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OPTIONS FOR THE LONGER-TERM FINANCING OF UNDP, BEARING IN MIND
THE NEED TO MOBILIZE INCREASED RESOURCES ON AN INCREASINGLY
PREDICTABLE, CONTINUOUS AND ASSURED BASIS

Addendum

Feasibility of using Special Drawing Rights (SDRs) as UNDP's unit of account

Note by the Administrator

1. As requested by the Intersessional Committee of the Whole, at its first session, the Administrator has evaluated the feasibility, advantages and disadvantages of changing UNDP's unit of account from the US dollar to the Special Drawing Right (SDR). A brief description of the SDR is provided in annex I. It should be noted that the question of using the SDR in the United Nations system has been considered on two previous occasions in the United Nations.
2. In 1974, a Working Group on currency instability was established by the General Assembly, pursuant to a recommendation of the Fifth Committee. The Working Group concluded 1/ that the use of the SDR would not lead to budgetary stability but would complicate the assessment of contributions. At the time, the Working Group noted that the valuation of the SDR, then a basket of 16 currencies, was only temporary, that there was a difference between the membership of the IMF and other organizations and that not all the members of the IMF participated in the SDR facility. The Committee on Contributions in its report 2/ to the thirty-third session of the General Assembly reviewed various alternatives for the formulation of a scale of assessment, based on the conversion of national income into a common unit. That Committee concluded that, for the near future, the United Nations should continue to use the United States dollar for conversion of the national income into a common unit.
3. The feasibility study completed by the Administrator ranged from evaluating the possibility of using the SDR as the unit of account for all purposes in respect of all UNDP-financed activities to using the SDR as the unit of obligation for pledges only. The broader applications were not considered feasible as they would require each executing agency to use the SDR as its unit of account for UNDP-financed activities. Such a change would be complex and extremely costly

to implement. The only proposal, therefore, which was found to be immediately feasible is the use of the SDR as the unit of obligation.^{3/}

4. Following the procedures in the multilateral financing institutions, the following could be a modality for UNDP under a system of replenishment; annual voluntary and multiyear pledging.

(a) The total resources for the replenishment period would be agreed either in SDRs or US dollars, and the amounts attributable to each country in the replenishment agreement would be denominated in SDRs or US dollars. If the total amounts pledged are stated and obligated in SDRs, the countries concerned, at the time of paying their installments (either in promissory notes or in cash) would do so in national currency equivalent to the SDR's amount pledged and obligated. Thus, the total of national currency which the paying country would need to find over the full payment period would be more or less than the equivalent national currency at the time of the pledge or replenishment agreement, depending on whether or not the national currency had strengthened or weakened vis-à-vis the SDR. Such differences, however, would be less than would be the case if the US dollar or any other single currency was used instead of the SDR which, as shown in the annex, represents a basket of currencies;

(b) If the negotiated total and country shares were agreed in US dollars, these would be converted into SDRs at the SDR/dollar rate of exchange in effect at the agreed date. Thereafter, the payment procedures would be as stated above;

(c) In either case, the arrangement acts in the same way as if there were a maintenance of value provision as the amount of the pledge or replenishment is fixed in SDRs and national currency has to be provided equivalent to the amount of SDR installments;

(d) On the expenditure side of UNDP, as in all other situations, goods and services have to be acquired in national currencies. In UNDP, some 60-70 per cent of expenditures are either in US dollars or in other currencies acquired through US dollars. The use of the SDR as a unit of account or unit of obligation does not change this fact. SDRs cannot be received or spent by institutions such as UNDP;

(e) The test, therefore, as to whether using the SDR as the unit of obligation is advantageous to UNDP is determined by whether, over a period of time, UNDP obtains a larger amount of US dollars to spend when pledges are in SDRs compared with the present situation where pledges are in national currency;

(f) The table below shows what the position would have been if pledges were in national currency in November 1981 and converted into dollars at 31 July 1982, compared with the position where pledges were fixed in SDRs at 30 November 1981 and the national currency equivalent at 31 July 1982 converted to US dollars on that date:

