



## Convention on Biological Diversity

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### CONFERENCE OF THE PARTIES TO THE CONVENTION ON BIOLOGICAL DIVERSITY

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### **REPORT ON ADVANTAGES AND DISADVANTAGES OF USING THE HOST COUNTRY CURRENCY AS THE CURRENCY OF THE CONVENTION ON BIOLOGICAL DIVERSITY**

*Note by the Executive Secretary*

#### **I. INTRODUCTION**

1. In the biennium 2007-2008, currency instability affected the budgets and programmes of the Convention on Biological Diversity and the Cartagena Protocol on Biosafety. At the Conference of the Parties at its ninth meeting held in Bonn, Germany, in 2008, a budgetary shortfall of some US\$ 800,000 for the core programme budgets for the 2007-2008 biennium was estimated by the Secretariat. In that connection, the Conference of the Parties decided to request the Executive Secretary to explore recent experiences on this subject by other multilateral environmental agreements, as well as the advantages and disadvantages of using the host-country currency, instead of the United States dollar, as the currency of the accounts and the budget of the Convention, and to report to and, if appropriate, make proposals for decision by the Conference of the Parties at its tenth meeting. The United States dollar is the currency of the budget, assessments and the accounts of the Convention as stated in the Financial Rules of the Trust Fund for the Convention on Biological Diversity, and the United Nations Environment Programme (UNEP) is the Trustee of the trust funds of the Convention.

2. The present paper reflects the requested study. It consists of three sections: section I briefly sets out the background to this report; section II contains an analysis of the budget and expenditure pattern of the Convention and the Cartagena Protocol, the experiences in this regard of other Multilateral Environmental Agreements, and of the United Nations; section III proposes a solution along with a number of points that the Conference of the Parties may wish to consider when reviewing and considering this report.

3. Although the present paper refers specifically to the situation facing the budgets of the Convention on Biological Diversity and the Cartagena Protocol on Biosafety, an analysis from a wider point of view may be helpful in fully understanding the subject. A short background on the history of currency instability in the United Nations family and how it has been tackled over the years at the agency level has therefore been prepared and is set out in annex I to the present paper.

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## II. ANALYSIS OF THE INFORMATION COLLECTED

### A. *Analysis of the expenditure pattern and the general currency situation of the Convention on Biological Diversity and the Cartagena Protocol on Biosafety*

4. After analysing the contents of the consolidated approved programme budget 2009-2010 for the Convention on Biological Diversity and the Cartagena Protocol on Biosafety, it is estimated that a major part of the two core programmes is directly Canadian dollar-sensitive. We are here talking about staff salaries and common services and contracts which are linked to the present office set-up in Montreal where the Secretariat is located. It may be mentioned that the post adjustment system for professional staff (and some other entitlements) make the salary payments, around 80 per cent of the total cost averages for such staff, in practice, local-currency based.

5. More specifically, an analysis shows that a bit more than sixty per cent of the core budgets for 2009-2010 are to be expended against obligations for contracts etc, which are payable in Canadian dollars, and not in United States dollars, the currency of the budget. In other words, the programme is very sensitive to the relationship between the two currencies and the rate of exchange used in preparing the budget estimates is a very crucial decision.

6. The other portion, slightly less than forty per cent, of the core budgets is committed in many currencies, including the United States dollar. In accordance with longstanding practices in the United Nations it is considered that the best approximation and practice is to budget and account for budget items under this portion in the United States dollar. A weakening of that currency could however also result in a budgetary problem under this portion as well. By the same token, a strengthening of the US dollar during the implementation would result in some budgetary savings.

7. For the 2007-2008 biennium the proportions of the core budgets were the same, that is around 60/40, and for the first time the relative weakening of the United States dollar resulted in a budgetary problem for the Executive Secretary to carry out all those activities that had been approved by the Conference of the Parties. As a result, the Conference of the Parties agreed to transfer US\$ 800 000 from the working capital reserve to the core budget to cover this shortfall. It may be added here that for 2009-2010 the Secretariat had prepared the core budgets using a considerably stronger Canadian dollar, and the budgetary problem from exchange rate movements experienced in the previous biennium is not likely to be repeated in the current biennium.

