

**REPORT
OF THE
COMMITTEE ON CONTRIBUTIONS**

GENERAL ASSEMBLY

OFFICIAL RECORDS: FORTY-FIRST SESSION

SUPPLEMENT No. 11 (A/41/11)



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New York, 1986

NOTE

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I. ORGANIZATION AND ATTENDANCE

1. The forty-sixth session of the Committee on Contributions was held at United Nations Headquarters from 9 to 27 June 1986. The following members were present:

Mr. Andrzej Abraszewski
Syed Amjad Ali
Mr. Ernesto Battisti
Mr. Anatoly Samënovich Chistyakov
Mr. Leoncio Fernández Maroto
Mr. John D. Fox
Mr. Lance Joseph
Mr. Elias M. C. Kazembe
Mr. Atilio Norberto Molteni
Mr. Yasuo Noguchi
Mr. Oluseye D. Oduyemi
Mr. Omar Sirry
Mr. Dominique Souchet
Mr. Gilberto Vergne Saboia
Mr. Wang Liansheng
Mr. Assen Iliev Zlatanov

Messrs. Javier Castillo Ayala and Adnan Yonis were not able to attend.

2. The Committee elected Syed Amjad Ali as Chairman and Mr. Atilio Norberto Molteni as Vice-Chairman.

3. The Committee heard an opening address by the Under-Secretary-General for Administration and Management, who provided it with information on the financial crisis of the United Nations and on developments that had occurred at and since the December suspension of the fortieth session of the General Assembly and their possible impact on the Committee's work.

4. The Committee had two major tasks before it. One was to continue the review of alternative methodologies for assessment in accordance with the Committee's continuing mandate in this area. The review was undertaken with due regard for the work related to this issue by the Group of High-level Intergovernmental Experts to Review the Efficiency of the Administrative and Financial Functioning of the United Nations. The second major task was to examine the basic problems relating to data comparability, entailing a review of data sources, exchange rates used for converting national incomes into United States dollars and ways and means to take account of varying rates of inflation.

II. ALTERNATIVE METHODS OF ASSESSMENT

5. For comparison purposes, the Committee examined how a range of other international organizations determined the apportionment of expenses. In all, the Committee looked at the situation in 28 organizations, some within and some outside the United Nations system. The Secretariat also provided separately details on assessment for peace-keeping operations in the United Nations. The number of different formulae so identified and the parameters and combinations thereof appeared to be more or less boundless. Nevertheless, a careful study revealed precedents for several possible broad approaches that could have relevance were it decided to opt for a new methodology for establishing the scale of the United Nations:

(a) An approach that divides the budget into parts, one according to capacity to pay and the other or others according to other criteria;

(b) An approach that incorporates an element of weighted voting;

(c) An approach that relates obligations to privileges;

(d) An approach that divides membership into groups for purposes of determining contributions;

(e) An approach that applies equal-share apportionment;

(f) An approach that relates costs to benefits derived by member States from the organizations.

6. The Committee noted that the criterion of capacity to pay predominated in organizations within the United Nations system and also in a large number of organizations surveyed outside the system. Because of its universal membership, the United Nations faced problems in the preparation of a scale of assessments, e.g., data comparability, differential rates of inflation, exchange rates used in converting national income from national currencies into United States dollars and their fluctuations over time, that were not found in other organizations.

7. While some members of the Committee found it difficult to apply criteria used by other organizations, others noted that a number of possibilities could be derived from the study, including the elaboration of alternatives previously submitted to the General Assembly, thus enabling the Committee to explore various alternative methods that departed significantly from the present methodology. Four such alternatives were proposed and discussed: alternative I consisted of assessments by groupings; alternative II related assessments to factors such as permanent members of the Security Council, sovereign equality and capacity to pay; alternative III, which could be grafted to alternative II, suggested apportionment of an additional percentage of the budget to non-permanent members of the Security Council during the two-year term therein; and alternative IV consisted of dividing the budget between core and non-core parts.

