore, under the current system, the Secretariat does not have the necessary tools to implement a mechanism to evaluate and prioritize adequately among the requests for more

[9] It should be noted that the budget officers in the Programme Planning and Budget Division responsible for those expenditure sections, the budget officers in the respective departments and the recosting team monitor expenses on a limited basis.

resources. Currently, the Secretariat passes on increases in operational costs to Member States.

49. IMIS and the United Nations Budget Information System are fragmented legacy systems running on dated architecture and have not provided the Secretariat with the required visibility and information to improve cost management. Although regional offices do monitor expenses in smaller local offices, they are unable to communicate data effectively to the Secretariat in New York. Eight different instances of IMIS imply each version of the system comes with its own operational and reporting constraints. On average, reporting through IMIS faces a lag time of 90 days.[10] Similarly, the United Nations Budget Information System is running on dated architecture that was developed in the early 2000s and does not facilitate the Programme Planning and Budget Division's current data requirements. The systems do not have any function available to enable customized reporting across different currencies and other parameters. Consequently, the Secretariat is unable to measure its actual currency exposures on a real-time basis. In addition, the systems require significant involvement from the Programme Planning and Budget Division and the Financial Operations Information Service in order to perform scenario analyses. In other words, the Secretariat does not have the necessary tools that could enable it to develop a variety of assumptions and model the recosting effect under different scenarios.

50. Although the United Nations is transitioning away from those fragmented systems, it is unclear whether Umoja can provide the Secretariat with all of the required capabilities to improve the accuracy of forecasts and flow of information and, in particular, to measure its real-time currency exposure as the system converts line-item expenditures to United States dollars.

51. The following section proposes a complementary set of actions designed to address those external and internal risks. The actions are intended to enable the Member States and the Secretariat to reduce the recosting effect, increase internal visibility and facilitate the implementation of a regular hedging programme.

VI. Recommendations

52. The General Assembly should adopt a package of integrated recommendations to deal with the immediate and the longer term fundamental drivers of the recosting problem. Some recommendations can be implemented immediately, while others require several steps. Even if the recommendations need to be implemented over time, all should be adopted together to produce a clear road map for reform. The Secretariat should immediately focus on amending its calculation parameters in order to improve the accuracy of its budget forecasts. The Secretariat should also ensure that new systems can facilitate higher visibility and seamless flow of information within the United Nations in order to improve efficiency in the recosting process. Those actions would enable the Secretariat to provide more accurate estimates to Member States and should facilitate a reduction in the

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[10] Note that reporting lag times generally vary between one day and six months. Delayed data recording from certain offices under UN-Women, UNEP, United Nations Information Centres and the Department of Safety and Security can face lag times of up to 9 months in extreme cases.

frequency of recosting. As the Secretariat reduces variances between initial estimates and incurred expenditures, it should begin to manage a portion of the remaining currency risk exposure due to recosting through a regular hedging programme. Given the time and further analysis needed, the following set of actions would be completed in the order presented. It is paramount that the actions are applied together, as sustainable risk management depends on the Secretariat's ability to improve budget forecasts and internal visibility.

A. Increase accuracy of budget forecasts

53. Improving the accuracy of initial budget forecasts could reduce the likelihood of recosting. In order to improve the accuracy of initial estimates, the General Assembly should update the currency and inflation assumptions and use parameters that are more representative of current market conditions.

54. The approved currency exchange rates should be based on forward rates, rather than the current practice of using the lower of the latest spot rate or the average over the last 12 months. The use of more realistic estimates of future exchange rates could help in reducing the recosting effect. Using forward rates in preparing budget estimates would bring the added benefit of the ability to hedge, allowing Treasury to enter into the appropriate currency hedges to manage exchange rate risk. Comparator organizations have benefitted from the use of forward currency exchange rates. For instance, ILO sets its Swiss franc-United States dollar rate at the time of the forward purchase transactions based on market rates. That enables ILO to purchase forward contracts of United States dollars against Swiss francs in an effective manner. ILO opines that the forward purchase scheme has been successful in protecting the Member States from further assessments and has allowed programme managers to undertake activities without reductions in allocations due to the exchange rate movements.

55. Similarly, the budget estimates should incorporate, where possible, explicit two-year projections of inflation for Headquarters and local offices. For forecasts based on the simplified post adjustment multipliers, the Secretariat should consider the possibility of consulting with ICSC to separate economic inflation from other factors that are currently reported as inflation. Disaggregating economic inflation from other factors would enable the Secretariat to develop more realistic forecasts of external factors and potentially reduce the gap between initial estimates and actual expenditures. Similarly, the Secretariat could consider consulting with the Office of Human Resources Management in order to improve the accuracy of forecasts for General Service staff by understanding the drivers of cost-of-living adjustments.

56. If Member States seek to manage the levels of incurred expenditures due to fluctuations in actual post adjustment multipliers and cost-of-living adjustments, the General Assembly should ask ICSC and the Office of Human Resources Management to review their respective methodologies and assumptions, as the Secretariat cannot influence those policies. The adjustment factors are complex instruments that are influenced by a variety of external market forces and policy choices specific to the United Nations. Member States would need to have a clear understanding of the various parameters that drive fluctuations in those factors before considering pertinent cost-management solutions. As actual objects of

expenditure for post items are based on post adjustment multipliers and cost-of-living adjustments, the study does not recommend eliminating the use of those factors in the current budget process. Rather, a more thorough assessment of those factors could enable the Secretariat to understand the additional external and internal risks involved that affect recosting. In addition, the Secretariat would be in a better position to assess the efficacy of cost-management solutions with respect to risks external and internal to the United Nations.

57. Accurate measurement of the impact of external drivers on the budget would enable the Secretariat to assess the sensitivity of the regular budget to market factors. Based on those insights, the Secretariat would be in a position to improve budgetary assumptions and reduce the gap between forecasts and incurred expenditures. Furthermore, identifying internal organizational drivers within those adjustment factors could suggest scope for General Assembly action to reduce recosting. Greater clarity of individual elements would facilitate more effective choices and reduce the high degree of cost pass-through to Member States.

B. Improve visibility and flow of information of risk exposures

58. As the Secretariat amends and reviews its currency and inflation parameters, it should also address the supporting technology of the United Nations in order to measure, and subsequently manage, relevant risk exposures. While the Secretariat believes improvements in the budget process are dependent on infrastructural enhancements through the implementation of Umoja, it is unclear how the new system will streamline internal processes. For instance, while Umoja reports provide real-time visibility into line-item expenditures of local offices, the system aggregates budget reports to United States dollars, as that is a fundamental assumption of the budget process. Consequently, the Programme Planning and Budget Division still does not have real-time visibility into its currency mix and exposure. Therefore, the Secretariat should review the data requirements of the Division and the Treasury and assess whether Umoja can reduce current gaps with respect to internal visibility and the flow of information. If the Secretariat is able to determine that Umoja can meet the requirements of the Programme Planning and Budget Division, it should consider accelerating the relevant parts of the current implementation timeline for regular budget use.

59. If Umoja, as currently designed, cannot provide the required information and data for the Programme Planning and Budget Division and Treasury, the Secretariat should assess whether Umoja can be modified or consider alternative solutions that could facilitate automated reporting and streamlined data collection and analysis. In particular, the Secretariat should consider undertaking a temporary, manual effort to increase visibility with respect to the currency exposure profile of the United Nations, which could accelerate the implementation of a potential hedging programme.

60. As an interim solution while Umoja is being rolled out, the Secretariat should strengthen coordination with regional offices to analyse payroll and expenditure data across local offices. Although IMIS captures necessary data for relevant exposures, the current system setup does not provide the Secretariat in New York with the necessary reports and, therefore, the visibility to analyse data across local offices in effective ways. Consequently, the Secretariat cannot frequently monitor

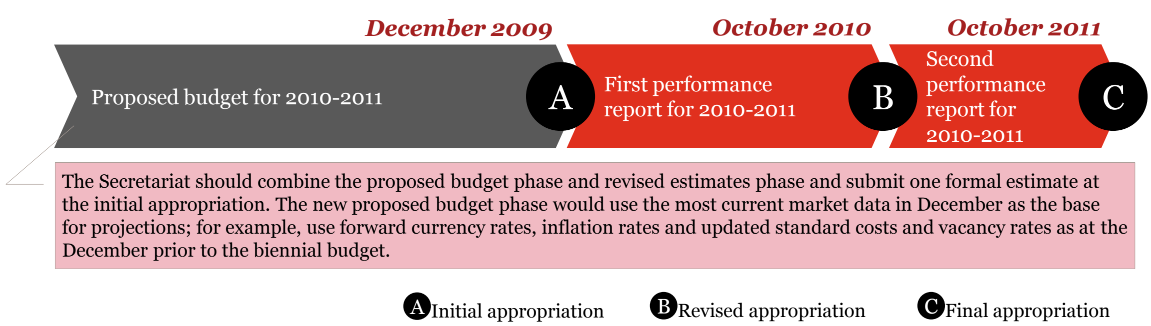
the payroll process and actual disbursements for budget purposes. The Secretariat could alleviate those administrative burdens at Headquarters and improve the flow of internal information by decentralizing the analysis of expenditures and disbursements to local offices. Regional offices that have budgetary oversight over smaller local offices should monitor trends and compile analytical reports on expenditures and payroll for the Secretariat. In effect, better coordination between Headquarters and regional offices could lead to an improvement in overall organizational efficiency.

61. Comparator international organizations have benefitted from the efficient flow of internal information, as most United Nations system and international organizations surveyed have internal mechanisms to monitor real-time expenditures in field offices. For instance, WHO is reorganizing its historically "top-down" budget to be complemented by a "robust bottom-up process" from country offices, as its Oracle-based enterprise resource planning system enables visibility in local offices. In a similar vein, ADB ensures that its budget utilization targets are monitored closely by its budget division, which has complete visibility into expenses and requirements in field offices. Therefore, from a comparative viewpoint, the Secretariat could benefit relatively quickly by ensuring its systems and organizational processes can provide its budget division with necessary data on a real-time basis.

C. Reduce frequency of recosting moments

62. The Secretariat should reduce the frequency of recosting in the budget process. The Secretariat should consolidate the proposed programme budget and recosting phases and submit one recosting estimate at the initial appropriation instead of two (see table 3). Improving the quality of the Secretariat's forecasts and increasing its ability to monitor cash requirements across the Organization could reduce the perceived need for more frequent recosting. As part of the 2014 package, the General Assembly could decide to change the frequency of recosting in time for the 2016-2017 biennium.

