



United Nations
Environment
Programme



Distr.
GENERAL

UNEP/GC.10/10/Add.1
4 February 1982

Original: ENGLISH



GOVERNING COUNCIL
Tenth session
Nairobi, 20 May - 2 June 1982
Item 8 (a) of the provisional agenda

NON-CONVERTIBLE CURRENCIES (NCCs)

Report of the Executive Director

1. By decision 9/23, paragraph 9, the Governing Council requested the Executive Director "to report to the Governing Council at its tenth session on the impact of non-convertible currency balances on Fund project selection and implementation including any undue influence of the level of the balances of non-convertible currencies in the Fund". At the time the decision was taken, the Executive Director advised the Governing Council that it was his understanding that the report called for would be an updating of the report submitted to the Governing Council at its ninth session (UNEP/GC.9/10/Add.1) and not a new report. ^{1/}

2. By decision 9/23, paragraph 8, the Governing Council renewed its appeal to Governments that are still unable to contribute to the Environment Fund in fully convertible currency "to pay a part of their contribution in convertible currency in 1981, and an increasing proportion thereof in convertible currency in each year thereafter". During 1981, one country, China, which had previously contributed to the Fund wholly in non-convertible currency, advised the Executive Director that in future it would pay 33 per cent of its annual contribution in convertible currency. Nine countries still contributed wholly in non-convertible currency in 1981 and two countries contributed partly in convertible and partly in non-convertible currency. As in previous years, three countries in the first category permitted part of their contribution in non-convertible currency to be converted into United States dollars in prescribed circumstances. As may be seen from document UNEP/GC.10/10, contributions paid in non-convertible currencies

^{1/} Official Records of the General Assembly, Thirty-sixth Session, Supplement No. 25, Chap. XI, para. 532.

(NCCs) in 1981 totalled the equivalent of \$4.13 million, or 13.4 per cent of total contributions in the year. Over the medium-term period 1978-1981, the proportion of total contributions paid in NCCs was 13.9 per cent.

3. As at 31 December 1980, the balance of NCCs held in the Environment Fund was \$14.71 million or 57.7 per cent of the total Fund balance. The Fund accounts for 1981 were not available at the time this document was being prepared but if NCCs were spent in 1981 to the extent estimated, it is projected that the balance of NCCs available as at 31 December 1981 will have declined to approximately \$10.70 million or 52 per cent of the total Fund balance. If this assessment is correct, 1981 will have been the second consecutive year in which the proportion of NCCs in the Fund has fallen.

4. The currencies that made up the total balance of NCCs as at 31 December 1980 and 31 December 1981 were as follows:

Bank balances of non-convertible currencies

| | <u>31 December 1980</u> (\$ equivalent) | <u>31 December 1981</u> (\$ equivalent) |
|-----------------------------------|--|--|
| Bulgarian leva | 18,402 | 2,915 |
| Bylorussian SSR roubles <u>a/</u> | 90,225 | 96,552 |
| Chinese yuan | 292,068 | 128,243 |
| Cuban pesas | 56,338 | 47,964 |
| Czechoslovak korunas | 140,868 | 39,540 |
| German Democratic Republic marks | 35,748 | 27,374 |
| Hungarian forints | 31,074 | 12,943 |
| Polish zlotys | 60,251 | 58,135 |
| Romanian lei | 35,820 | 39,076 |
| Ukrainian SSR roubles <u>a/</u> | 216,541 | 231,724 |
| USSR roubles <u>a/</u> | 8,966,603 | 9,061,565 |
| Yugoslav dinars | 37,128 | 28,712 |
| Convertible roubles <u>b/</u> | 3,185,963 | 2,948,908 |
| Total | <u>13,138,030</u> <u>c/</u> | <u>12,723,651</u> <u>d/</u> |

a/ Roubles which are wholly non-convertible.

b/ Roubles which can be converted into dollars in prescribed circumstances.

c/ The difference between this figure and the share of the total Fund balance given in paragraph 3 is represented by unspent advances held by implementing organizations as at 31 December 1980.

d/ Instructions had been issued to UNEP's bankers before 31 December 1981 to pay a further \$1,704,067 in roubles, which is not reflected in this total.