A. Alternative I: Groupings

8. As one alternative, the Committee recalled the proposal on groupings considered some years ago and outlined in its report to the General Assembly at its thirty-eighth session. 1/

9. By first dividing the membership into groups and then determining the percentage share of the budget to be borne by each group, it was felt that it should be possible to render the subsequent assessment of individual Member States into a more technical, objective and coherent process. Furthermore, the approach suggested would confront more directly than had previously been possible the concerns expressed by many delegations in the Fifth Committee about relative capacity to pay as among the developed market economy countries, centrally planned economy countries and the developing countries.

1. Groups

10. The suggested approach would divide the membership of the United Nations into three distinct groups:

(a) Countries of the Organisation for Economic Co-operation and Development (OECD);

(b) Centrally planned economies of Eastern Europe and Mongolia;

(c) Others, including most of the member States of the Group of 77 and China.

11. The 24 States members of OECD would constitute a relatively homogeneous group. Each had a developed market economy. Each employed the same statistical approach. Assessable incomes and data thereon were strictly comparable. It should be relatively easy to apportion a given share of expenses among them.

12. The centrally planned economies of Eastern Europe and Mongolia constituted the second proposed group. There too there was comparability in statistical methods. There too it should be relatively simple to apportion any designated share of the budget among the Member States concerned.

13. The third group would constitute the largest group, but it was also a group that included 78 countries assessed at the floor rate of assessment and whose situation in that regard was unlikely to change under any criteria. The same applied to 16 other States that were assessed near the floor rate of assessment. Thus, when considering the third group, it was recognized that the proposal was really addressing the situation of some 30 developing countries whose scales of assessment were susceptible to change. For the most part, they were the larger or more advanced developing countries, constituting a much less heterogeneous group than would be implied operationally in addressing the Group of 77 as a whole.

14. In other words, as for the OECD group and the group of centrally planned economies, so in the third group there would be a high degree of comparability and compatibility.

2. Sharing the burden among groups

15. Having identified the groups, the next step would be to decide the proportion of the budget that should be borne by each. That would need to be a political exercise, or substantially so, to be effected in the Fifth Committee in the session preceding each scale year. In practice, it was to be expected that each share would be set by the Fifth Committee, having in mind recent trends and experience. The following table drawn from information in the Committee's previous report 2/ indicated the proportion of expenses borne by each of the three groups in the recent past.

<u>Group</u>	<u>Percentage share</u>			
	<u>1978-1979</u>	<u>1980-1982</u>	<u>1983-1985</u>	<u>1986-1988</u>
OECD countries	68.39	71.81	73.66	74.00
Countries with centrally planned economies, excluding Romania and Yugoslavia	17.59	16.92	15.52	14.88
Others, including China	14.02	11.27	10.86	11.12

16. The foregoing suggests the appropriate parameters for establishing precise percentages for the groups in the next scale period. It would be possible to envisage, for example, that the share to be borne by the OECD countries would be in the range of 70 to 75 per cent, that by the centrally planned economies in the range of 15 to 20 per cent and that by all other countries, including China, something in the range of 10 to 15 per cent. Striking a precise percentage within these ranges for each of the groups would, as noted, be essentially a political decision. The total of the three shares would, of course, need to add up to 100 per cent.

17. These indicative ranges assume continuation of present assumptions about the ceiling and floor rates of assessment. In the event of a General Assembly decision affecting either of these variables, there would necessarily need to be changes in the calculation of the indicative ranges.

18. The General Assembly would also need to agree on the period for which the pre-determined shares for each group would apply. In effect, the shares could apply for one scale period only: that would imply a further renegotiation, to take account of changes in the international economic environment, at the beginning of each scale period. Alternatively, the shares, once agreed, might be held to apply for a series of successive scale periods. Whichever approach were favoured, the Committee on Contributions could assist the Fifth Committee by testing the latest data in various runs of the machine scale and incorporating the results into recommendations on ranges, or limits, accordingly.

3. Country assessments

19. Once the percentages to be borne by each of the groups had been determined, two alternatives would be conceivable for establishing the scale of each Member State. One would be for the individual groups themselves to assess their own members. That approach was not favoured by the Committee; the practical problems could well prove insurmountable. The other and favoured alternative would be for the Committee to continue, as currently, to recommend to the General Assembly for decision a scale for each individual country within each group. The Committee would employ more or less the same criteria for each of the countries in all groups, but with the understanding that some of the supplementary criteria and refinements would be more relevant to one group of countries than to the others.