Table 3
Modified recosting process (illustrated with the 2010-2011 sample budget)



63. Reducing recosting moments would improve communications between the Secretariat and Member States, as initial revisions during the proposed programme budget phase are based on lagging estimates from the first performance report of the

previous biennium. Those estimates do not necessarily reflect current market conditions nor result in the most accurate forecasts. Furthermore, the revisions are part of the budget-setting process and are eventually adjusted, as initial appropriation estimates are only released to Member States at the end of the revised estimates phase. Therefore, streamlining the current budget process to use three recosting moments instead of four would reduce the perception of the recosting effect by providing a more accurate “first view” of the budget and help improve the efficiency of the overall budget process. It would also align the United Nations with most of its comparator organizations that prefer to reduce recosting moments and focus instead on the accuracy of the initial estimates.

D. Manage recosting risk through hedging

64. The United Nations should institute a hedging programme for its regular budget. Reducing the variances between its forecasts and actual expenditures would enable the Secretariat to implement a regular hedging programme to further reduce recosting risk. For instance, most comparator United Nations systems and international organizations note that a regular hedging programme would help compensate for the effects of volatility in currencies over time. In order to mitigate exchange rate risk effectively, the Secretariat would need to prepare its budget with market forward rates, and have the necessary internal visibility and information to measure its risk exposures (see the recommendations in paragraphs 53 to 63 above). In addition, the Secretariat should adopt the following actions to support an effective hedging programme:

(a) Match the hedging currency mix to actual exposures;

(b) Centrally monitor data patterns to accurately forecast future risk exposures.

65. The Secretariat can draw lessons from the existing Swiss franc pilot hedging programme authorized by the General Assembly starting 1 January 2013. The Secretariat should frequently monitor its actual currency exposures and adjust its forecasted requirements for hedging on an as-needed basis. For instance, if actual currency exposures for certain duty stations are concentrated to a handful of currencies, such as the United States dollar, the Swiss franc or the euro, the Secretariat should only hedge those major positions.

66. In addition, to ensure the effectiveness of a regular hedging programme, the Secretariat should centrally monitor expenditure patterns and cash requirements in local accounts in order to analyse trends over time. Within the Programme Planning and Budget Division, the Secretariat should consider increasing staff capabilities in order to enable staff to perform in-depth reviews of recosting in local accounts. Monitoring historical patterns would enable the Secretariat to improve the quality of forecasts. The Secretariat could then efficiently manage the expected cash requirements and strategically use a hedging programme to enable the United Nations to meet its budgetary objectives.

E. Other potential actions to further reduce recosting risk

67. Note that, while the actions presented above would enable the Secretariat to manage significant portions of its recosting risk, it would not be possible to mitigate the entire magnitude of the risk. More complete solutions to the fundamental problems require additional action by the General Assembly. The United Nations is exposed to certain risks that cannot be mitigated through an effective hedging programme. For instance, it would not be feasible to hedge currencies that represent a small portion of the Organization's exposure or that may not be active in forward markets. In addition, the path of inflation in local offices will always be subject to uncertainties, and the United Nations faces internal drivers of recosting which also cannot be managed through hedging. If the United Nations seeks to eliminate the additional risk, the Assembly should authorize the Secretariat to formulate additional cost-management solutions. In that context, it is notable that while some of the comparator international organizations surveyed do conduct recosting exercises, those exercises do not normally result in changes to the total approved budget or increased appropriations. The present study has identified recosting caps and reserve funds as additional solutions that the Assembly could consider in a timely fashion. Part VII provides further analysis on those cost-management solutions.

F. Road map

68. The General Assembly could decide on the recommended package of actions in 2014, thereby enabling process changes for the 2016-2017 budget and potentially facilitating full visibility for the 2018-2019 budget. The Secretariat could update its currency parameters, review its inflation parameters and begin to assess potential gaps in the Umoja system with respect to the budget process during the first half of 2015. Concurrently, the Secretariat could implement preparatory actions for reducing the frequency of recosting and implementing a hedging programme in order to facilitate "go-live" phases during 2015 (see table 4).

Table 4
Timeline of recommendations

Activity		2014			2015				Biennium 2016-2017							
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Translation of final report and presentation to the General Assembly																
1. Accuracy of budget forecasts	Change currency parameter and review inflation parameter															
2. Visibility and flow of information	Validate existing system capabilities and support of organizational setup															
3. Recosting frequency	Reduce formal recosting moments				Preparation phase						The go live date for the recosting process together with initial steps of the hedging programme would be for the 2016-2017 biennium. Preparations need to start earlier as the budget process will start in Feb 2015.					
4. Hedging programme	Implement hedging programme on selected currencies					Preparation phase										

VII. Additional options and analyses

69. If the General Assembly seeks to manage additional risk that cannot be mitigated through a market-risk-management programme, it could seek more information to craft a tailored cost-management programme. In particular, the study recommends focusing further analysis on caps and reserve funds. A cap provides more certainty and rigor than the current process, while a reserve fund could safeguard programmes from unintended consequences of short-term economic crises on United Nations costs. Additional information and analysis beyond the scope of the High-level Panel of Experts should be sought to craft the specific elements of the programme. Those analyses could be conducted in time to enable the Assembly to adopt the package of recommendations presented above in 2014. The Assembly would need to make important choices to shape the programme. The Secretariat would also need to have the necessary tools and information about its cost profiles in order to assess the efficacy of any new cost-management solutions. It is important to reiterate, however, that a cap and a reserve fund should be considered as options only if the Assembly requires the management of non-hedgeable costs to find a more complete solution. While the present study has identified the two additional options, a failure to fully analyse the appropriate mechanics and implementation risks of those solutions could place duress on the Secretariat's ability to implement all planned programmatic activities.

A. Recosting caps

70. With a recosting cap, the General Assembly could authorize the Secretariat to set a limit on the maximum allowable recosting increase in a certain biennium. Various configurations could be possible, hence more analysis is needed. For example, recosting caps could be placed on the percentage of topline overall increase in a single biennium; or the percentage increase in inflation, standard costs and vacancy rates, addressing the currency category through the hedging programme; or the percentage increase in standard costs and vacancy rates with a dedicated reserve fund to cover changes in inflation.

71. The simplest would be an overall topline cap, which would provide the most flexibility to leadership to manage changing costs within a biennium. That solution would enable the Secretariat to enforce stricter cost management across the United Nations, as the responsibility to manage costs would shift to individual departments. It is important to note, however, that the Secretariat should review the nature of its costs in detail before implementing recosting caps. For instance, capping recosting due to fluctuations in market-driven parameters, for example currency exchange rates and inflation, would not necessarily be viable and could place excess strain on the liquidity needs of the United Nations. The Secretariat's choices in how to implement the mandates of the General Assembly can affect recosting. The effectiveness of a recosting cap would be bolstered by the Secretariat's ability to accurately assess internal cost drivers within its budget that could be managed to a certain degree by the departments or programmes incurring the expenditures. Once the Secretariat is able to measure those non-hedgeable costs, recosting caps could mitigate additional revisionary risk.

B. Reserve funds

72. The General Assembly could authorize the Secretariat to implement a reserve fund to manage recosting. Under that cost-management regime, the Secretariat would maintain contingency funds separately and use surplus reserves in years of low recosting to offset costs in years of high recosting. IMO has experienced success with that cost-management solution and in 2011 approved an expansion of the terms of its working capital fund to also function as an exchange reserve fund in order to account for exchange rate gains and losses.

73. The General Assembly would need to determine how to set up a reserve fund and whether to support it from existing resources or from voluntary contributions or from new funds from Member States. The reserve fund could be supported by cost savings from keeping budget increases below the cap. The Assembly could set an upper limit for the amount of reserve funds.

74. There are several different ways to pay for a reserve fund. One way would be to assess the operational reserve as a separate expenditure section in the programme budget. The Secretariat could request Member States to refill the recosting contingency fund to maximum levels along with regular contributions at the start of each biennium. The total amount of the budget, released at the initial appropriation, would remain unchanged, as variations in expenditure sections due to recosting would be counterbalanced by equal variations in the reserve fund. After the establishment of the fund, Member States would contribute the same amount as they currently do, as the Secretariat would implicitly collect the recosting contingency up front: Member States would pay the initial appropriation plus the recosting of the previous biennium, which corresponds to the amount necessary to replenish the fund. Another way to finance the fund would be for the Secretariat to reallocate capital from existing resources.

VIII. Other previously discussed options

75. The present study has also reviewed other previously discussed options to manage additional, non-hedgeable recosting risk in the regular programme budget. The study has concluded that the other options, which include absorption, split assessments, local currency budgets and active vacancy rate management, would pose several administrative challenges for the United Nations and would not effectively manage additional recosting risk. The options analysed below are less preferable to the recosting cap and reserve fund solutions presented above.

A. Built-in contingencies

76. The Secretariat could build currency and inflation assumptions into higher initial estimates in order to smooth the recosting effect over the budget cycle. With such a system, the Secretariat would be able to absorb costs to a degree rather than explicitly passing costs to Member States. The Secretary-General notes, however, that absorption would lead to significant erosion in the real volume of resources available in the programme budget.[11] The solution is less preferable to a reserve

[11] See A/C.5/51/57.

fund, as the Secretariat would likely have to build a buffer on top of its budget estimates that would, in effect, prospectively forecast the recosting effect, unlike a reserve fund, in which the Secretariat would collect the actual incurred recosting effect of the previous biennium.

B. Split assessments

77. The split assessment system is based on the division of the major currencies of the budget once the programme budget is approved. Under that system, the United Nations would collect contributions from Member States in multiple currencies. The solution poses several issues, because the Secretariat would need to ensure that all payments from Member States arrive in the same fiscal year, as subsequent late payments could result in gains or losses in accounts due to exchange rate fluctuations. Collecting appropriations in multiple currencies would not necessarily eliminate the budgetary impact of post adjustment multipliers and cost-of-living adjustments. Split assessments would also require the United Nations to maintain multiple assessment systems from an accounting perspective, and could place excess administrative burden on current resources. For instance, IAEA is considering moving away from a split-assessment regime owing to the complexity involved in maintaining multiple systems. As the Secretariat is currently operating with limited resources, a split assessment system would not represent the most feasible use of those resources. While split assessments offer the benefit of minimizing exchange rate effects over budget cycles, the Secretariat could more effectively manage the risk through a regular hedging programme. In addition, a regular hedging programme would place a lighter administrative burden on the Secretariat and help protect United Nations-specific currency exposures during periods of high volatility.

