



# WORLD HEALTH ORGANIZATION

**EXECUTIVE BOARD**  
**107th Session**  
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## **Approaches to cost increases and exchange rates**

1. It has been the practice in WHO for many years that the regular budget proposals for the Executive Board are prepared at the cost and exchange-rate levels of the previous biennium. The Board has normally not taken a position on the subject of cost increases, other than by expressions of individual positions. Accordingly, a report indicating the cost increases and exchange rate adjustments required to maintain the real level of the regular budget between bienniums has generally been submitted to the Health Assembly.
2. Over the past decade the Health Assembly has decided to compensate only partially for cost increases, and most recently has given no compensation. For the biennium 2000-2001, a separate allocation was made from Casual Income for certain priority programmes, in addition to the regular budget appropriations.
3. Considerations on the way in which to handle this matter with regard to budget proposals for the biennium 2002-2003 are set out below.
4. During the past few bienniums, the Exchange Rate Facility has not provided any overall protection against inflation or cost increases to regions whose expenditure is primarily in currencies of developing countries. Because the currencies of the regional offices concerned have weakened against the dollar, their budgets have been reduced in dollar terms through transfers to the Exchange Rate Facility and no compensation has been available for the local currency inflation that occurs when those currencies devalue. For expenditure at headquarters and in the Regional Office for Europe, however, the movement of the local currency against the dollar may be positive or negative. The Director-General therefore intends to use the Exchange Rate Facility for headquarters and that regional office only, in accordance with new Financial Regulation 4.4 which allows for a more strategic use of the Exchange Rate Facility. A foreign exchange option will be purchased to limit the loss that may be incurred in the event of a negative local currency movement. The cost of that option, similar to an insurance premium, will be charged against Miscellaneous Income.
5. Partly as a consequence of the preceding decision, the Director-General has also requested that a simpler method of calculating cost increases should be identified. For the biennium 2002-2003, she intends to use external independent sources of information and to consult with her staff before she submits her proposals in this regard to the Fifty-fourth World Health Assembly.
6. A short background note on current practices with regard to cost increases and currency adjustments is annexed.

ANNEX

**COST INCREASES AND EXCHANGE RATE ADJUSTMENTS:  
CURRENT PRACTICE**

1. The practice in regard to **cost increases** due to inflation has been that the Health Assembly was given an estimate of the cost increases required to maintain the content of the regular-budget programme in real terms. Such estimates were based on inputs from the six regional offices, taking account of the nature of WHO's collaboration with Member States, and similar information for activities at headquarters.

2. The practice in regard to **exchange rates** has, for many years now, been that, as a last step during the budget process, and even if the Health Assembly did not agree to make any provisions for cost increases, the budget was recalculated (using the May rates of exchange for the Swiss franc and five non-dollar regional office currencies) in order to reach the budget level to be submitted to the Health Assembly. During budget implementation, the same budget lines based on selected local currencies, were adjusted by monthly calculations through the Exchange Rate Facility. As a result, those budget lines were "protected" from losses or gains on exchange rates, as the corresponding allotments were adjusted upwards or downwards through Casual Income, in compensation for the movements of the selected local currencies *vis-à-vis* the United States dollar. For the last few bienniums, the charge to the Exchange Rate Facility has been limited to a maximum of US\$ 31 million.

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