20. It would then be possible to envisage a rolling programme in which, in one year, the Committee would analyse the data and propose to the General Assembly new ranges for each of the groups; in the next year, it would formulate recommendations for the actual scale based on the precise percentage shares determined for each of the groups by the General Assembly beforehand; and, in the third year, it would devote its session to conceptual and other ad hoc tasks remitted to it by the Assembly. The process would thus be a dynamic one, allowing frequent review of the data to ensure that recommendations to the Assembly both on ranges and later on the actual scale would reflect the most recent trends in capacity to pay.

* * *

21. In considering the pros and cons of the approach, questions were raised regarding relief received and relief granted according to the current low per capita income allowance formula and as to who would bear the points granted on account of limits between successive scales or as a result of the mitigation process. The answer was that these qualifications and concessions, mandated by the General Assembly, would necessarily need to be accommodated within each group and not across group lines. Therein lay a problem. Middle-income countries in the third group were suffering from a substantial decline in national income owing to sharply reduced oil prices (States members of the Organization of Petroleum Exporting Countries (OPEC)), excessive financial burdens because of external debt obligations (mainly Latin American countries) or natural disasters (African countries). But, of course, the low-income countries, including most African countries, would not be affected by any need to absorb relief, while the problems of the other developing countries could be accommodated at the time of the negotiating process in the Fifth Committee for establishing the shares of each of the various groups.

22. The other concern related to possible political difficulties in the Fifth Committee in reaching agreement on the shares. It was recognized, however, that this problem would be reduced to the extent that the Fifth Committee was prepared to work within the indicative ranges to be suggested by the Committee on Contributions. It was noted that the indicative ranges could be narrowed to something less than 5 percentage points, say 2 or 3 percentage points. Much would depend on how finely honed were the recommendations that the Committee would put to the Fifth Committee.

23. As against those potential demerits, it was felt that moving to groupings would have a number of distinct advantages.

24. The approach remained within the fundamental parameters of capacity to pay. It had the great merit of simplicity and, once the percentage shares had been established, of objectivity. It necessarily entailed some arbitrary assumptions about the homogeneity of the proposed groups. Nevertheless, the proposed groups were to be seen as a device for facilitating the establishment of the scale, rather than implying the establishment of any new major categories within the Organization, which was most certainly not the intention of the proponent.

25. The approach would reduce, if not eliminate entirely, many of the statistical problems flowing from lack of comparability between national income and other estimates reported by different Member States. Assessment by groups would also enable the membership to confront more directly the complaints aired consistently in the Fifth Committee that developing countries were being penalized in the current methodology used in establishing the scale. Whatever the merit of that contention, it could help the overall acceptance of the scale if the argument were brought into the open - and settled - at the beginning of the process.

26. Finally, assessment by groups would allow for greater transparency in the process of establishing the scale. It would highlight a factor of which the Committee had all along been aware but which had rarely been acknowledged explicitly in the Fifth Committee, namely, that reduction in one country's assessment could only be accommodated at the expense of raising the assessment of some other country or countries. The assessment process in the United Nations was in fact a true zero sum exercise and a disciplined functioning of the model required that there be a shift away from the present arrangement whereby a country (or countries) seeking a special dispensation had too often been shielded from the political responsibility of identifying from where the necessary points were to come.

27. At present, the process of "points reduction" was an anonymous if not a surreptitious one in that the points shed were simply returned into the computer to be distributed among the membership at large. It would be far more transparent and, in the end, more satisfying to bring the issues more into the open. Such enhanced transparency would be assured in the groupings approach.

28. In general, the groupings approach would establish a new political dynamic wherein pressures for special dispensation would be substantially checked and where the correctives that were functional would be in the direction of more equitable burden-sharing under principles of comparative capacity to pay.