8. On the other hand, in the long run the above problem faced by the Executive Secretary in the period 2007-2008 could very well be repeated in future, as many financial experts foresee a continuing long-term decline in the value of the United States dollar, including a reduced role for the currency as a major reserve currency of the global financial markets. There is very little that the Secretariat can do to reduce the exposure and dependence of the budgets of the Convention on the value of the Canadian dollar vis-à-vis the United States dollar.

### B. *Experiences in secretariats of other multilateral environmental agreements*

9. The Secretariat has approached 16 other multilateral environmental agreements with a request to provide information relevant to this study. Out of the 16, replies have been received or updated from six secretariats (AEWA; ASCOBANS; CMS; EUROBATS; UNMFS; UNFCCC). Previous information together with the updated information is summarized in annex II below.

10. With the exception of one multilateral environmental agreement, which is not in the United Nations family and is fully Swiss franc-based, the responses indicate that all accounts are maintained in United States dollars. Of the multilateral environmental agreements with assessments, none has introduced a split assessment, pursuant to which contributions are assessed and paid in two currencies. In some agreements, however, Parties are now assessed in euros (instead of in United States dollar), reflecting the currency of the budget and the location of the secretariat. From the responses given, there is, however, no unanimity as to whether this has solved the perceived problems fully.

11. While the Secretariats concerned state that Euro assessment has helped in creating budget stability, some of them report difficulties in budget administration, accounting and reporting. One multilateral environmental agreement has gone the opposite way by recently switching from the Swiss franc to the United States dollar in line with its host agency's practices, in spite of the fact that the secretariat is based in Geneva.

12. While it is clear that some of these agreements are facing similar problems to those recently experienced by the Convention on Biological Diversity and the Cartagena Protocol on Biosafety in the wake of a decline in the value of the United States dollar, there are others that do not report any particular currency-related problems. The conclusion drawn from this survey is that only limited experience exists in other multilateral environmental agreements and that that experience offers no obvious lessons for the Secretariat.

### *C. The situation in the United Nations' host of the Convention*

13. The case could therefore be made for the budget and the accounts of the Convention on Biological Diversity to be in Canadian dollars as the great majority of commitments are in that currency. However, UNEP, the host of the Convention, operates its budget and accounts as a trust fund in the United Nations system, maintained in the United States dollar. And it has to be stated that the United Nations has little experience in budgeting, assessing and accounting in currencies other than the United States dollar. Hence, UNEP also maintains the accounts for the various trust funds it administers (including the ones for the Convention on Biological Diversity and the Cartagena Protocol on Biosafety) in the United States dollar.

14. UNEP has, nevertheless made several attempts over the years to meet some of the reporting requirements of various Multilateral Environmental Agreements for which it provides administrative services. The resulting reports have, however, always been approximations, since the official accounting and reporting of resources and expenditures use the United States dollar. UNEP points out that such reporting can therefore not replace official reporting and may confuse readers of official financial reports when attempting to reconcile the two. The need to preserve the value of resources for the activities of the approved programme with commitments in several currencies can only be met by maintaining the budget, as well as accounts, in more than one currency. This is currently not possible, but UNEP had indicated that the future introduction in the United Nations of an Enterprise Resource Planning system, in place of the current financial system (IMIS), may be able to cater for multi-currency situations. The complexities involved, however, should not be underestimated and such a solution cannot be expected to be available soon.

15. It therefore appears that, as also reflected in the responses from other Multilateral Environmental Agreements, no simple and practical solution currently exists that would enable the Secretariat of the Convention on Biological Diversity and the Cartagena Protocol on Biosafety to operate in any other currency than the United States dollar.