C. Local currency budgets

78. Maintaining separate local currency budgets and appropriation systems could overcome problems associated with currency and inflation rate fluctuations. Such a system, however, would require substantial administrative reorganization within the Secretariat, as the Programme Planning and Budget Division would need to maintain separate systems and monitoring policies for different regions. Furthermore, Member States would have to assume all of the exchange rate risk over a budget period and possibly amend their payment processes to issue payments in multiple currencies. The Joint Inspection Unit recommends the solution when more than 85 per cent of expenditures occur in local currencies.[12] Given organizational constraints within the Secretariat and currency exposure largely concentrated in the United States dollar, the Swiss franc and the euro, local currency budgets would not enable the Secretariat to efficiently manage its current budget processes.

[12] See A/65/589.

D. Active vacancy rate management

79. The Secretariat could actively manage vacancy rates by issuing temporary recruitment freezes. That option could reduce variances between actual rates and estimates. Expenditures would be closer to initially approved vacancy rates and costs would therefore be maintained. In practice, however, it is difficult to isolate expenditures related to vacancy as other factors and personnel costs could influence expenditures, such as increased separations. In addition, under certain circumstances the Secretariat would be required to halt recruitment in order to meet approved vacancy rates, which could lead to the discontinuation of some programmatic activities. Furthermore, vacancy rates cannot be managed with precision without the rigorous application of active management across all departments of the United Nations. In practice, that could lead to a significant increase in administrative burden for the Secretariat and could divert resources from approved programmes and activities.

IX. Benchmark analysis

80. As part of the benchmark analysis, the present study has analysed survey results submitted by United Nations system organizations in 2009 on recosting and options used to protect against fluctuations in exchange rates and inflation. On the basis of the existing questionnaire, the technical team prepared additional questions regarding the budget cycle, infrastructure, currency exchange rates and transfer policies and inflation rate regimes in order to create a benchmark for the processes and methodologies of the United Nations. With the assistance of the High-level Panel of Experts and the Secretariat, the new questionnaires and requests for updated answers were sent to the United Nations system organizations below (see table 5).

Table 5
United Nations system organizations[a]

Organization	*Updated response received?*
IAEA	Yes
ICAO	Yes
ILO	Yes
IMO	Yes
ITU	Yes
UNAIDS	Yes
UNDP[a]	Yes
UNESCO	Yes
UNFPA	Yes
UNIDO	Yes

Organization	Updated response received?
UNWTO	Yes
WHO[a]	Yes
WIPO	Yes
FAO	No
IFAD	No
UNICEF	No
WFP	No

[a] Please note that UNDP and WHO voluntarily responded to the questionnaire. The Secretariat did not send a formal memorandum requesting information from those organizations.

81. In instances where updated responses were not provided, the present study relied on the answers provided in the 2009 surveys. In addition, questionnaires were also sent to international organizations that were similar in scale and had comparable requirements with the United Nations (see table 6).

Table 6
International organizations

Organization	Response received?
ADB	Yes
AfDB	Yes
Council of Europe	No
EBRD	Yes
IADB	Yes
OECD	No
UNHCR	No
World Bank	Yes

82. Note that the listed international organizations were not in the scope of the 2009 survey. As a result, the technical team has been unable to form an opinion for the organizations that did not provide a response to the survey.

83. The participating United Nations system and international organizations have provided insightful feedback with respect to budget processes and options to deal with recosting and fluctuations in currency and inflation rates. The Panel has analysed the options used and lessons learned at United Nations system and other international organizations to develop its opinion on applicable options to deal with the drivers of recosting.

84. While the key findings summarized in the present section have helped form the study's recommendations for the United Nations, it is important to note that a direct comparison between the budget processes of the United Nations and those of other organizations has finite value owing to the differences between those organizations and the central United Nations budget requirements. Therefore, the study has not taken a position on an appropriate budget cycle and process relative to the United Nations. Furthermore, the present study has not formed an opinion on the suitability of currency or inflation assumptions used at United Nations system and other international organizations, as those parameters are unique to each institution's requirements.

85. From the responses received, it appears that most United Nations system and international organizations adjust budgeted estimates across the same operational parameters, including currency, inflation, standard costs and vacancy rates, as the United Nations. However, most of the institutions believe that frequent recosting is an inefficient method of managing the budget, and prefer to use accurate estimates to avoid revisionary procedures and increases in assessments. For instance, WHO opines that recosting increases the difficulty of budget accountability, and points to increases in inflation that create opportunities to "hide inefficiency".

86. In order to account for fluctuations in currency and inflation, the surveyed institutions use a combination of hedging, caps, reserve funds, cost absorption and other cost-management solutions. Forward currency hedging has been a relatively popular, and effective, solution for managing currency exchange rate risk. For instance, ILO, UNAIDS, UNDP, UNFPA, UNICEF, WFP and WHO have noted that purchasing basic currency forward contracts have helped manage significant currency exposure. Those organizations often make disbursements in a wide variety of currencies and have noted that hedging large exposures has resulted in tangible benefits; for example, WHO opines that 12-month rolling forward contracts help smooth the effects of spot exchange rates and provide intra-year budgeting certainty in terms of currency exchange rates. Similarly, UNAIDS has opted to hedge its Swiss franc vis-à-vis the United States dollar for the salary costs it pays in Swiss francs. The surveyed organizations have also noted that the overall effectiveness of a hedging programme increases when the relevant tools and capabilities are available. For instance, ILO uses an Oracle-based enterprise resource planning system that provides its budget division with visibility into the expenses and requirements of their local offices. Furthermore, ILO budgets the Swiss franc portion using forward currency exchange rates and is subsequently able to hedge and manage its exposure in an effective manner.

87. It is important to note that most of the institutions surveyed combine a hedging programme with a special account or reserve fund or with a cost-absorption programme to further mitigate potential revisionary risk. IMO has used a combination of absorption and expansion of its working capital fund to account for currency and inflation rate fluctuations. Similarly, UNIDO noted that it has had a positive experience with foreign exchange reserve accounts.

88. In addition, some institutions have implemented tight cost control policies to absorb internal costs and protect Member States from frequent revisions in assessments. For instance, UNAIDS has looked for ways to contain its Swiss franc costs by placing tighter controls on internal policies, such as by promoting joint procurement, the use of long-term arrangements and better use of technology.

UNAIDS manages internal costs, such as staff recruitment, through internal control mechanisms and planning. UNAIDS also mitigates a portion of its currency risk through fiscal discipline, cost-cutting and cost transfers away from headquarters, thereby decreasing foreign currency exposure.

89. A split assessment system does not appear to be a widely used option to manage currency fluctuations. IAEA opines that it is difficult for programme managers to manage their resources efficiently owing to rate fluctuations experienced during the implementation stage. There is a risk that a drastic decline in the exchange rate may lead to insufficient funds or a rise in the exchange rate may result in unspent funds at year end. Furthermore, there is a significant increase in terms of administrative burden in monitoring revaluation and additional transfer allotments as a result of rate fluctuations. In a similar vein, ICAO appears to recognize the administrative burden of maintaining a split assessment and prepares its budget and financial statement only in Canadian dollars.

90. With respect to the United Nations, Member States should understand that recosting is an inherent reality given biennial planning and the scale of its operations: fluctuations in market rates will result in adjustments to budgeted estimates. In addition, certain departments within the United Nations create volatility in estimates as a result of off-budget calendar planning. For example, UNCTAD holds quadrennial conferences that fall between regular United Nations budget phases, and consequently changes in required estimates add volatility to the recosting effect. In other words, the United Nations is also exposed to idiosyncratic risk from its own programmes. Therefore, directly applying budget management techniques used at other international organizations would not necessarily eliminate recosting within the United Nations. The Panel recommends that the General Assembly consider the recommendations drafted in the present study and authorize the Secretariat to perform additional reviews on relevant cost-management solutions.