5. In the Executive Director's report to the Governing Council at the ninth session (UNEP/GC.9/10/Add.1), details of project commitments in NCCs were set out within two separate categories, namely: projects wholly or largely implemented within the contributing country, which are thus wholly or largely financed in non-convertible currency, which were referred to as "NCC projects"; and projects mainly financed in convertible currencies, but which included some activities in NCC countries or activities for whose implementation NCCs could be used; this type of activity was referred to as a "partial NCC activity".

6. Using these definitions, total project commitments in NCCs as at 31 December 1981 were made up as follows:

| <u>Project commitments in NCC</u> | | | | | |
|-----------------------------------|--|-------------|-------------|-------------|-------------|
| | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> |
| | (equivalent in millions of US dollars) | | | | |
| NCC projects | 5.53 | 5.68 | 1.01 | 0.18 | 0.09 |
| Partial NCC activities | 1.84 | 0.53 | 0.61 | - | - |
| Total NCC project commitments | <u>7.37</u> | <u>6.21</u> | <u>1.62</u> | <u>0.18</u> | <u>0.09</u> |

As at 31 December 1981, NCC commitments represented 23.9 per cent of the total 1981 commitments of \$30.85 million and were distributed throughout the programme, as can be seen from the NCC commitments by budget line set out in table 6 of the report of the Executive Director on the Implementation of the Environment Fund programme in 1981 (UNEP/GC.10/10).

7. Ten new NCC projects were approved in 1981 2/ out of total of 40 new Fund projects. They were:

- FP/0107-81-01: Monograph on epidemiological methods for environmental health studies; meeting of international experts
- FP/0303-81-01: Publications and information support programme in the USSR.
- FP/0402-81-01: Microbiological leaching of metal from ores, state of the art review and international training course and workshop
- FP/0402-81-02: Environmental protection by utilization of slag-silt wastes.

2/ Detailed descriptions of these new projects are published in the Report to Governments Nos. 31 to 36.

- FP/1001-81-05: Methodology and case studies on socio-economic evaluation of natural resources conservation and use in planned economies
- FP/1106-80-02: Studies on the impact of agricultural management on the environment
- FP/1106-81-03: Impact of Integrated land/soil management of mountain agro-ecosystem (Preliminary Phase)
- FP/1110-81-03: International conference on biosphere reserves, Minsk, USSR 1983
- FP/1110-81-04: Study tour on protected areas and wildlife in the USSR
- FP/1700-81-03: Desert control training seminar for developing countries at the Institute of the Desert, Lanzhou, China.

These projects were all programme elements of the 1982-1983 medium-term plan. Their selection could not therefore be said to be unduly influenced by the balance of currencies available, but decisions to go ahead with these projects in 1981 and not with others, requiring convertible currency financing, may have been influenced by the fact that resources were available to finance them.

8. Six NCC projects were closed in 1981. Out of the total of 261 ongoing projects at the end of 1981, 29 were NCC projects as defined above. In all, 58 projects or 23 per cent of the total, included some commitment in NCCs.

9. Of the ten NCC projects approved in 1981, four involved training activities. Twelve NCC projects in all had training components in 1981 compared with a total 24 Fund projects that included training activities. Of the total Fund commitments of \$4.30 million for training activities in 1981, the equivalent of \$2.89 million, or 67 per cent, represented commitments in NCCs. It is therefore again apparent that, as stated in the Executive Director's report to the Governing Council at its ninth session (GC.9/10/Add.1) one impact of the non-convertible currency balance has been to concentrate UNEP training activities in countries paying their contributions in non-convertible currencies. While not opposed to such training activities, which in any event have been approved by the Governing Council, the Executive Director is now endeavouring to place greater emphasis on assessment and management activities when using NCCs, especially outside the contributing countries, so long as such activities are approved programme elements within the medium-term plan.