### **III. POSSIBLE SOLUTION**

16. The above considerations emphasize that switching the currency of the core budgets, assessments and accounts of the Convention on Biological Diversity and the Cartagena Protocol on Biosafety from the United States dollar, or making any other "structural changes," would not provide a practical solution for limiting the Convention's exposure to currency fluctuations. It needs also to be stressed that, by relying on the United Nations system in the area of budget and finance, among others, the Secretariat has access to extremely cost-efficient and global administrative support at a low cost. Within the present constraints, however, it is considered that with some changes to the operating practices of UNEP, without changing its operating principles, implementation of the programme of work of the Convention on Biological Diversity and the Cartagena Protocol on Biosafety can be protected to a degree against currency fluctuations within the current set-up and financial rules. This could be achieved by setting up a currency fluctuation reserve.

17. A currency fluctuation reserve would operate without requiring major changes to existing systems. Such a reserve would also not be inconsistent with the fundamentals of the financial rules of the Convention or those of the United Nations. It would be similar to a reserve used to protect the regular budget of one of the specialized agencies, the World Health Organization (WHO), from currency fluctuations in the 1980s and 1990s. In that case, there were seven different currencies involved, as the protection covered WHO headquarters in Geneva and the Organization's regional offices.

18. It was generally considered to be a clear and manageable system and was based on approved budget provisions rather than on expenditures. It was relatively simple to operate and provided the flexibility needed to make the best use of funds in times of currency fluctuations, both when the United States dollar weakened and when it strengthened. At times, there were withdrawals from some "geographical parts" of the programme, while there were increases in other parts during the same biennium depending on different exchange rate developments for the different currencies involved.

19. Sometimes the overall application of the scheme started in a biennium by adding funds to the programmes, but ended the biennium by withdrawing funds, or *vice versa*. Its feature of withdrawing funds when the United States dollar strengthened also made it partly a self-financed scheme. WHO ceased to operate this system some years ago, not because it had not worked, but because of other, mostly funding, considerations.

20. In line with the above, the establishment of a currency fluctuation reserve might be decided by the Conference of the Parties. Annex III provides a detailed proposal on the principles governing such a reserve.

21. The Conference of the Parties may at the same time wish to consider the initial level of the reserve and make provision for this. In this regard it is proposed that a total amount of US\$ 1,500,000 from the Convention on Biological Diversity and the Cartagena Protocol on Biosafety be used to establish this reserve. Such an initial funding is considered to protect a biennium's programmes for an overall ten per cent loss in value of the United States dollar, as compared to the budget rate in a typical biennium.

22. These proposals would for a long time to come protect the Convention's approved activities from exchange rate fluctuations over which the Secretariat has no control.

23. To summarize, the following advantages would be achieved by the establishment of a reserve for currency fluctuations to protect the core budgets.

(a) At times of budgetary shortfalls due to exchange rate developments, the Executive Secretary could in consultation with the Trustee withdraw funds from the reserve for injection into the programmes for approved activities of the two core budgets;

(b) At times of budgetary savings due to exchange rate developments, funds would be withdrawn from the allotments and credited to the currency fluctuation reserve for future use in protecting approved programme activities under the core budgets. Such forced savings would however not affect the content of the approved programme in the biennium in which they occur;

(c) The facility would be credible and transparent, and promote budgetary discipline in general. The balance available under the reserve would be regularly reviewed by the Conference of the Parties at the time of budget approval. It may be presumed that the need to replenish the reserve would only be occasional. In addition, the possibility that the future balance of the reserve would exceed the potential requirements cannot be ruled out. In such cases, only the Conference can decide on the use of the excess amount;

(d) In finalizing budget proposals, for decision by the Conference of the Parties, the Secretariat would simply apply the latest available United Nations rate of exchange between the Canadian dollar and the United States dollar when establishing the budget level to be approved. There would be no need to "second-guess" financial markets for a period of over two years over which the Secretariat has no control anyway;

(e) Should a budgetary shortfall be caused by an unfavourable rate of exchange development, the Conference of the Parties would not have to resort to using the working capital reserve, which has been created for other specific purposes.

