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MODE OF OPERATION:

PRIOR TO THE START OF THE BIENNIUM.

The process of preparing a Budget Work-Programme is normally a lengthy one. The dateline from which all programme costs are estimated may be as much as eighteen months prior to the start of the biennium. The provision for inflation therefore has to include sufficient funds not only to cover the inflation that will occur during the biennium, but also to bring the estimates up to the dateline of January 1st of the first year of the biennium. This can create an added difficulty due to the fact that various cost estimates are likely to be out of date by the time the biennium starts, because the actual rates of inflation proved to be different from those anticipated. The present system is very rigid and it is not possible to make later day adjustments or corrections, especially when inflation estimates were made on a line object basis. Unless the estimates were exactly on target, the Agency would be in a situation of either shortfall or windfall of unknown proportions.

The methodology that is proposed here makes it possible to do virtually last minute corrections and to avoid most of the risk associated with obsolete estimates.

When the Executive Board or the General Conference last meet before the start of the next biennium (normally, late in the fall), they should be able to have access to actual inflation figures for the programme countries for most of the current year. It would therefore be open to them to substitute these figures for the earlier estimates and to readjust up or down the "total estimated inflation cost".

The calculation of programme cost estimates on the basis of current market prices and the establishment of an Inflation Facility therefore make it possible to bring forward all programme cost estimates as close as possible to the first day of the biennium and to provide, if it is the will of the Executive Board, the right amount of compensation for pre-biennium inflation. Right from the start therefore, Agencies could be able to provide their regional or programme managers with financial allotments that reflect reality as accurately as possible.