

Scale of assessments for 2014–2015

Foreign exchange risk management

Report by the Secretariat

1. The Programme, Budget and Administration Committee of the Executive Board has recognized in its two past meetings that WHO needs to find ways to solve the mismatch between the currencies of the Organization's income and expenditure.¹ The Organization is faced with a long-term currency risk because of an imbalance, mostly arising from net expenditure in Swiss francs of the equivalent of some US\$ 1200 million per biennium. Total assessed contributions for biennium 2012–2013 amount to US\$ 949 million, and are invoiced in United States dollars. In addition, voluntary contributions are received in many different currencies. The best mechanism to protect against the risk arising from this long-term imbalance is to match the currencies of receipt and expenditure. This could be done by switching the currency of some or all the assessed contributions to the Swiss franc.

2. Over the past decade, the growing proportion of expenditure funded by voluntary contributions has caused the currency-related imbalance to increase, and the recent volatility in the exchange rate between the Swiss franc and the United States dollar has exacerbated the problem. The WHO reform process provides an excellent forum to revisit crucial financing decisions such as what currency to use for assessed contributions. Comparable bodies in the United Nations system and other organizations assess contributions at least partly in the currency of expenditure at their headquarters.

3. WHO has a long-term requirement for expenditure in Swiss francs, which has had a significant impact upon the Organization's finances. Between 2000 and 2011, the purchasing power of the United States dollar fell by 34%, resulting in a steady rise in the United States dollar value of operating costs, particularly at headquarters. The extreme currency volatility and the sharp decline in the value of the United States dollar during the global financial crisis in 2011 induced the Executive Board and the Programme, Budget and Administration Committee to focus upon currency risks in their recent sessions.

4. Currently, WHO's budget is approved in United States dollars and Members of the Organization are assessed in that currency. If assessed contributions were set in Swiss francs, the budget would still be presented in United States dollars but some or all the assessed contributions of Member States would be in Swiss francs. The exchange rate between the Swiss franc and the United States dollar used to calculate the Swiss franc assessment would be the actual rate at the time when the Member States approve the programme budget.

¹ See document EB131/2, noted by the Executive Board in document EB131/2012/REC/1, summary record of the first meeting, section 4.

5. There are two main options for assessment in Swiss francs: either all Member States would be assessed 50% in Swiss francs and 50% in United States dollars, or 100% of assessed contributions would be assessed in Swiss francs.

6. A switch to a 50% assessment in Swiss francs would have the advantage of limiting the requirement for Member States to settle in that currency rather than United States dollars, and this level of Swiss franc assessment would protect the component of the total WHO budget financed by assessed contributions against the risk of currency fluctuations.

7. If 100% of the assessed contribution were assessed in Swiss francs, almost all WHO's long-term imbalance of expenditure in Swiss francs would be eliminated, thereby reducing the risk of budget shortfalls and the need for re-costing the budget owing to adverse exchange-rate movements. This solution was recommended by the Independent Expert Oversight Advisory Committee.¹ In addition, for Member States of the European Region, the exchange rate of their own currencies might be less volatile against the Swiss franc than against the United States dollar. However, this solution would also cause increased currency exposure for Member States whose currencies track the United States dollar more closely than the Swiss franc.

8. The Director-General recommends that a switch to 50% of assessed contributions in Swiss francs be considered as it maximizes the reduction in WHO's long-term exposure to that currency for the budget funded by assessed contributions. To mitigate the remaining exchange-rate risks in the part of the budget funded by voluntary contributions, the Director-General recommends that further efforts be made with partners to ensure that either contributions are denominated in the currencies of planned expenditure or that currency contingency measures are built into the budget proposals.

9. As this is a complex subject, a list of "frequently asked questions" with answers has been published on the WHO web site.²

ACTION BY THE EXECUTIVE BOARD

10. The Board is invited to note this report and consider whether to propose a draft resolution in respect of the matter raised in paragraph 8 on the currency of assessment for submission to the Sixty-sixth World Health Assembly.

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¹ See document EBPBAC16/3, paragraph 12.

² http://www.who.int/about/resources_planning/faq_assessment_chf.pdf (accessed 26 November 2012).