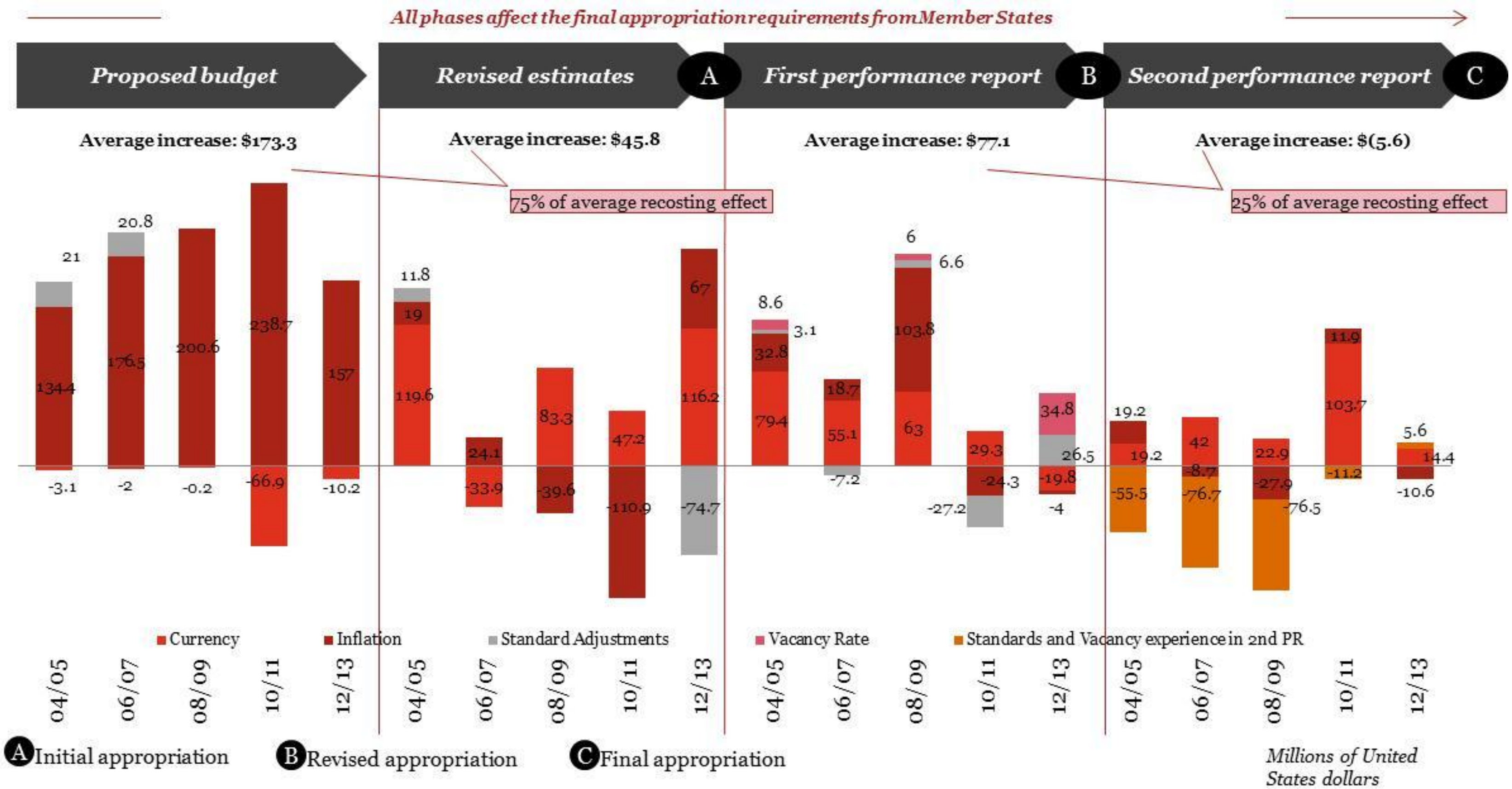
X. Conclusion

91. The High-level Panel of Experts believes that the Member States and the Secretariat have an important opportunity to address a budget problem that has plagued the United Nations for decades. The United Nations is an institution with worldwide activities, which means it will always face a degree of unpredictability. Updating United Nations budget processes using a package of integrated actions could help mitigate risk and improve the institution's financial stability. Greater clarity, accuracy and stability would enable the United Nations to deliver its programmes more effectively. Currently, the Secretariat has limited visibility of expenditures made in foreign currency and is not able to match foreign currency expenditures to its budgeted estimates. Consequently, the Secretariat has been unable to analyse variances between its budgeted forecasts and actual expenditures in foreign currencies, nor implement a regular risk management programme to manage its risk exposure. In addition, in line with the current recosting methodology, the Secretariat attributes those increases to fluctuations in currency and inflation although, in reality, the recosting effect captures a variety of macroeconomic and organizational-specific assumptions embedded within the main budgetary adjustment factors: post adjustment multipliers and cost-of-living adjustments.

92. In order to manage recosting effects, the present study recommends a set of integrated proposals to deal with external and internal risks. The General Assembly may wish to decide on a package of actions that could enable the Secretariat to improve the accuracy of budget forecasts by amending calculation parameters and increasing internal visibility and flow of information within the United Nations. The Secretariat should reduce the frequency of recosting moments and, as variances between estimates and actual costs decrease, further mitigate recosting risk through a regular hedging programme. As part of the package, the Assembly should decide to obtain the detailed analyses that would be needed to address the remaining risk through a cap and reserve fund programme. Adopting a package in 2014 would allow time to update budget processes for the 2016-2017 budget biennium.

Annex I

Drivers of recosting



Annex II

Members of the High-level Panel of Experts

Name (country)	*Biography*
David Andrews (United Kingdom of Great Britain and Northern Ireland)	Mr. Andrews has been a deputy director of the Finance Department in IMF since 2011. His key responsibilities include work on the current and long-term income position of IMF and efforts to bolster the Fund's lending resources. Prior to this, his work in IMF focused on low income country issues, including policy development. In the past he has also served as an Overseas Development Institute Fellow at the Monetary Authority of Belize.
Richard Bellin (France)	Mr. Bellin has been the Director of the International Organizations External Audit Department at the Court of Accounts since 2010. He has extensive experience in conducting audit and quality controls in United Nations system entities and specialized agencies since 2001, and is very familiar with the assessment of internal control systems as well as United Nations policies and procedures for financial management. He serves as a member of the Technical Panel of the United Nations Board of Auditors.
Esther Brimmer (United States of America)	Ms. Brimmer is the J.B. and Maurice C. Shapiro Professor of International Affairs at the Elliott School of International Affairs at George Washington University. Prior to that, she served at the United States Department of State three times, most recently as the Assistant Secretary of State for International Organization Affairs from 2009 to 2013. She was a member of the policy planning staff from 1999 to 2001 and from 1993 to 1995 was special assistant to the Under-Secretary for Political Affairs.
Linah Mohohlo (Botswana)	Mrs. Mohohlo is the governor of the Bank of Botswana and the country's representative on the board of IMF. Her international experience includes having been a member of the Commission for Africa and the Lancet Commission on Investing in Health. She is also a member of the Bretton Woods Committee, the Africa Progress Panel and the investment committee of the United Nations Joint Staff Pension Fund. Mrs. Mohohlo is a recipient of a number of national and international awards, among which is Botswana's highest public service award for efficient and devoted service, the Presidential Order of Honour.
Supachai Panitchpakdi (Thailand)	Mr. Panitchpakdi has recently served as Secretary-General of UNCTAD from 2005 to 2013. Prior to that, he served as Director-General of WTO from 2002 to 2005. His professional career started in a national bank, where his expertise in economics and financial matters was widely recognized. He has served as a Deputy Minister of Finance, a president of a commercial bank, chair of several corporations, Deputy Prime Minister and Minister of Commerce.
Jose Gilberto Scandiucci (Brazil)	Mr. Scandiucci has been a Brazilian diplomat since 1999 and has since worked with international trade and financial issues. He currently works at the World Bank as a senior adviser of the Executive Director for the constituency, of which Brazil is a member. Prior to that, he worked as a special adviser to the Minister of Finance. He has held senior positions in the Brazilian Ministry of Finance and the Ministry of Planning and Budget.

Annex III

Expenditure sections

#	*Section*[a]
1	Overall policymaking, direction and coordination
2	General Assembly and Economic and Social Council affairs and conference management
3	Political affairs
4	Disarmament
5	Peacekeeping operations
6	Peaceful uses of outer space
7	International Court of Justice
8	Legal affairs
9	Economic and social affairs
10	Least developed countries, landlocked developing countries and small island developing States
11	United Nations support for the New Partnership for Africa's Development
12	Trade and development
13	International Trade Centre
14	Environment
15	Human settlements
16	International drug control, crime and terrorism prevention and criminal justice
17	Economic and social development in Africa
18	Economic and social development in Asia and the Pacific
19	Economic and social development in Europe
20	Economic and social development in Latin America and the Caribbean
21	Economic and social development in Western Asia
22	Regular programme of technical cooperation
23	Human rights
24	International protection, durable solutions and assistance to refugees
25	Palestine refugees

#	*Section*[a]
26	Humanitarian assistance
27	Public information
28	Management support services
29	Office of Information and Communications Technology
30	Internal oversight
31	Jointly financed administrative activities
32	Special expenses
33	Construction, alteration, improvement and major maintenance
34	Safety and security
35	Development account
36	Staff assessment

[a] Expenditure sections are taken from the proposed programme budget for the biennium 2010-2011 (A/64/6).

Annex IV

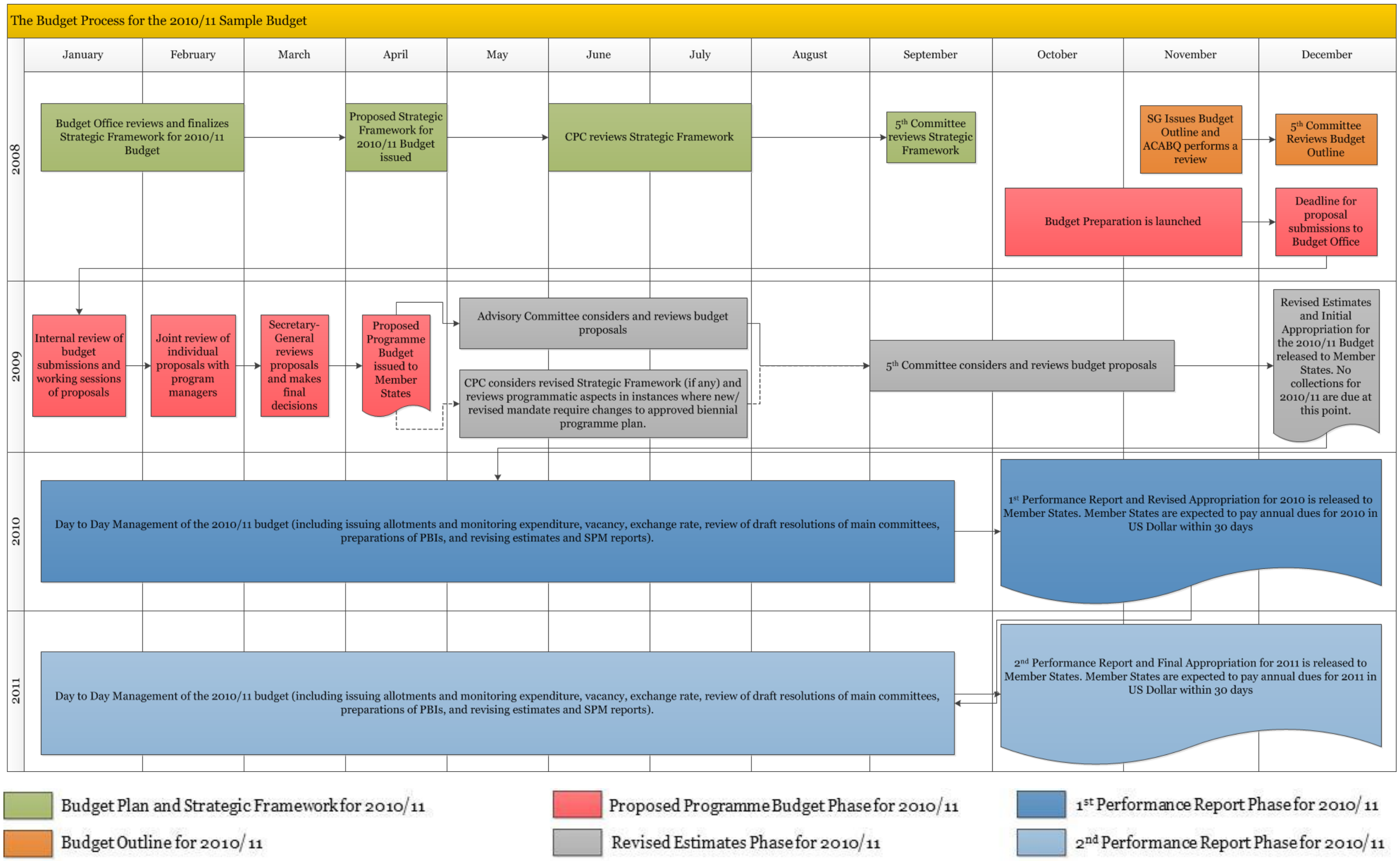
Cost stations and currencies

Main cost station for reporting	*Currency*
Addis Ababa	Ethiopian birr
Bangkok	Thai baht
Beirut	Lebanese pound
Department of Safety and Security, Field Support Service, United States of America	United States dollar
Gaza/UNRWA/UNTSO	Shekel
Geneva	Swiss franc
Mexico City	Mexican peso
Nairobi	Kenyan shilling
New York (Headquarters)	United States dollar
Port of Spain	Trinidad and Tobago dollar
Santiago	Chilean peso
The Hague	Euro
United Nations Military Observer Group in India and Pakistan	Rupee
United Nations Information Centres[a]	N/A
Vienna	Euro

[a] United Nations Information Centres comprise 59 duty stations and are considered to be a single cost station for reporting purposes.