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30 November 1981

(i)	National currency pledges of Development Association Committee converted to SDRs at rates of exchange at 30 November 1981	SDR 567.9
(ii)	Above pledges converted to US dollars at rates of exchange at 30 November 1981	\$US 654.3
(iii)	SDR 567.9 at (i) converted to dollars at rates of exchange at 30 July 1982, i.e. SDR 1 = \$1.092	\$US 620.1
(iv)	National currency pledges converted to US dollars at rates of exchange on 30 July 1982	\$US 608.5

The above shows that the US dollar yield at 30 July 1982 from the pledges obligated in SDRs at 30 November 1981 is \$620.1 million compared to \$608.5 million at 30 July 1982 where the pledges were obligated in national currencies at 30 November 1981;

(g) Because the SDR's value is based on a basket of currencies and the US dollar is approximately one-half of the weight in the basket, it will most often be that fluctuations either up or down of the SDR against the US dollar will be less than the fluctuation of individual currencies vis-à-vis the US dollar. In theory, over time, gains and losses are likely to balance out but the fluctuations are less severe and there is greater stability where the SDR is used as the unit of obligation;

(h) Mention should be made of the IPFs where pledges are obligated in SDRs. IPFs could also be fixed in SDRs but expenditures against IPFs would be in national currency and there could be some accounting complexities resulting from the changing values of the SDRs against the currencies in which expenditures are made. It would be simpler to fix IPFs in US dollars as at some agreed date and control the overall IPF expenditures and country and regional expenditures in the light of the resources available from time to time, as is done now.

5. In sum, there are advantages to UNDP of greater stability in income if pledges are obligated in SDRs. For donors, they would need to supplement national currency appropriations if their national currencies weakened against the SDR, but equally they would need less national currency if the opposite movement takes place. Donors may wish to provide the stability needed to UNDP and might be more likely to do so in terms of an internationally determined unit than using a national currency unit like the US dollar whose value is largely determined by national policies.

6. There are no accounting or other difficulties if the use of the SDR is restricted to being the unit of obligation.

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7. It should be mentioned that, because of currency instability, similar studies of the use of the SDR are now being conducted in other institutions. One major donor in one institution has already agreed to fix its contribution in SDRs. In two other cases where the currencies of the contributors have been subject to wide fluctuations, they have agreed to fix their contributions in US dollars. IFAD's loans are also both denominated and repayable in SDRs. This requires borrowers to provide national or other currency equivalent in value at the then going rate of exchange in respect of each loan installment which is denominated in SDRs.

Notes

- 1/ Report of the Working Group on Currency Instability, document A/9773, paragraph 26 and annex II.
- 2/ Official Records of the General Assembly, Thirty-third Session, Supplement No. 11 (A/33/11), paras. 41, 42 and 45.
- 3/ All further references to "unit of obligations" are in respect of the currencies and units in which contributors have fixed their shares.

Annex I

SPECIAL DRAWING RIGHTS (SDRs)

The Special Drawing Right (SDR) is an international reserve asset which was created by the International Monetary Fund (IMF) to supplement existing reserve assets. SDRs may be used in transactions and operations between the 141 member countries and 12 other holders a/ participating in the SDR Department of the Fund and the General Resources account of the Fund. The SDR is the Fund's unit of account.

The SDR is valued on the basis of five currencies (US dollars, deutsche mark, French franc, Japanese yen, and pound sterling), the percentage weights of which broadly reflect the relative importance of each currency in international trade and payments, based on the value of goods and services of each country, and the balances of these currencies held as reserves by members of the Fund over the period 1974 to 1979.

The currencies that determine the value of the SDR and the amount of each b/ of these currencies in the basket will be revised every five years, beginning 1 January 1986, so as to include the currencies of the five member countries of the Fund, with the largest exports of goods and services during the latest five-year period for which full data are available.

The value of the SDR/US dollar exchange rate is determined by converting the amount of each currency making up the basket into US dollar equivalents, using the market rates of exchange each day. The US dollar equivalents are added together and the reciprocal of the total is rounded to six significant figures establish the SDR value of the US dollar. The US dollar/SDR rate is then used to determine the rate for any other currency in terms of the SDR by relating that value to the market value of the currency relative to the US dollar.