29. The Committee found the ideas expressed therein to be interesting. The approach embodied a number of innovative and even iconoclastic elements. There was a sense, however, that the current difficulties surrounding the scale of assessments justified consideration of such radical new approaches. As against those considerations, there was some continuing hesitation and even unease about such a departure from tried and tested methodology albeit that methodology had drawn much criticism in the past. In general, the Committee felt that it could benefit from the views of the Fifth Committee before deciding if and whether to develop these ideas further.

B. Alternative II: A combination of three factors

30. Another alternative suggested during the course of the discussion was to use a combination of criteria in the establishment of the scale of assessments. The proponent felt that the criterion of capacity to pay would need to be modified to take into account the special privileges enjoyed by the permanent members of the Security Council, as well as to recognize the principle of sovereign equality of all States Members of the Organization.

31. That alternative would, therefore, be based on three distinct factors:

(a) The factor of permanent membership in the Security Council: Contributions of permanent members of the Security Council should be commensurate with their special privileges. The combined assessments of the permanent members of the Security Council had decreased steadily, from 71.09 per cent in 1946 to 52.44 per cent in 1978-1979, and only 47.22 per cent according to the 1986-1988 scale. Given that historical trend, it was suggested that their combined shares should be 50 per cent of the budget;

(b) The sovereign equality factor: According to that criterion, a modest designated part of the Organization's budget would be shared equally by all Member States. It was argued that too low a share in the expenses of the Organization would not provide Member States with adequate incentive to encourage fiscal restraint in the adoption of the United Nations programme budget;

(c) The capacity-to-pay criterion: That criterion should apply to the remainder, and still the most substantial, part of the budget.

32. For illustrative purposes, the Committee examined a suggested possible breakup as follows:

(a) 25 per cent to be shared among permanent members of the Security Council;

(b) 5 per cent to be shared equally among all Member States;

(c) 70 per cent to be allocated to all Member States on the basis of capacity to pay.

Various other permutations were also examined.

33. Those who supported the proposal noted that the two factors, sovereign equality and permanent membership of the Security Council, were inscribed in the Charter of the United Nations and therefore lent added legitimacy to the proposal itself. It was further noted that the permanent members of the Security Council enjoyed several distinct advantages beyond the simple privilege of permanent incumbency in the body charged with promotion of international peace and security. For instance, they could exercise the power of veto included in the admission of new Member States, in the appointment of the Secretary-General and in the election of members of the International Court of Justice. There were also other benefits and established conventions of advantage to the permanent members. Further, their work in the Organization was much facilitated by the adoption of their languages as official languages of the Organization.

34. Others observed that, while having a permanent seat in the Security Council was a privilege, it was also one of responsibility. It required that Member States maintain more staff time to cope with the work entailed. Still others maintained that the United Nations was a political organization whose purpose was to maintain international peace and security and to achieve international co-operation in solving international problems. It was not a commercial entity and, therefore, should not be assessed according to the commercial "benefit" principle followed by other organizations. Regarding official languages, it was pointed out that Arabic and Spanish were not languages of the permanent members of the Security Council.

35. Another drawback identified by some members was that the proposed alternative was based on political rather than technical considerations. According to those members, the Committee's mandate should be to refine the methodology based on the capacity to pay of Member States, and it was not within its competence to suggest a method founded on considerations of a political nature. Others maintained that the proposal was not political in character. Still others, while not conceding that the proposal was wholly political, maintained that in any event political decisions may have financial implications and vice versa and therefore the alternative clearly fell within the purview of the Committee's work.

36. It was also pointed out that one element of the proposal would result in an increase in the level of the floor rate of assessment. Others noted, however, that other developing countries would benefit from the arrangement.

37. In brief, the Committee was substantially divided on the proposal. For the proposal to be further advanced, it would be necessary to have the guidance of the General Assembly.

C. Alternative III: Additional apportionment to non-permanent members of the Security Council

38. It was also suggested that since the Security Council was one of the most important organs of the United Nations, its members had special privileges and responsibilities. While the permanent members had a great privilege in exercising the veto, non-permanent members also had the power to block the candidature of the Secretary-General or the appointment of a judge to the International Court of Justice or any resolution of the Council, although all five permanent members might vote in favour of such a motion. To reflect that special privilege enjoyed by non-permanent members the suggestion was made that those members should bear an additional burden ranging from 0.5 to 1 per cent of the budget during their two-year term on the Security Council.

