

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 three recent 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 the 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 assessment to the Swiss franc for some or all of the assessed contributions.
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 the 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 partly or fully in Swiss francs, the total budget would still be presented in United States dollars but some or all the assessed contributions of Member States would be invoiced 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 The relevant reports of the Committee to the Executive Board are contained in documents EB130/4, EB131/2 and EB132/43.

5. Two options for assessment in Swiss francs have been considered: either 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. It is proposed that the first option should be pursued and that a switch should be made to a 50% assessment in Swiss francs, which would have the advantage of limiting the requirement for Member States to settle in that currency rather than United States dollars. At the same time, this level of Swiss franc assessment would protect the component of the total WHO budget financed by assessed contributions against the risk of significant currency fluctuations.

7. Under this proposal, at the time of the approval of the Programme budget, 50% of Member States' assessments would be invoiced in United States dollars and 50% in Swiss francs. The Swiss franc amount would be calculated by reference to the published United Nations exchange rate applicable at the time of the approval of the Programme budget. A single statement would be issued to Member States, showing both amounts, and referring to the total approved assessment.

8. The Executive Board at its 132nd session in January 2013 considered an earlier version of this report, containing the proposal mentioned above.¹ During the discussions, broad support was given to the proposal.² Three matters were raised for further explanation, as follows:

(i) Since the Swiss franc is now strong against the United States dollar, there is a risk that the timing of this change is not ideal. Clarification was given that there is no right or wrong time to change the currency of assessment; the purpose is not to "gain" from the strength of the Swiss francs but to reduce currency risk by matching currencies of income and expense.

(ii) In its annual report in 2012,³ the Independent Expert Oversight Advisory Committee recommended a 100% switch to Swiss francs as being the optimum approach for reducing currency risk, given the present currencies of income and expense. However, taking assessed contributions alone, the 50% change represents a good match for expenses incurred from these funds only. In addition, the currencies of voluntary contributions (and expenses) may change over time, as donors' priorities change, and as alternative approaches are found for managing voluntary contributions currency risks – for example, ensuring full cost recovery, by using the actual exchange rates in calculating costs to implement the voluntary funded programmes.

(iii) It was noted that the change may present administrative difficulties for some Member States, and in order to ensure flexibility and fairness to all Member States, it is therefore now proposed that this measure apply only to Member States with assessed contributions above a total of US\$ 200 000 per annum. This will reduce to 65 the number of Member States concerned by the change, while the remaining 129 will continue to pay only in United States dollars. Eliminating the contributions below this threshold still ensures that 99% of the value of assessed contributions is taken into account, and will therefore continue to meet the objective of currency matching.

¹ Document EB132/28 Add.1.

² See document EB132/2013/REC/2, summary record of the twelfth meeting, section 1.

³ See document EBPBAC16/3.

9. If the Health Assembly decides to pursue the proposal mentioned above, the Financial Regulations of the World Health Organization will need to be adjusted. Amendments to Regulation 6.6 have been prepared accordingly and are attached in the Annex.

ACTION BY THE HEALTH ASSEMBLY

10. The Health Assembly is invited to consider the following draft resolution:

The Sixty-sixth World Health Assembly,

PP1 Having considered the report on foreign exchange risk management;¹

PP2 Recognizing the need for ensuring long-term matching between currencies of income and expense,

1. DECIDES:

(1) that the currency of assessed contributions will from 2014 be denominated half in United States dollars and half in Swiss francs, calculated at the time of the approval of the Programme budget and of the amount of the Programme budget to be financed from assessed contributions;

(2) that this measure will concern all Member States for whom the total amount of annual assessed contributions is US\$ 200 000 or greater, with Member States whose total annual assessed contributions are less than US\$ 200 000 continuing to be assessed solely in United States dollars;

2. DECIDES to amend Financial Regulation 6.6 to read as follows:

6.6 Where the total of annual assessed contributions for a Member is US\$ 200 000 or greater, that Member's contributions shall be assessed half in United States dollars and half in Swiss francs. Where the total of annual assessed contributions for a Member is less than US\$ 200 000, that Member's contributions shall be assessed in United States dollars only. The contributions shall be paid in either United States dollars, euros or Swiss francs, or such other currency or currencies as the Director-General shall determine.

3. FURTHER DECIDES that the foregoing changes to its Rules of Procedure shall take effect from the closure of its Sixty-sixth session.

¹ Document A66/32.

ANNEX

AMENDMENTS TO THE FINANCIAL REGULATIONS

FORMER TEXT	NEW TEXT
6.6 Contributions shall be assessed in United States dollars, and shall be paid in either United States dollars, euros or Swiss francs, or such other currency or currencies as the Director-General shall determine.	6.6— Contributions shall be assessed in United States dollars, and <u>Where the total of annual assessed contributions for a Member is US\$ 200 000 or greater, that Member’s contributions shall be assessed half in United States dollars and half in Swiss francs. Where the total of annual assessed contributions for a Member is less than US\$ 200 000, that Member’s contributions shall be assessed in United States dollars only. The</u> contributions shall be paid in either United States dollars, euros or Swiss francs, or such other currency or currencies as the Director-General shall determine.

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