Annex V

Budget cycle



Annex VI

Recosting calculation example

	Non-post currency example	*Non-post inflation example*
Local account	Utilities	Alterations and improvements
Category	Non-post	Non-post
Expenditure section	Administration, Geneva	Construction, alteration, improvement and major maintenance
Cost station	United Nations Office at Geneva	ESCWA, Lebanon
Currency	Swiss franc	Lebanese pound
Budget cycle phase	First performance review of the budget for the biennium 2010-2011	Proposed programme budget for the biennium 2014-2015

2010 estimate	*Currency rate (Swiss franc/United States dollar)*	*Appropriation (thousands of Swiss francs)*	*Appropriation (thousands of United States dollars)*
Initial appropriation (December 2009)	1.085	3 460	3 189
First performance report (October 2010)	1.046	3 460	3 308
Recosting effect			**119**
2011 estimate			
Initial appropriation (December 2009)	1.085	3 507	3 232
First performance report (October 2010)	1.046	3 507	3 353
Recosting effect			**121**

	CPI Beirut	*Base estimate 2012 (thousands of United States dollars)*	*Inflation increase 2014*	*Base estimate 2013 (thousands of United States dollars)*	*Inflation increase 2015*	
2012		32.90				
2013	2.20%	33.62	0.72	33.6		
2014	3.10%	34.67	1.04	34.64	1.04	
2015	4.00%			36.03	1.39	
Total estimate 2014-2015						**70.69**
Total increase 2014-2015 = Recosting effect						**4.19**
	Recosting amounts		1.8		2.4	

Annex VII

Questionnaires

A. Questionnaire on recosting parameters used by international organizations

Organization:			
Contact person: E-mail address: Telephone no.:			
Budget Cycle: ☐Annual ☐Biennial			
Currency of Budget:			
1. How often does your Organization recost during the budget cycle?			
2. Please indicate if your organization adjusts for:			*If yes, please indicate how often adjustments are made:*
a.	Inflation	☐Yes ☐No	
b.	Rates of Exchange	☐Yes ☐No	
c.	Actual payroll experience	☐Yes ☐No	
d.	Common staff costs rates	☐Yes ☐No	
e.	Vacancy Rates	☐Yes ☐No	
f.	Other parameters	☐Yes ☐No	If yes, please explain:

B. Questionnaire on mechanisms/tools used to protect and mitigate the effects of fluctuations in exchange rates and inflation used by international organizations

Organization:	
Contact person: E-mail address: Telephone no.:	
1. Does your organization have any options for protecting against fluctuations in:	If yes, please indicate the options used (i.e. what mechanisms and tool have been used to protect and mitigate fluctuations in inflation and rates of exchange)
a. Inflation ☐Yes ☐No	
b. Rates of exchange ☐Yes ☐No	
2. What is the currency exposure as a percentage of the total budget?	
3. What are the experiences and lessons learned, if any?	
4. Please provide any other comments you feel may be useful for this review.	

Annex VIII

Additional questions

1. Budget cycle

- Please provide a brief summary of your organization's budget cycle.
- What has been the impact of recosting on your organization's budget over the last 10 years?

2. Infrastructure

- Please elaborate briefly on how the current budget process is organized. For instance, which portions of the current process are handled by local offices? By central offices?
- Please elaborate on any systems currently used for the budgeting process.
- Does your organization's budget team have visibility into local offices' expenses and requirements?
- Does your budget team utilize historical requirement and disbursements from local offices in future budget projections?

3. Currency rates and transfers

- Which portion of your organization's budget is (a) budgeted and (b) paid in non-United States dollar currency?
- How does your organization determine operational exchange rates?
- How many currencies are used for adjustments from a budgeting perspective?
- How many currencies are expenditures and disbursements actually made in? Are these requirements consistent over budgets?
- Does your organization implement a hedging programme? If yes, which currencies are used for hedging and how are hedge sizes determined?

4. Inflation

- How does your organization determine the appropriate inflation parameter for budgeting purposes?
- Does your organization use externally calculated parameters for inflation recosting? Please elaborate which parameters are used and how.

Annex IX

Recosting in the United Nations system organizations

A. Recosting

		Adjustment parameters						
Organization	*Cycle*	*Inflation*	*Currency rates*	*Salaries*	*Common staff costs*	*Vacancy rates*	*Performs recosting?*	*Frequency of revisions*
United Nations	Biennial	X	X	X	X	X	X	Four times during the biennium
FAO[a]	Not provided	X	X	X			X	Every three months and more frequently towards the end of the year or biennium
IAEA	Annual	X	X		X	X		The budget proposals incorporate a price adjustment and there is no recosting done during the budget implementation cycle. Allotments are adjusted at least twice a year to reflect fluctuations in the United Nations rates of exchange, for the portion of the budget in United States dollars.
IFAD[a]	Not provided		X				X	Once a year
IMO	Biennial							No recosting. Once approved the budget is final unless a supplementary budget is proposed.
UNAIDS	Biennial							We do not recost during the budget cycle.
UNESCO	Biennial	X		X	X		X	The budget adopted by the General Conference is not subject to modification or revision, but includes a provision to cover the costs of inflation and statutory increases that are foreseen to occur during the biennium. Therefore, in principle, a recosting exercise does not take place in terms of the global budget. However, the re-estimation of requirements per cost item is undertaken periodically based on the workplan review and staff cost evolution in the course of the biennium, and additional budget requirements are transferred to relevant sectors/bureaux accordingly from this Provision for

		Adjustment parameters						
Organization	*Cycle*	*Inflation*	*Currency rates*	*Salaries*	*Common staff costs*	*Vacancy rates*	*Performs recosting?*	*Frequency of revisions*
								Anticipated Increases. Such requests for budget transfers are submitted to the Executive Board (held approximately every 6 months) for its approval based on the revised/adjusted appropriation table.
UNFPA	Quadrennial							UNFPA does not have a recosting process. Within the context of the integrated budget approved for 2014-2017, a midterm review will be conducted for Executive Board approval of revised estimates, if any. Each budget formulation embeds cost increases (inflation) and exchange rate fluctuations. At the time of budget implementation, expenses are managed within the approved appropriation, without a recosting exercise.
UNICEF[a]	Not provided	X	X				X	Once a year; recosting performed annually for internal purposes only and is not required by the Executive Board.
UNIDO	Biennial	X		X	X	X		UNIDO prepares biennial budgets that are revalued during the programme and budget preparation phase prior to submission to the governing bodies for approval. No further adjustment can be made to the budget once it is approved.
WFP[a]	Not provided	X	X	X			X	Upon significant market changes.
WHO	Biennial							No recosting. Once approved, budget is final
WIPO	Biennial	X	X	X	X	X	X	According to the Financial Regulations and Rules (Regulation 2.9), supplementary and revised programme and budget proposals may be submitted by the Director General whenever necessary. Normally when the revised budget is submitted, in the second year of the biennium.
ICAO	Triennial							There is no re-costing. Once the budget is approved by our Assembly, it is final. The standing governing body has limited authority under the financial regulations to increase the approved appropriations within certain parameters.

Organization	Cycle	Adjustment parameters						Frequency of revisions
		Inflation	Currency rates	Salaries	Common staff costs	Vacancy rates	Performs recosting?	
AfDB	Annual							AfDB does not recost during budget cycle
IADB	Annual	X		X			X	IADB does not recost its budget to account for actual/observed exchange rate or inflation fluctuations during budget execution. Instead, we estimate inflation and other price adjustments needed at the time of budget preparation (i.e. in a forward-looking manner) and operate on that budget throughout the entire fiscal year for which the budget authorization is made. We do monitor exchange rate fluctuations throughout the year but only as a way of identifying windfall savings that could be redirected towards institutional priorities. We do not adjust our budget for exchange rate fluctuations on the notion that in the long run, these fluctuations have a zero average.
IBRD	Annual							Not applicable at institutional level. However, we cost all budget requests. In fiscal year 2014/15, as related to expenditure review and reorganization, we are also doing bottom-up costing for parts of the organization.
UNDP	Quadrennial	X	X		X		X	There is a midterm review of the institutional component of the UNDP integrated budget on a biannual basis.
ILO	Biennial	X	X	X	X	X	X	The budget is prepared in constant United States dollars to allow for comparability between budgetary periods. The recosting is undertaken near the end of the preparation process once the budget is accepted and approved in constant dollars by ILO. Once the final appropriation amount is approved by ILO, no recosting takes place during the period of implementation.
ITU	Biennial							According to ITU Financial Rules and Regulations, the budget is established at a budgetary rate of exchange between the United States dollar and the Swiss franc equal to the United Nations operational rate of exchange

		Adjustment parameters						
Organization	*Cycle*	*Inflation*	*Currency rates*	*Salaries*	*Common staff costs*	*Vacancy rates*	*Performs recosting?*	*Frequency of revisions*
								in effect at the time of the preparation of the budget. Adjustments to the annual contribution may be admitted only when the council considers them necessary.
ADB	Annual	X	X		X	X	X	Budget is reviewed and revised at midyear using actual budget utilization as of 30 June and revised estimates for the remaining period of the year, July to December. The midyear review exercise is largely to reallocate resources to priorities where they are most needed. The overall budget envelope does not change. In addition to the midyear review exercise, budget utilization is monitored continuously, monthly and with quarterly reviews.
UNWTO	Not provided							UNWTO does not perform recosting.
EBRD	Annual	X	X			X		No recosting is applied outside the annual budget process.

[a] Updated questionnaire not provided. Answers from table 9 of the second performance report on the programme budget for the biennium 2008-2009 (A/64/545).