*Annex I***OVERALL BACKGROUND TO THE PROBLEM OF CURRENCY INSTABILITY IN THE UNITED NATIONS FAMILY**

1. At the time of their establishment, in most cases some 60 years ago, the United Nations and its specialized agencies mostly adopted the United States dollar as the currency for budgeting and accounting, as well as for the assessment and collection of regular budget contributions. Some agencies, older than the United Nations and based in Switzerland, however, decided to maintain the Swiss franc for this purpose (for example, the Universal Postal Union based in Bern) when they became members of the United Nations family.

2. The decisions to adopt the United States dollar as the currency for budgeting, assessing and accounting were taken at a time when the international monetary system had fixed exchange rates between currencies under the gold standard, in which the value of the United States dollar was pegged to gold at the rate of \$35 per ounce. Following the abandonment of the gold standard and the fixed exchange rate system in the early 1970s, the subsequent broad fluctuation of currency values had many consequences. For those United Nations agencies having a significant portion of their financial commitments and expenditure in currencies other than the budget currency of the United States dollar, the orderly implementation of work programmes and the stability of finances were seriously disturbed. Those agencies were based in Europe and the currency involved was that of the host country.

3. Hence, the United Nations agencies that were particularly affected by this currency instability were those that had their headquarters, together with a large portion of their activities, in Europe, and therefore incurred a significant portion of their expenditure in the currency of the host country. This mismatch between the United States dollar, the currency of budgeting, assessment and accounting and the main currency of commitment and expenditure soon began to affect those agencies considerably. Additionally, independent of the currency issue, the United Nations family began to extend the financial period from a one-year period to a biennium. This resulted in some cases in increased divergence for budget rates of exchange and for actual rates as the former was established more than two years before the last month of the implementation of the said budget.

4. Financial crises resulted as early as the 1970s and affected some specialized agencies, since the value of the United States dollar fell substantially in relation to the currency of the host country. The value of the budget, as well as that of assessed contributions, both expressed in United States dollars, decreased in local currency terms by the time the approved programme was implemented. Initially, this situation resulted in the need for governing bodies to approve supplementary budgets and in some cases to decide on supplementary assessments. In addition, other ad hoc measures using the agency's financial reserves were taken. The situations facing those agencies were clearly not ideal and long-term solutions had to be found.

5. Experience also showed that there were periods when the currency mismatch between the budgeted amount and the actual received contributions from member States turned out to be too large to implement and fully finance the approved programme. In some cases considerable budget surpluses were created. This inverse situation was brought about by the United States dollar gaining value during the period between budget approval and subsequent programme implementation. Depending on the financial regulations of the United Nations agency concerned, the governing body took decisions on how to deal with these sometimes significant surpluses. Since the early 1970s there have been several such periods when the United States dollar has strengthened vis-à-vis the main currency of expenditure. It is likely that there will again be such periods and, when that situation arises, a budget expressed in United States dollar could result in a budget surplus when implemented.

6. In the decades that followed the abandonment of the fixed currency exchange rate system it became clear that variations in exchange rates would continue to affect the United Nations system. With considerable experience of the effects and the ways to handle the problem, long-term, or structural, measures were introduced in some of the United Nations agencies affected (those having their own

financial regulations) to counter the impact of exchange rate fluctuations on its regular work programme and finances. There was, however, no uniformity whatsoever in those measures, as each such agency had a currency exposure, funding arrangement and programme that differed from the others. In some cases, no special general measures were introduced and in others those measures were later modified in the light of experiences and changes in the situation. None of the solutions, however, manage the accounting and presentation of financial statements in more than one currency.