Being a weighted average of the exchange rates of the five major currencies, the value of the SDR tends to be more stable than any single currency in the basket.

a/ The Andean Reserve Fund, Bogota; the Arab Monetary Fund, Abu Dhabi; the Bank of Central African States, Yaounde; the Bank of International Settlements, Basle; the Central Bank of West African States, Dakar; the East Caribbean Authority, St. Kitts; the International Bank for Reconstruction and Development (World Bank), Washington; the International Development Association, Washington; the International Fund for Agricultural Development, Rome; the Islamic Development Bank, Jeddah; the Nordic Investment Bank, Helsinki; and the Swiss National Bank, Zurich.

<u>b/</u> <u>Currency</u>	<u>Currency amount</u>
US dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34.00
Pound sterling	0.071

Annex II

COMPARATIVE ANALYSIS OF IMPACT OF EXCHANGE RATE CHANGE
 ON PLEDGES VALUED IN SDR AND US DOLLARS
For the period 30 November 1981 to 30 July 1982

	LOCAL CURRENCY	VALUATION OF PLEDGES In millions of SDR's As at 30 November 1981			VALUATION OF PLEDGES In millions of US\$ As at 30 November 1981 and 30 July 1982				
		RATE	VALUE a/	U.S. dollar value as at 30 July 1982	RATE	VALUE	RATE	VALUE	
Australia		14.5	1.025	14.1	15.4	0.87	16.7	0.981	14.8
Austria	U.S	6.0		5.2 ^{b/}	5.7		6.0		6.0
Belgium		650.0	43.749	14.8	16.2	37.50	17.3	47.35	13.7
Canada		51.0	1.389	36.7	40.1	1.20	42.5	1.27	40.1
Denmark		328.0	8.385	39.1	42.7	7.25	45.2	8.55	38.3
Finland		36.5	4.971	7.34	8.0	4.45	8.2	4.75	7.7
France		172.0	6.558	26.2	28.6	5.65	30.4	6.80	25.3
Germany, Fed. Rep.		114.0	2.602	43.8	47.8	2.30	49.6	2.45	46.5
Italy	33	000.0	1 395.61	23.6	25.8	1 190.0	27.7	1 400.0	23.6
Japan	U.S	51.4		43.5 ^{b/}	47.5		51.4		51.4
Netherlands		161.5	2.842	56.8	62.0	2.52	64.1	2.75	58.7
Norway		310.0	6.715	46.2	50.4	5.95	52.1	6.30	49.2
Sweden		355.0	6.405	55.4	60.5	5.65	62.8	6.15	57.7
Switzerland		32.9	2.084	15.8	17.2	1.84	17.9	2.12	15.5
United Kingdom		18.5	0.599	30.9	53.7	0.541	34.2	0.58	31.8
U S A		128.2	1.181	<u>108.5</u>	<u>118.5</u>		<u>128.2</u>		<u>128.2</u>
				567.9	620.1		654.3		608.5

a/ Source - IMF Survey - International Monetary Fund, Washington D.C., twice monthly publication.

b/ Converted using U.S. dollar/SDR rate.

Annex III

**COMPARATIVE ANALYSIS OF IMPACT OF EXCHANGE RATE CHANGE
ON AMOUNT OF LOCAL CURRENCY REQUIRED
TO MAINTAIN THE VALUE OF PLEDGES
For the period 30 November 1981 to 30 July 1982**

**VALUATION OF PLEDGES
In millions of SDR's a/
As at 30 November 1981 and 30 July 1982**

	LOCAL CURRENCY	30 November 81 SDR		30 July 81		LOCAL CURRENCY	US\$/ EQUIV.	% INCREASE IN LOC. CURRENCY TO MAINTAIN VALUE
		RATE	VALUE	RATE	VALUE	TO MAINTAIN VALUE		
Australia	14.5	1.025	14.1	1.097	15.4	15.7	6.2	
Austria U.S	6.0	--	5.1 ^{b/}	--	5.5 ^{b/}	5.7 ^{b/}	7.5	
Belgium	650.0	43.749	14.8	51.188	760.5	16.0	17.0	
Canada	51.0	1.389	36.7	1.371	50.3	39.6	1.3	
Denmark	328.0	8.385	39.1	9.293	363.5	42.5	10.8	
Finland	36.5	4.971	7.3	5.157	37.8	7.9	3.6	
France	172.0	6.558	26.2	7.461	195.7	28.8	13.7	
Germany, Fed.Rep.	114.0	2.602	43.8	2.680	117.4	47.9	3.0	
Italy 33	000.0	1 395.61	23.6	1 502.7	35 463.7	25.3	7.7	
Japan U.S	51.4	--	43.5 ^{b/}	--	47.5 ^{b/}	47.5	7.5	
Netherlands	161.5	2.842	56.8	2.961	168.3	61.2	4.1	
Norway	310.0	6.715	46.2	7.031	324.6	51.5	4.8	
Sweden	355.0	6.405	55.4	6.652	368.7	59.9	3.8	
Switzerland	32.9	2.084	15.8	2.284	36.1	17.0	9.7	
United Kingdom	18.5	0.599	30.9	0.628	19.4	33.4	4.9	
U S A	128.2	1.181	108.5	1.092	118.5	118.5	7.5	
			567.9		Average	618.4	4.09	
					Range (-7.5 to 17.0)		= 24.5%	