B. Currency

Organization	Currency of budget	Currency policy	Handling of rate fluctuations				
			Split assessment	Reserve fund	Absorption	Hedging	Other
United Nations	United States dollar	Projections of operational rates are based on the lower of average monthly rates and spot rates and are updated to actuals during the biennium. Additional requirements are covered by supplementary estimates as approved by the General Assembly.					X
FAO[a]	Not provided	United States dollar/euro rate is set in advance of the programme of work and budget document preparation and monitoring is carried out every three months, or more often towards the end of the year or biennium. Appropriations are paid in United States dollars and euros and rate gains/losses are recorded in the “Special Reserve Account”. Furthermore, the Working Capital Fund could be used to meet some unbudgeted cost increases in theory.	X	X			
IAEA	United States dollar/ euro	The approved annual budget is split between euros and United States dollars at a 1:1 rate. The dollar portion is revalued at the applicable United Nations rate of exchange at the beginning of the financial year before allotments are issued; finally, at the end of the year, allotments are revalued at the average United Nations rate of exchange for the year.	X				
IFAD[a]	Not provided	Exchange rates are based on market forecasts and loan disbursements are made in United States dollars. Fluctuations against special drawing rights are managed through a spread of investment assets across special drawing rights basket currencies. All assets are balanced against liabilities (denominated in special drawing rights) through the maintenance of an investment portfolio balanced against its special drawing rights (by external portfolio managers).					X

			Handling of rate fluctuations				
Organization	*Currency of budget*	*Currency policy*	*Split assessment*	*Reserve fund*	*Absorption*	*Hedging*	*Other*
IMO	Pound sterling	The IMO Assembly approved in 2011 to expand the terms of the Working Capital Fund to function additionally as an exchange reserve fund in order to account for the currency exchange rate gains or losses in the regular budget arising from differences between the United Nations operational exchange rates and the budgetary rate assumed in the costing of resource requirements.		X	X		
UNAIDS	United States dollar	A monthly programme of currency hedging is performed to hedge against the foreign currency risk of the recording of foreign currency receivables, and the exchange rates at which the cash receipt is subsequently recorded. In line with WHO, UNAIDS has also opted to hedge through forward currency contracts to protect the value of the UNAIDS budget against appreciation in the value of Swiss franc vis-à-vis the United States dollar for the salary costs paid in Swiss francs.				X	
UNESCO	United States dollar	The euro exposure of the United States dollar-based regular programme budget is protected against currency fluctuation with a split assessment system. Each Member State is assessed separately for United States dollar and euro amounts of the regular budget. Budgetary expenditures in euros are recorded at the fixed United States dollar-euro exchange rate used to assess the Member States. The exposure in other currencies is limited and is distributed over about 60 different currencies. Projects with non-euro/United States dollar expenditures under the regular programme or with non-United States dollar extrabudgetary expenditure need to reserve funds for currency fluctuations in their budgets.	X				X
UNFPA	United States dollar	UNFPA outsources to the UNDP Treasury the management of its foreign exchange operations (hedging transactions); UNDP administers the hedging programme.				X	

			Handling of rate fluctuations				
Organization	*Currency of budget*	*Currency policy*	*Split assessment*	*Reserve fund*	*Absorption*	*Hedging*	*Other*
UNICEF[a]	United States dollar	Biennial support budget prepared in United States dollars. UNICEF hedges the balance sheet, and sells currency forwards. Expenditure exchange rates fluctuations are absorbed within the budget.			X	X	
UNIDO	Not provided	Exchange gains and losses are expected to be covered from the foreign exchange currency reserve account that was created effective 1 January 2002.		X			
WFP[a]	Not provided	Average euro/United States dollar rate of hedging contracts is incorporated to result in certainty for the United States dollar value of the euro-denominated programme support and administrative expenditure. WFP hedges the euro-based component of its budget through forward contracts.				X	
WHO	United States dollar	Rolling 12-month forward contracts for net exposures for salary costs and a portion of estimated non-United States dollar non-salary costs. Salary standard costs used for budget management reflect the expected hedged rates.				X	
WIPO	Swiss franc	The organization's immediate needs in major currencies (euros, Japanese yen and United States dollars) are netted against the amounts received and the balance sold immediately. Proceeds are then placed in accounts with the Banque National Suisse. Most of the costs are in Swiss francs. The biggest impact of exchange rates is on the income side where the fee income for the Patent Cooperation Treaty is collected in various currencies. WIPO has a mechanism whereby prolonged fluctuations from base exchange rates trigger changes in fee income.					X
ICAO	Canadian dollar	Split assessment mechanism, in Canadian and United States dollars. Forward exchange contracts are being utilized only for technical cooperation projects, i.e. for purchase orders in non-United States dollars. The cost of hedging is passed on to the donor States.	X			X	

			Handling of rate fluctuations				
Organization	*Currency of budget*	*Currency policy*	*Split assessment*	*Reserve fund*	*Absorption*	*Hedging*	*Other*
AfDB	Units of accounts; same value as special drawing rights	AfDB uses currency hedging to protect and mitigate fluctuations in exchange rates. The Bank’s administrative expenses denominated in main non-special drawing rights currencies are hedged through the execution of foreign exchange non-deliverable forward contracts.				X	
IADB	United States dollar	We use only published rates for the countries in which we have offices (which are 28). We don’t adjust budget envelopes for currency fluctuations.			X		
IBRD	United States dollar	No currency policy. We do hedge for balance sheet purposes but not specifically for budgeting purposes.			X		
UNDP	United States dollar	UNDP is actively managing its foreign exchange risk exposures using foreign-exchange options and foreign-exchange forward contracts. UNDP has separate hedging programmes for core and non-core resource exposures to protect against adverse currency movements. In addition, when possible, natural offsets are used.				X	X
ILO	United States dollar	ILO has a forward purchase scheme for United States dollars in place that protects against exchange rate movement.				X	
ITU	Swiss franc	ITU is not using derivative financial instruments, nor is it using hedge accounting according to IPSAS. Most of the ITU regular budget revenues and expenses are budgeted and incurred in Swiss francs. Extrabudgetary projects are managed in the currency of their funding. To the extent possible, a natural hedge is done, using bank accounts managed in the currency of the transaction (mostly Swiss francs, United States dollars and euros).			X		

Organization	Currency of budget	Currency policy	*Handling of rate fluctuations*				
			Split assessment	*Reserve fund*	*Absorption*	*Hedging*	*Other*
ADB	United States dollar	Adjustment for currency exchange is made at the time of preparing the budget and is adjusted during the midyear review exercise			X		
EBRD	Pound sterling	In line with the Bank's policies, the Bank reports in euros and the overall administrative and capital expenditure budgets are approved in euros. As the majority of expenditure is incurred in pounds sterling, budgets are established in pounds sterling for management purposes and a hedging policy is implemented in order to minimize euro/pound sterling risk. The budget reporting is therefore in pounds sterling, and the financial accounting and reporting in euros.				X	

[a] Updated answers not provided. Summaries of answers from table 10 of the second performance report on the programme budget for the biennium 2008-2009 (A/64/545), updated table 15 of the document entitled "Budgeting in organizations of the United Nations system (CEB/2003/HLCM/21), annex V to the first performance report on the programme budget for the biennium 2010-2011 (A/65/589) and the annex to the second performance report on the programme budget for the biennium 2010-2011 (A/66/578 and Corr.1).

C. Inflation

Organization	*Forecasting*	*Adjustments of the budget*	*Inflation reserve*
United Nations	CPI from *The Economist* used for non-post items and General Service cost-of-living adjustments. Professional adjustments are based on the post adjustment multiplier of ICSC.	Revisions made on a rolling basis at initial appropriation, revised appropriation and final appropriation stages.	No reserve.
FAO	A wide variety of indices are used relating to the many cost items included from private sector forecasting services.	No adjustment to budget level. However, in theory, the Working Capital Fund could be used to meet some unbudgeted cost increases by providing reimbursable loans in specific cases.	The Special Reserve Account provides protection up to 5 per cent of budget to be used against adverse movements in currency rates and inflation. Unbudgeted cost increases greater than 5 per cent are absorbed.
IAEA	The budget proposals incorporate a price adjustment based for professional staff costs on ICSC forecasts and for General Services staff costs on the actual "tariflohn" (the Austrian minimum salary scale adjustment factor); all other costs are based on the actual Harmonized Index of Consumer Prices.	There is no recosting done during the budget implementation cycle	No reserve.
IFAD	The gross predicted inflation rate is a composite predicted increase in staff standard costs and the European CPI.		No reserve.
IMO	The organization reviews historical data of the retail price inflation indices in the United Kingdom and assumes a certain level for endorsement by the governing bodies for the costing of the proposed/estimated resource requirements.	No recosting for the approved biennial budget	No reserve.
UNAIDS	Various assumptions and tolerances have been developed to mitigate risks of cost overruns as well as increased estimates.	No adjustment to the budget level.	No reserve.

Organization	Forecasting	Adjustments of the budget	Inflation reserve
UNESCO	Estimates of statutory increases under the staff costs as well as the price increases for goods and services are based on trends, evolution of averages and statistical indicators.	Unbudgeted cost increases are absorbed.	Cost increases due to inflation and statutory increases are not incorporated into the individual appropriation line, rather provided as “anticipated cost increases” after board approval.
UNFPA	UNFPA liaises with UNDP and UNICEF to determine appropriate parameters, based on past inflation as well as projections.	UNFPA does not have a recosting process. Within the context of the integrated budget approved for 2014-2017, a midterm review will be conducted for Executive Board approval of revised estimates, if any.	There exists a provision in the Financial Regulations stating that the Executive Director can utilize, on an exceptional basis, a budgetary contingency of up to 3 per cent of the approved appropriation at the end of the budget cycle for unforeseen requirements resulting from currency movements, inflation or decisions of the General Assembly.
UNICEF	Estimates in the proposed biennial support budget are based on price increases that have already occurred and are very likely to occur based on current information.	Inflation and other cost increases are absorbed.	No reserve.
UNIDO	By following ICSC guidelines on statutory increases. Further, by use of standard costs which are based on actual costs in prior years with adjustment for expected costs of living and other charges.	A portion of the programme budget includes an element for anticipated inflationary and other cost increases. Careful analysis is made to ensure that the amount would suffice for inflationary increase and decreases.	No reserve.
WFP	Fluctuations are driven by changes in commodity prices and the United States dollar. WFP has developed cereal and crude oil indices to monitor commodity prices.		No reserve.
WHO	Only done at the time of setting up the budget.	No recosting and no automatic inflation allowance is permitted by WHO Member States.	No reserve.