7. Today, the various positions or solutions in operation in the United Nations specialized agencies for the regular budget can generally be summarized as follows:

(a) Split assessments whereby member States - although the budget is expressed in the United States dollar - arrange for payment of their commitment in two currencies, usually the euro and the United States dollar, whereas the programme budget and the accounts are expressed in only one of them;

(b) Programme budget, assessments and accounts expressed in the currency of the host country, different from the United States dollar, with no other arrangements;

(c) Assessment in the currency of the host country, but the programme budget and the accounts are expressed in the United States dollar, and monthly requirements for the full budget period in the latter currency are bought (with governing body consent) in a “forward purchase deal” from a bank when the budget is approved;

(d) Programme budget, assessments and accounts expressed in the United States dollar. The approved budget contains a specific budget provision for the financial services of the Organization to utilize for “hedging arrangements” with its bank covering the full budget period.

## Annex II

**SUMMARY OF INFORMATION PROVIDED BY OTHER MULTILATERAL ENVIRONMENTAL AGREEMENTS**

Pursuant to paragraph 37 of decision IX/34, the Secretariat sent a letter dated 26 January 2010 to 16 multilateral environmental agreements with a request to provide updated information relevant to decision paragraph 37 of IX/34. The six responses received have been updated in the table below and displayed together with the original responses received in the earlier study.

Multilateral environmental agreement	CURRENCY OF			LOCATION OF SECRETARIAT	COMMENTS
	BUDGET	ASSESSMENT	ACCOUNTS		
African-Eurasian Waterbird Agreement (AEWA)	EURO	EURO	UNITED STATES DOLLAR	Bonn, Germany	Reconfirm that having both contributions and budget in Euro improves financial stability, however creates some difficulties on budget implementation
Convention on Biological Diversity (CBD)	UNITED STATES DOLLAR	UNITED STATES DOLLAR	UNITED STATES DOLLAR	Montreal	No experience other than operating with the United States dollar. Significant exchange rate losses experienced in 2007-2008 as a result of the strong Canadian dollar vis-à-vis the USD.
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal	UNITED STATES DOLLAR	UNITED STATES DOLLAR	UNITED STATES DOLLAR	Geneva	No experience other than with the United States Dollar. No particular difficulties reported.
Agreement on the Conservation of Cetaceans in the Black Sea, Mediterranean Sea and Contiguous Atlantic area (ACCOBAMS)				Monaco	No substantive reply. Assume ACCOBAMS are fully dependent on UNESCO and the “currency situation” of that specialized agency is similar to that of FAO.
Convention on Migratory Species (CMS)	EURO	EURO	UNITED STATES DOLLAR	Bonn,	Reconfirm that having both contributions and budget in Euro improves financial stability, however creates some difficulties on budget implementation
Agreement on the Conservation of Populations of European Bats (EUROBATS)	EURO	EURO	UNITED STATES DOLLAR	Bonn,	Reconfirm that having both contributions and budget in Euro improves financial stability, however creates some difficulties on budget implementation
Agreement on the Conservation of Small Cetaceans of the Baltic and North Seas (ASCOBANS)	EURO	EURO	UNITED STATES DOLLAR	Bonn	Reconfirm that having both contributions and budget in Euro improves financial stability, however creates some difficulties on budget implementation
Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)	UNITED STATES DOLLAR	UNITED STATES DOLLAR	UNITED STATES DOLLAR	Geneva	A switch from the Swiss franc to the United States dollar was made in 2003 to bring the budget and the assessment for the Convention fully into line with UNEP practices. The accounts had always been maintained in United States dollars. No particular difficulties reported on the new practice.