39. Several members said that it was not appropriate to penalize those Member States that had the obligation and responsibility of representing their region in the Security Council. The percentage suggested, 0.5 to 1 per cent, was too heavy a burden, especially for those currently assessed at the floor rate of 0.01 per cent, as that would be tantamount to an increase of 50 or 100 times their current contribution. Furthermore, seats in the Security Council should not be put on the auction block. There should not be an association between membership on the Security Council and contributions to the Organization.

40. Those who supported the idea cited the powers of non-permanent members to dictate decisions of the Security Council on procedural matters, such as the adoption of its agenda.

D. Alternative IV: Core and non-core budget

41. Another alternative suggested would be to divide the budget of an international organization into core and non-core portions for which there would be a logical difference in the criteria for assessment or contributions.

42. For the United Nations the core portion of the regular budget would include those activities fundamental to the basic purposes of the United Nations and, therefore, of direct interest to all members by definition of their membership. The core portion would consist of the political and peace-keeping activities and those in the economic and social sectors concerned with generating consensus among Member States on approaches to dealing with world problems of direct concern to the membership as a whole. The non-core portion would include technical co-operation, operational and specific assistance activities. These activities are of great importance for the United Nations, but their impact and direct benefit are intended explicitly for specific Member States or groups of Member States, including both donors and recipients, rather than the membership as a whole.

43. Such a division of the United Nations regular budget into different portions logically suggests the use of different criteria, which could cover a broad range, for determining assessments or contributions for each portion. The distinguishing characteristic would be that all Member States would share in financial responsibility for the core portion, including activities of direct interest to the membership as a whole, whereas financial responsibility for the different activities in the non-core portion would be determined by the interests of Member States in the different activities.

44. Regarding the core portion, it could be argued at least conceptually that the most appropriate criterion to be used in determining assessments would be that of equal shares reflecting the fact that the core portion serves interests shared by the equally sovereign States Members of the Organization. However, as noted by members of the Committee, the cost would be prohibitive for most Member States. It might be more realistic to choose other criteria such as selection of a contribution class or unit. Even using capacity to pay, with some qualification, would not contravene the basic principle of this proposal.

45. Regarding the non-core portion, it could be argued again at least conceptually that the most appropriate criterion to be used in determining financial responsibility would be that of fully voluntary contributions in order best to reflect the interests of Member States in the different non-core activities. However, the use of other criteria, provided that financial responsibility was not imposed on Member States for activities of no direct interest to them, would not contravene the basic principle of this proposal. It was noted that with acceptance of the proposal, the activities of the non-core portion would not obtain the guarantee of financial resources as they would under the current system.

46. The criterion of core and non-core portions of the budget was not specifically highlighted in the study of alternative methodologies prepared for the Committee, but the study did indicate that there was precedent for the proposal in OECD. Members of the Committee noted that there was also precedent for this proposal in the current regular budget of the United Nations, e.g., the regular budget included core funding for the United Nations Environment Programme (UNEP), the Office of the

United Nations High Commissioner for Refugees (UNHCR) and the United Nations Fund for Population Activities (UNFPA). These programmes also received significant extrabudgetary funding, reflecting the special interests of some Member States.

* * *

47. In reviewing the various proposals, it was noted that alternative I fell squarely within the capacity-to-pay approach. It entailed essentially technical questions and the technical feasibility of proceeding as per the three groupings proposed. The other proposals - alternatives II to IV - constituted, at least in part, a departure from the capacity-to-pay principle. In that sense, those proposals were of a different order, entailing issues of a political character that were felt by a number of members to fall outside the ambit of the Committee on Contributions.