Organization	*Forecasting*	*Adjustments of the budget*	*Inflation reserve*
WIPO	WIPO uses United Nations guidelines on the forecasted inflation rates	WIPO incurs most of its expenditure in Swiss francs with products and services largely procured in the local market, with Switzerland having a relatively stable inflation outlook. In general, the budgeting for WIPO takes into account “programme variations” and “cost variations”.	Budget provisions under unallocated resources may serve to mitigate unforeseen cost increases. Regulation 5.5 of the Financial Regulations and Rules also gives the Director-General the right to make transfers from one programme to another.
ICAO	Use official statistical sources and industry projections.	Recosting is not done.	No reserve
AfDB	The Office of the Chief Economist of AfDB computes a composite inflation rate based on individual inflation rate of African countries.	No adjustment	No reserve
IADB	We use a composite price adjustment factor that takes into account structural salary increases for both international and locally hired staff and complementary workforce, inflation for the region and in the United States, and expected airfare increases.	No adjustment	No reserve
IBRD	Not a price factor but long-term forecast of financial sustainability, which use market inflation and exchange rate forecasts.	No adjustment	No reserve
UNDP	Estimates for inflation on the proposed budget are based on price increases that have occurred and are most likely to occur. The official inflation index of the host country and other available economic indicators are used to ensure that the cost increases are reasonable.	Unbudgeted inflationary increases are normally absorbed.	No reserve
ILO	The overall weighted inflation figure for the budget is built up from a consolidation of rates used for all locations where ILO operates. IMF and national bank data is used for estimates of inflation, which is incorporated for each location in the budget model.	Unbudgeted cost increases are absorbed.	No reserve

Organization	*Forecasting*	*Adjustments of the budget*	*Inflation reserve*
ITU	The ITU budget is budgeted in Swiss francs and most revenue and expenses are incurred in Swiss francs. The inflation in Switzerland has been and remains very low with no current signal for a significant increase.	No adjustments	No reserve
ADB	ADB uses externally available price indices or inflation rates to adjust budgets for specific cost subcomponents of its budget.	Adjustment for inflation is made when the budget is prepared using externally available price indices or inflation rates, and additional impact during the implementation of the budget is absorbed through use of general contingency and reallocation of resources.	No reserve
EBRD	The United Kingdom retail price index is used for United Kingdom-based staff and non-staff costs. With effect from the 2011 budget, a country-based inflation measure for local office staff and non-staff costs has been developed which takes into account the impact of exchange rate movements between budgets. A price factor methodology is used to assess budget growth compared to actual inflation rates, with headquarters inflation and resident office inflation adjusted for exchange rate movements, being weighted by the relative size of the budget bases.	No adjustment	No reserve

D. Infrastructure

Organization	*How is the current budget organized?*	*Information technology platforms*	*Visibility of local offices*	*Historical data from local offices into future budget projections?*
IAEA	IAEA is a headquarters-based organization and the budget process is managed centrally, with each department presenting a proposal for their major programme. All proposals are reviewed and consolidated centrally into the Agency's programme and budget.	The Agency is currently using Hyperion for the preparation of its programme and budget.	IAEA does not have local offices that would be of material significance. The programme and budget team has access to all Agency expenses and requirements. The Programme and Budget Section is also in charge of reporting and budget monitoring during implementation.	IAEA does not have local offices that would be of material significance. The programme and budget team uses Agency historical expenditure data for analysis and review of budget proposals.
IMO	The regular budget and other administrative funds are handled by the central office. Only certain extrabudgetary programmes on donor/trust funds are handled by local project offices.	SAP resource planning system, Microsoft Access database and Excel software.	Yes for the headquarters divisions expenses and requirements but rarely for those of the local offices.	Yes for the headquarters divisions expenses and requirements but rarely for those of the local offices.
UNAIDS	Zero-based budgeting is currently followed in the development of the budget. Each country office, regional support team and division at headquarters prepares a workplan with a clear and concise summary of expected results and actions. These workplans are then translated into fully fledged operational plans in the enterprise resource planning platform (Oracle) based on budget allocations approved by headquarters. In addition to workplans for programmatic activities, all operational units also prepare budgets for operational costs based on historical costs which are adjusted up or down, as necessary. The	The Oracle enterprise resource planning platform is used for the budgeting process.	Yes, the operational budgets drawn up by the various UNAIDS country offices are submitted to the budget team and allocations are made on the basis of the historical costs and submissions. All expenditures can be viewed by the budget and finance team in real time through the enterprise resource planning platform.	Yes, historical requirements and disbursements are taken into account in future projections and any variances are explained in the budget submission.

Organization	*How is the current budget organized?*	*Information technology platforms*	*Visibility of local offices*	*Historical data from local offices into future budget projections?*
	budgets are prepared in United States dollars.			
WHO	In the past this has been a largely top-down exercise, involving headquarters and regional offices, not country offices. Going forward, the top-down approach will also be complemented by a robust bottom-up process from country offices.	Within Oracle enterprise resource planning platform.	Yes, based on Oracle platform.	Yes
WIPO	WIPO operations are mainly based in Geneva; therefore, the budget preparation is done by the Programme Performance and Budget Division in liaison with respective programmes and their managers, who are all based in Geneva	Programme and budget preparation involves the use of the Oracle-based Hyperion Planning system.	WIPO has small offices in Singapore, the United States (New York), Brazil and Japan. The organization's budget team has all the information on the local offices expenses and requirements.	Yes
ICAO	Although inputs are received from all offices, including regional offices, the compilation and amendments are all done at the headquarters level. Collaboration with all offices is maintained throughout the budget exercise.	The budget is built using Microsoft Excel and data input is a mix of Microsoft Access and Excel	Yes, the current enterprise resource planning system provides real-time information and reports on expenses and commitments versus available funds. Local (regional) office requirements are sent in through Access files.	Yes
AfDB	The budget process is elaborated in question 1 above. The portion of the process handled by the local and field offices are the submissions made in Strategic Resources Assessment Software, which are, however, centrally collated by the budget department under each Vice-Presidency Unit. It is important to highlight that budget envelopes are	Strategic Resources Assessment Software is the Bank's planning and budgeting tool designed for the submission of work programmes by all centres, on the basis of which the budget envelopes are determined.	Yes, the tools used for visibility are Strategic Resources Assessment Software during budget submission and SAP during budget execution.	Yes, historical expenditures are analysed in order to better estimate future needs. In other words, the budget is prepared with lessons learned from previous budget exercises.

Organization	How is the current budget organized?	Information technology platforms	Visibility of local offices	Historical data from local offices into future budget projections?
	allocated at Vice-Presidency Unit levels so the local offices will make submissions in line with what has been allocated to their Vice-Presidency Units and also based on what the Vice-President has allocated to their organizational units/cost centres, based on expected work programme activities for the year.			
IADB	The central budget office (the Budget Division of the Budget and Administrative Services Department) leads the budget process in coordination with all other bank areas. Budget targets are distributed at the Vice-President and department level and Vice-Presidents may exercise flexibility to redistribute budget targets across the departments under their purview, so long as the Vice-President-level target is maintained. Local offices report to country departments and as such abide by the targets that the Vice-President for Countries and their respective departments allocates to them.	We are concurrently transferring to SAP, however, the systems we have been using thus far are Hyperion Planning and Hyperion Report, and three in-house systems.	Yes	Since budget targets are calculated at the department and Vice-President levels, Country offices, per se, do not receive targets from us but rather are allocated a budget based on what their respective department provides to them. These, however, may or may not use historical information on which to base their decisions.
UNFPA	At the beginning of the budget preparation, income projections are developed for the planning period. Based on those projections, high-level envelopes are approved by senior management, constituting the target budget. Budget guidelines are elaborated by the budget office at headquarters, and every office (at the headquarters, regional, subregional and local levels) submits a budget	An in-house budget application has been developed to gather and analyse all budget submissions from all offices. The in-house budget application feeds from data stored in the UNFPA enterprise resource planning system.	Yes, through the in-house budget application mentioned above. Also, expenses are visible to the budget team through the enterprise resource planning system.	Yes. The budget application retrieves expenditure information from the enterprise resource planning system as a starting point for the formulation of budget proposals.

Organization	*How is the current budget organized?*	*Information technology platforms*	*Visibility of local offices*	*Historical data from local offices into future budget projections?*
	proposal. Internal consultations and reviews of the budget proposals lead to senior management internal approval, which is guided and informed by the envelopes developed as mentioned above. The consolidated budget proposal, including an analysis of cost and volume, is then prepared and submitted to the Executive Board, through the Advisory Committee, for approval.			
IBRD	Steps 1 to 3 are largely a central process, with steps 4 and 5 having greater involvement at the unit level.	Currently use in-house developed systems. Implementing SAP-based budgeting platform for next year.	Most data is in SAP/Business Warehouse for the centre to use. Additionally a team of “account managers” works closely with the units.	Yes, historic spending patterns inform budgeting decisions, but moving to a more normative approach.
UNESCO	Not provided	Programmatic information on the budget and results-based monitoring is maintained in a database system named SISTER. Financial data on budget and expenditures are maintained in SAP-based database, namely Finance and Budget System.	The SAP-based Finance and Budget System maintains detailed expenditure records of the local offices, providing the organization with the data for analysis of budget requirements and inflations.	Yes. The historical data from local offices constitute important elements for the analysis of inflation trends, etc.
UNDP	Blended top-down approach is used to set financial parameters (i.e., growth, no-growth, reduction, etc.) and areas of increase/decrease (for example, development activities percentage increase and management activities percentage decrease), followed by the bottom-up exercise with these parameters.		Yes. Resource planning is a consultative process that necessitates back and forth exchanges between individual units and respective bureaux. Expense	UNDP has its online internal strategic planning tool, which is used by all units to prepare integrated annual workplans within the budget cycle.

Organization	How is the current budget organized?	Information technology platforms	Visibility of local offices	Historical data from local offices into future budget projections?
			reports as well as budget utilization reports are available through the corporate enterprise resource planning system at the unit, regional and global levels.	
ILO	All offices and technical units provide data for the zero-based budgeting process. The Department of Programming reviews inputs and produces the programmatic text; the Department of Financial Management undertakes all costing, inflation and financial adjustments and calculations.	The Oracle-based enterprise resource planning is used to collate initial entries for the budget proposals.	Yes, the data is available through the Oracle-based enterprise resource planning.	Yes, but only as a validation for proposals for certain types of costs, e.g. rent, utilities.
ITU	The budget is produced on a results-based budgeting basis centrally. There are no local offices.	The budget is managed with SAP Funds Management.	ITU is managed centrally with no local offices.	ITU is managed centrally with no local offices.
ADB	Budget estimates for staff costs (salaries and benefits) for field offices are prepared at the head office by the Budget, Personnel and Management Systems Department and submitted to the Budget Division for review, validation and consolidation. Budget estimates for consultants and travel are prepared by regional departments for field offices which are under their regions and submitted to the Budget Division for review, validation and consolidation. Budget	ADB uses an Oracle-based system (an in-house developed system) called the Budget and Monitoring Control System for budget submission, review, consolidation and monitoring budget utilization. The Consultant Management System and eTrip for business travel are integrated with the Budget and Monitoring Control System.	Budget utilization is monitored closely (monthly, quarterly, half-year and year-end) and staff in the Budget Division have a complete view of the utilization of the budget and the expenses in field offices.	Historical budget utilization, particularly estimated budget utilization preceding the next budget year, forms the basis for preparing budget estimates for the next year, particularly for overheads. However, changes in operations such as scaling down operations in a field office or expanding programmes will require adjustments to be made.

