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Summary of observations made by the Deputy Administrator,  
3 June 1982, on Non-Convertible Currencies

1. At the request of the Chairman, the Deputy Administrator outlined certain issues which needed to be considered in dealing with the over-all question of non-convertible currencies and specifically, with the Swedish and USSR proposals.
2. The Swedish proposal made in the plenary is understood to be the following: in those countries with Swedish bilateral programmes, the recipient country and Sweden can agree that goods and services be obtained in non-convertible currency countries within the framework of the Swedish bilateral programme. If the non-convertible currency country agrees, Sweden would obtain the non-convertible currencies concerned from UNDP to pay for these goods or services and in turn, would pay over to UNDP the equivalent amount in convertible currencies. Thus, the final result would be the exchange by UNDP of non-convertible currencies for convertible currencies.
3. The proposal of the USSR (which is similar to a proposal made by UNDP two years ago) is that non-convertible currencies accumulated as at 31 December 1976, not having formed part of the resources used for IPFs in the cycle 1977-1981, should be available as an add-on to IPFs for expenditures in the non-convertible currencies countries concerned.
4. Mr. Brown stated that in dealing with the issues, the question of increased utilization of accumulated non-convertible currencies is one aspect of the question only. The other aspect to be dealt with is the need to reach agreement on the outstanding financial regulations. Both the Swedish and USSR proposals dealt with the first issue only.
5. In any proposal dealing with both issues, it would be important to distinguish between non-convertible currencies of donor countries and those of recipient countries. At 31 December 1981, approximately one-half of the accumulations were in respect of the two donor countries. In the case of recipient countries, accumulations vary according to the need for local currency in the country concerned in carrying out the UNDP and United Nations financed programmes. In one recipient country, for example, accumulations have resulted because no programmes have been carried out in the country concerned for the past three years but would readily change once the programme is restarted. In other cases, there is no Resident Representative Office. In other cases, the recipient countries have not wished to acquire goods and services available in other non-convertible currency countries.

6. It is a fact that as regards the USSR, the rouble inflow has been more than matched by outflows since January 1977. This is partly as a result of swaps of roubles with certain developing country currencies with the approval of the parties concerned. In the case of the other non-convertible currency donor country, balances have continued to increase since January 1977. It is believed that utilization has been favourably affected by the partial payment of convertible currencies in some cases in acquiring equipment and services from non-convertible currencies countries. If the 1977 Council decision is strictly observed in the future and there are no further swaps with developing country currencies, it is possible that utilization could be reduced. The record of the past five years, therefore, may not be a precedent for future action.
7. In connection with the last point, there is an outstanding issue of whether payment for goods and services acquired from non-convertible currency countries should be solely in the non-convertible currency concerned (so long as there are accumulations) or in proportion to the currency of contribution. This would mean that if the latter is agreed, the USSR would receive payment of 75 per cent roubles and 25 per cent convertible currency and for the German Democratic Republic 90 per cent and 10 per cent. The manner of payment to non-convertible currency recipient countries would also have to be determined. It should be pointed out that at least 25 per cent of all contributions is needed to meet convertible currency costs of administration and overhead costs to executing agencies and is, therefore, not available for programming.
8. A decision needs to be taken on concomitant or incidental costs in convertible currency which are needed to facilitate expenditures in non-convertible currencies. For example, the need to use convertible currency to pay for freight and installation costs in connection with equipment bought in non-convertible currency countries.
9. The Swedish proposal in so far as it involves an exchange of non-convertible currencies for convertible currencies can be undertaken under present financial regulation 4.2 and no further decision of the Council would be needed to effect this. The only requirement is the agreement of the three countries concerned. If, however, there were concomitant requirements from the country's IPF to supplement the project involved (which would be unlikely but could be possible in a co-financed project), the committee may wish to indicate whether or not such arrangements should be covered by any financial regulations.
10. The regulations dealing with currency of contribution must still be resolved even if agreement is reached on paragraphs 5-8. The options available are already before the Council:
  - (a) No change;
  - (b) Require that currencies of contributions be usable combined with a definition of usability;
  - (c) An increasing share to be paid in convertible currencies. (b) and (c) are alternatives, but also (b) could be regarded as an interim arrangement pending (c).