Multilateral environmental agreement	CURRENCY OF			LOCATION OF SECRETARIAT	COMMENTS
	BUDGET	ASSESSMENT	ACCOUNTS		
Multilateral Fund for the Montreal Protocol on Substances That Deplete the Ozone Layer	UNITED STATES DOLLAR	UNITED STATES DOLLAR	UNITED STATES DOLLAR	Montreal	The Fund Secretariat's budget has always been in United States dollars. Some difficulties had been experienced when the United States dollar exchange rate to the Canadian dollar was low resulting in overruns under some lines, which were covered by savings under other lines. Other than this, the Multilateral Fund Secretariat has had no adverse effects from using the United States dollar.
United Nations Environment Programme Mediterranean Action Plan (MAP)	EURO	EURO	UNITED STATES DOLLAR	Athens	Headaches and loss of budget "purchase power" reported by the secretariat as a result of the dual situation and the fact that the host agency will not update the allotments when the United States dollar weakens. A comfortable trust fund position, in combination with a euro bank operation for MAP has "solved" the problem for the time being.
Ramsar Convention on Wetlands (RAMSAR)	SWISS FRANC	No assessment	SWISS FRANC	Gland, Switzerland	The issue has only been discussed informally. An internal exercise has shown that it is efficient to stay with the Swiss Franc as the secretariat is based in Switzerland. Besides that, RAMSAR is funded solely by voluntary contributions (including from UNEP) and is not part of the United Nations family.
Global Programme of Action for the Protection of the Marine Environment from Land-Based Activities (GPA)	UNITED STATES DOLLAR	No assessment	UNITED STATES DOLLAR	The Hague,	Only voluntary contributions.
Ozone Secretariat				Nairobi	No reply received by the secretariat.
United Nations Framework Convention on Climate Change (UNFCCC)	EURO	EURO	UNITED STATES DOLLAR	Bonn, Germany	The Conference of the Parties approved the core budget for the biennium 2010-2011 in Euros. However the Secretariat continues to manage its accounts in USD due to the limitations of IMIS.
UNESCO World Heritage Convention				Paris, France	No reply received by the secretariat.
Convention to Combat Desertification (UNCCD)				Bonn, Germany	No reply received by the secretariat.

*Annex III***PRINCIPLES GOVERNING A CURRENCY FLUCTUATION RESERVE**

1. The only currency that is budget-protected is the Canadian dollar.
2. The only budget components involved are those with a clear prior commitment by the Secretariat of the Convention on Biological Diversity and the Cartagena Protocol on Biosafety to pay in Canadian dollars from the General Trust Fund. Those pre-determined budget components are limited to staff costs for posts and to certain common services items, and cannot normally be changed from one financial period to the other.
3. The calculations of budgetary extra costs, or savings, are made on whole budget provisions (and not on expenditures) and assume that the budget component is used evenly spread out over the 24 accounting months of the financial period. That way, calculations could be made at the beginning of each month, and in each such calculation it is assumed that the current month's rate of exchange will apply for the remainder of the biennium.
4. The totals of the budget components so identified and the applied rate of exchange are set out explicitly in the decision approving the budget.
5. The practical operation of this reserve will be by simple periodic internal debits and credits between the General Trust Fund and the fund established for this purpose couple of times a year, subject to availability of funds. The internal transfers will be rounded off to the nearest 100 United States dollars each time the facility is invoked. The reserve will operate under a biennium with a favourable, as well as an unfavourable rate of exchange. The balance of the reserve at the end of a financial period is carried over to the next-following biennium. The balance cannot be negative.
6. The reserve can be invoked directly by the Trustee for the stated purpose upon formal requests by the Executive Secretary. Transfer of funds from the reserve is subject to their availability. Credits to the reserve will be mandatory when the Convention is experiencing positive currency developments. Any other use than foreseen in these principles requires a decision by the Conference of the Parties.
7. Credits under this reserve can be established by assessment of the Parties following the scale of assessment. Such credits can also be established by transfer of unutilized funds under the General Trust Fund.
8. New Parties to the Convention and/or the Protocol after the establishment this reserve would initially be assessed for the reserve on the basis of the same principles as for the working capital reserve.

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