Organization	*How is the current budget organized?*	*Information technology platforms*	*Visibility of local offices*	*Historical data from local offices into future budget projections?*
	estimates for overheads (communications, utilities, contractual services etc.) are prepared by field offices and submitted directly to the Budget Division for review, validation and consolidation. Capital budget for fixed assets such as the replacement of vehicle, furniture, information technology equipment and others are prepared by field offices and submitted to the Budget Division for review, validation and consolidation.			
UNIDO	The budget process is handled centrally from the headquarters. However, budget submission templates that form the budget building blocks are compiled separately by each unit and branch of UNIDO both at headquarters and in filed locations. These submissions are then sent to the budget unit for onward processing and consolidation.	UNIDO will continue to use the Agresso as its financial control and planning software for budgeting purposes. There is the intention to move the budget process to SAP, the enterprise resource planning system in use at UNIDO. This will only be possible when this enterprise resource planning has been fully configured for the purposes of budget preparation processing.	The budget team consolidates the budget submission documents and proposals of the field offices/local offices in conjunction with its units and branch managers. The process involves the analysis of historical and current expenses vis-à-vis current budget submissions. One detriment is that on many occasions the entire local costs may not be fully known (given locational distances and delays in receipt of settlement advices) at the time of budget processing and consolidation. Further, there is limited data available for remote field office locations	UNIDO as a whole utilizes the principle of zero-based budgeting. Consequently, resource levels are determined based upon the expected resource requirements of the following biennium. However, analysis and variances from prior bienniums are scrutinized to better understand material variances.

Organization	How is the current budget organized?	Information technology platforms	Visibility of local offices	Historical data from local offices into future budget projections?
			that would assist in clearly assessing the impact of anticipated inflationary, exchange rate and other related cost increases.	
EBRD	The budget process is coordinated by the budget function in the Finance Vice-Presidency.	Consistent and uniform Excel models, with mainly manual interfaces are used for the budgeting process.	Yes	Yes

E. Lessons and comments

Organization	*What are the lessons learned?*	*Any other comments?*
IAEA	Although the "split appropriation and assessment" system has proven to be effective in protecting the purchasing power of IAEA for over 20 years, it is a quite complicated mechanism. As the regular budget is initially prepared at an artificial rate of 1 United States dollar to 1 euro for comparative purposes, this budget is revalued at least twice during the implementation period in order to present more realistic figures. It is difficult for programme managers to manage their resources efficiently due to fluctuations experienced during the implementation stage, with a risk that a drastic decline in the exchange rate may lead to funds insufficiency or a rise in the exchange rate may result in unspent funds at year end. Additional workload is created in monitoring the revaluation and additional allotment transfers are required to be done as a result of currency fluctuations. A study regarding a possible change to a single currency assessment and budgeting system (euro) for the next budget cycle is being considered to simplify this process.	Not provided
IMO	As impacts of any unfavourable movement of inflation and exchange rates have to be absorbed within the approved budget, vacancy rates in the approved posts have been kept comparatively high because savings from efficiency measures cannot be explored infinitely. In addition, since the recosting of resource requirements on the basis of actual movement of inflation and exchange rates is only factored into consideration when budget proposals for a new biennium are prepared, the cost estimate for the same level of resource requirements has normally led to the considerable increment in the required budget, especially under the unfavourable movement of those uncontrollable external factors, making it more difficult to seek the concurrence of the governing bodies to the proposed budget and eventually leading to cuts in resource requirements.	The IMO Assembly approved in 2011 to expand the terms of the Working Capital Fund to function additionally as an exchange reserve fund in order to account for the currency exchange rate gains or losses in the regular budget arising from differences between the United Nations operational exchange rates and the budgetary rate assumed in the costing of resource requirements.
UNAIDS	UNAIDS has looked for ways to contain costs, in particular those in Swiss francs, seeking to increase cost effectiveness and efficiencies through better planning, prioritization and utilization of resources. This includes zero-growth budgeting, tight controls on recruitment of staff and strict policies governing recruitment of consultants, joint procurement and use of long-term agreements together with other United Nations agencies, outsourcing functions such as web publishing, better use of technology, video conferencing, Skype and reduced meetings and travel.	The issue of currency fluctuation has been mitigated by cutting costs and transferring costs away from headquarters leading to decreased Swiss franc expenditure. The process has been complemented by maintaining fiscal discipline through internal control mechanisms, operational efficiencies and increased cost effectiveness.

Organization	*What are the lessons learned?*	*Any other comments?*
UNESCO	Not provided	Not provided
WHO	Twelve-month rolling forward contracts smooth the effects of spot exchange rate changes and provides intra-year budgeting certainty in terms of financial exchange rates and so provides a time period of breathing space to adjust cost structures to any significant financial exchange rate movements but will never be a panacea: in the event of major exchange rate movement there could be significant changes to budget assumptions. Currency risk management is a very difficult concept to explain both internally within the organization and (in particular) externally, to member states. There is no “free lunch” — no hedging solution can provide anything but a short- to medium-term solution.	The practice of recosting is not recommended: 1. It makes budget accountability more difficult as inflation increases can be used to “hide” inefficiency 2. It is inconsistent with good budget practice: inflation and exchange rate assumptions should be made at the time of preparing budgets. Assumptions may change but the impact of such changes can be explained when presenting financial reports. In the event of significant salary financing shortfalls as a result of adverse exchange rate or inflation movements these could be adjusted against reprioritization within the budget. 3. Recosting of cost-shared items such as the United Nations security budget is unhelpful for those organizations that do not recost, since it places a higher burden on the cost-share partners than the amounts originally approved, and on which the budgets of those organizations were originally based. Since WHO member states insist on zero real growth in WHO budgets (they do not allow inflation) it is extremely difficult (and unfair) to accommodate an inflation cost increase allowed by the United Nations membership: WHO may need to cut its costs (and staffing) to accommodate the increase (as for example happened in 2011/12).
WIPO	WIPO budgets are closely linked to the income that WIPO generates through the provision of registration services. Some 94 per cent of the organization’s income comes from fees from the Patent Cooperation Treaty, Madrid and Hague registration systems. Substantive changes in the level of income generated during the biennium may also lead to budget revisions. A prudent investment strategy is important given the current instability in market trends.	Not provided

Organization	What are the lessons learned?	Any other comments?
ICAO	Moving away from a United States dollar regime to a Canadian dollar regime helped the organization to manage its foreign exchange risks. The financial statements and the budget are both prepared in Canadian dollars now; they used to be in United States dollars.	The organization also made a corporate decision to pay all of its staff (including Professional staff) in Canadian dollars. The organization does not pay its Montreal staff in any currency but Canadian dollars.
AfDB	The hedging has mitigated potential increases in the Bank Group administrative expenses arising from adverse exchange rate movements, thereby reducing volatility in the Bank Group net income.	Not provided
IADB	Approximately 10 per cent of our budget (in United States dollars) is allocated to our 28 country offices and as such operates mainly in local currencies.	Overall, during the past few years the United States dollar has tended to appreciate relative to currencies in Latin America and the Caribbean, and departments managing country offices or having staff assigned under them accumulated savings due to such windfalls. Last year, we managed to capture a portion of those savings centrally to cover priority expenses.
UNFPA	From the budgetary side, given the fact that UNFPA operates all around the world, there is considerable exposure to exchange rate movements. However, the impact is mitigated as the institutional budget is appropriated in United States dollars, which tends to be stronger than local currencies where field offices operate. From the income side, however, the exposure of UNFPA to exchange rate movements is greater, in particular due to fluctuations between the euro and the United States dollar. Since a large portion of donor pledges are made in euros, UNFPA manages this exposure with the purchase of financial instruments administered by UNDP. In addition, UNFPA regularly monitors the income estimates, taking into account the exchange rate fluctuations, and manages the resources made available to its offices during the year in accordance with those income estimates. Further, the measures discussed above ensure there is no loss to UNFPA on the programming of co-financing agreements	Not provided
IBRD	Fiscal year 2015 is the first year of nominal budgeting, so no lessons yet.	In the past, price and exchange rate adjustments worked well using the price factor, but it led to sustained spending increases not affordable within constrained revenue outlook. Additionally, units when experiencing windfalls in some years did not return money to the

Organization	*What are the lessons learned?*	*Any other comments?*
		corporate centre, but when experiencing losses did request additional funds to offset these losses. This added to the systematic uptick in expenses
UNDP	Over a longer period of time there are substantial benefits to the organization from actively hedging foreign exchange risk. The gains from protecting exposures during periods of high volatility far outweigh any opportunity loss experienced during periods of relative stability.	Not provided
ILO	The forward purchase scheme has been successful in protecting the member states from further assessments and has allowed programme managers to undertake activities without reductions in allocations due to movements.	ILO regular budget is based in United States dollars but assessed in Swiss francs. It is normally adopted in June of the year before the budgetary biennium commences. A budgetary rate of exchange is set at the time the budget is adopted. The exchange rate is established by forecasting the foreign exchange needs of ILO in the next biennium, between Swiss francs and United States dollars. This estimate of needs for United States dollars is used as the basis of 24 forward purchase contracts at a set rate, which becomes the budgetary rate of exchange.
ITU	Not provided	Not provided
ADB	Inflation and exchange rates used in the budget were generally within the projected range during implementation of the budget. ADB did not experience severe fluctuations in inflation and currency exchange rates.	Not provided
UNIDO	Experience with the foreign exchange reserve has been quite positive. In the recent past most bills for common operations of the Vienna International Centre were made in the euro, since the cost drivers are local currency expenses. However, since the accounts of the United Nations Office at Vienna were in United States dollars, this arrangement resulted in massive book-exchange gains and losses, which were also billed to UNIDO. This occasioned numerous discussions and dissension.	Regarding charges from United Nations common operations, including the jointly financed activity invoices of the Joint Inspection Unit, the Department of Safety and Security, the Chief Executives Board for Coordination and ICSC, often, UNIDO and other specialized agencies have had a daunting task trying to absorb charges from United Nations Headquarters where budget appropriations were recosted and revalued several times in the course of the biennium. UNIDO is not allowed to accept

Organization	What are the lessons learned?	Any other comments?
		additional charges that emanate from such recostings as its budgets are fixed, once approved by its governing bodies. An urgent solution is required.
EBRD	In the 2011 budget, a new methodology was introduced whereby a country-based inflation measure for local office staff and non-staff costs has been developed and takes into account the impact of exchange rate movements between budgets.	Not provided