10. In the light of the administrative complexities of establishing projects using non-convertible currencies, most were implemented, in the first instance, with Governments or government institutions in the NCC

countries concerned. This meant that other United Nations agencies have not been involved in the implementation of NCC projects to the extent that they would otherwise have been. To correct this situation, the Executive Director has endeavoured to persuade United Nations agencies to take over the role of co-operating agencies and to integrate the projects into their total environmental programmes. He has not, however, been as successful in these attempts as he would have liked. The different and sometimes complex procedures involved in implementing projects in NCCs cause other United Nations agencies to be reluctant to take on the role of co-operating agencies. Normally, they are prepared to consider doing this only if UNEP will agree to finance, in convertible currency, administrative units within their own organizations. The Executive Director has been unwilling to agree to this, since the effect would not only be to add to the cost of the projects, but would also entail convertible currency costs which the Fund cannot afford. Progress in switching primary responsibility for implementing NCC projects from supporting organizations in the NCC countries to co-operating agencies has therefore been slow, although negotiations concerning a few NCC projects are still continuing with United Nations agencies. One impact of implementing projects in non-convertible currencies is, therefore, to shift the proportion of total Fund commitments away from co-operating agencies towards supporting organizations.

11. In his report to the Governing Council at its ninth session (UNEP/GC.9/10/Add.1), the Executive Director listed five conclusions of his examination of the problem of non-convertible currencies, which were that:

(a) He would very much prefer to have the full flexibility in the allocation of resources that would be provided if all contributions were fully convertible;

(b) The selection of projects currently being implemented by the use of non-convertible currencies had not been unduly influenced by the level of the balances of these currencies in the Fund;

(c) The impact of these balances on implementation seemed largely to be that the projects selected were implemented in countries in which the currencies could be used;

(d) The level of funding, in dollar terms, of projects implemented in these countries, particularly for training projects, might be slightly higher than it would have otherwise been; and

(e) Additional programme support costs were involved for the secretariat in implementing projects in non-convertible currencies.

In the light of a further year's experience of using NCCs, the Executive Director sees no reason to alter these conclusions, although he would add the conclusion arrived at in paragraph 10 above.

12. It will be recalled that at the ninth session, 3/ the Executive Director suggested that the Governing Council might wish to consider requesting Governments that were still unable to contribute in fully convertible currency, to pay not less than 25 per cent of their contributions in convertible currency in 1981 and an increasing proportion thereof in convertible currency in each year thereafter. He also suggested that he might be requested by the Governing Council to use non-convertible currencies up to a ceiling of 20 per cent of the total commitments of the Fund. Neither of these two suggestions was adopted by the Council. Bearing in mind this point and the factors summarized in the conclusions above, the Executive Director believes he has complied with the Governing Council's request 4/ and made "the most effective possible use of the non-convertible currencies, taking into account the need for balanced project selection". Unless the Governing Council directs otherwise the Executive Director considers he should continue his policy of developing NCC-financed activities that are part of the medium-term plan approved by the Governing Council placing a greater emphasis on assessment and management activities, especially outside the contributing countries.

Suggested action by the Governing Council

13. The Governing Council may wish to consider a decision along the following lines:

The Governing Council

1. Takes note of the report of the Executive Director on the impact of non-convertible currency balances on Fund project selection and implementation;
2. Reiterates its view regarding the desirability of the full application by all countries of the provisions of rule 203.4 of the Financial Rules of the Fund, without, however, jeopardizing the volume of Fund resources;
3. Renews its appeal to Governments that are still unable to contribute to the Environment Fund in fully convertible currency to pay a part of their contribution in convertible currency in 1982 and an increasing proportion thereof in convertible currency in each year thereafter;
4. Requests the Executive Director to make the most effective possible use of the non-convertible currencies, taking into account the need for balanced project selection, bearing in mind the conclusions contained in his report, and placing greater emphasis on assessment and management activities especially outside the contributing countries.

3/ UNEP/GC.9/10/Add.1.

4/ Decision 9/23, para. 6.