**VALUATION OF PLEDGES
In millions of US\$
As at 30 November 1981 and 30 July 1982**

	30 November US\$ - UN RATE		30 July UN RATE		LOCAL CURRENCY	% INCREASE IN LOC. CURRENCY TO MAINTAIN VALUE
	RATE	VALUE	RATE	VALUE	TO MAINTAIN VALUE	
	0.87	16.7	0.981	16.4	16.4	13.1
	--	6.0	--	6.0	6.0	--
	37.50	17.3	47.35	819.1	26.0	26.0
	1.20	42.5	1.27	53.9	5.7	5.7
	7.25	45.2	8.55	386.8	17.9	17.9
	4.45	8.2	4.75	38.9	6.6	6.6
	5.65	30.4	6.80	206.7	20.2	20.2
	2.30	49.6	2.45	121.5	6.6	6.6
	1 190.0	27.7	1 400.0	38 780.0	17.5	17.5
	--	51.4	--	51.4	--	--
	2.5	64.1	2.75	176.3	9.2	9.2
	5.95	52.1	6.30	328.2	5.9	5.9
	5.65	62.8	6.15	386.2	8.8	8.8
	1.84	17.9	2.12	37.9	15.0	15.0
	0.541	34.2	0.58	19.8	7.0	7.0
	--	128.2	--	128.2	--	--
		654.3			Average	9.97
					Range (0 to 26)	= 26%

a/ Source - IMF Survey - International Monetary Fund, Washington D.C., twice monthly publication.

b/ Converted using U.S. dollar/SDR rate.

c/ Based on the official UN rate of exchange.

Annex IV

ANALYSIS OF CHANGES IN AMOUNT
 OF PLEDGE REQUIRE TO MAINTAIN
 THE INITIAL VALUE OF MULTIYEAR PLEDGES
 MADE FOR THE YEARS 1979 to 1982
 IF MADE ON 31 DECEMBER 1978
 (million units)

	<u>Total actual pledges 1979 - 1982 in local currency</u>	<u>Amount required to maintain initial value in SDRs local currency</u>	<u>Percentage change</u>	<u>Amount required to maintain initial value in \$US local currency</u>	<u>Percentage change</u>
Australia	38.35	37.8	(1.4) ⁻	39.0	1.7
Austria	U.S. 22.5	21.8	(3.1)	22.5	--
Belgium	2 260.0	2 399.2	6.1	2 422.3	7.2
Canada	178.0	172.0	(3.4)	179.6	0.1
Denmark	1 312.0	1 471.1	12.1	1 466.3	11.8
Finland	125.8	122.7	(2.5)	125.1	0.5
France	480.8	522.9	8.7	524.1	9.0
Germany, Fed.Rep.of	444.0	455.5	2.6	456.0	2.7
Italy	72 000.0	83 436.5	15.9	87 016.7	20.1
Japan	U.S. 173.3	167.9	(3.1)	173.3	--
Netherlands	615.5	639.6	3.9	639.3	3.9
Norway	1 028.0	1 037.1	0.9	1 064.6	3.6
Sweden	1 310.0	1 381.2	5.4	1 383.8	5.6
Switzerland	112.6	114.1	1.3	112.3	(0.2)
United Kingdom	79.9	74.7	(6.5)	76.4	(4.3)
United States of America	506.0	490.8	(3.0)	506.0	--
Average increase			2.11 %		3.85 %
Range of change		(-3% to 15.9%)	18.9 %	(0 - 20.1%)	20.1 %