III. DATA COMPARABILITY

A. Uniform data base

48. At the forty-fifth session of the Committee, held in 1985, concern was expressed about the practice, for a number of countries, of replacing data from the United Nations Statistical Office - whose data were provided either directly by the Member States or estimated by the Statistical Office according to procedures approved by the Committee - by data from other sources, e.g., the World Bank Atlas or the OPEC Annual Statistical Bulletin. The Committee had reaffirmed at that session its policy of working from a common data base to the maximum extent possible and had requested that a comparative study be made between statistical data compiled and estimated by the Statistical Office and those from the World Bank.

49. The study results showed that data on gross domestic product (GDP) in national currency from the two sources were on the whole comparable, with the exception of those for 18 countries, all of which were currently assessed at the floor rate. Substantial data discrepancies, ranging from 10 to 50 per cent for 13 of those countries and above 50 per cent for the other 5 countries, could be traced to the dearth of official statistics and to the different estimation procedures by the two organizations. The Statistical Office and the World Bank agreed to review, in the future, their estimation procedures in order to minimize differences between their data base for the countries in question. The findings will be reported to the Committee at its forty-seventh session.

50. The Committee noted the substantial downward revision of income data submitted last year by one Member State in response to the Committee's questionnaire and the failure a year later to clarify discrepancies between revised and previously submitted data. It was informed that, in addition to the Committee's separate questionnaire sent every three years for assessment purposes only, a comprehensive national accounts questionnaire had been addressed annually to the same national statistical offices to gather data for the Statistical Office publications. The information obtained from that questionnaire, which covered various national income aggregates and their component flows, should allow the Statistical Office to check the consistency and coherence of the data supplied, thus ensuring a higher degree of reliability of data than those obtained exclusively from the Committee's simpler questionnaire.

51. The Committee, having considered the desirability and consequences of continuing the present practice of sending a separate questionnaire every three years for assessment purposes only, decided to discontinue the special questionnaire and to rely on the Statistical Office data base for its future work. At the same time, it urged the Statistical Office to continue its efforts on improving national income estimates. It likewise urged that Member States should promptly respond to the annual questionnaire; it was in the interest of Member States themselves to ensure an expeditious reply to the questionnaire rather than risk having data for their national incomes imputed by the Statistical Office itself. The Committee noted that discontinuing the special questionnaire for contributions purposes would result in net savings for the United Nations as well as decrease the burden on Member States.

B. Conversion factors for countries with a multiple exchange rate system

52. In its report on the work of its forty-fifth session, ^{2/} the Committee on Contributions expressed its deep concern over the use of conversion factors for translating national income of countries with centrally planned economies from national currencies into United States dollars. It was recalled that for centrally planned economies the conversion rate had been, as a rule, the average of United Nations operational rates of exchange.

53. In the mid-1970s, that practice came under questioning at the initiative of one country with a centrally planned economy. After having debated the issue over several sessions, the Committee agreed to employ other rates for, first, that country and then several other countries with centrally planned economies with application in each of the past three scale years. In addition, one Member State had been submitting national income data in United States dollars, thus precluding the Committee from making a decision regarding the exchange rate to be used for conversion purposes.

54. In light of the concern expressed, the Committee decided, at its forty-fifth session, to undertake a thorough review at its next session on what type of exchange should be used for countries with a multiple exchange rate system.

55. For its review, the Committee had before it two studies: one relating to the centrally planned economies and the other describing the situation in market economy countries with a multiple exchange rate system. The situation with respect to the centrally planned economies was seen to be particularly complex, with no uniform practice regarding the use of official, commercial, tourist and other rates of exchange.

56. Among the exchange rates discussed, some were felt to be more appropriate for determining the United Nations scale than others. Some members felt that since most convertible currency transactions of countries that had a commercial exchange rate were effected at that rate, the commercial exchange rate was the most suitable. The Committee recognized that that subject was complex and involved intricate conceptual problems. One problem affecting centrally planned economies was that a large part of domestic economic activities was insulated from world price levels and thus was not adequately reflected in any of the exchange rates employed, which, by definition, relate to external transactions.

57. Some members suggested exploring the possibility of using the exchange rates of Socialist members of the International Monetary Fund (IMF) to establish the rates of other Socialist countries. Another idea was to investigate the possibility of using cross-rates established among members of the Council for Mutual Economic Assistance (CMEA) with the USSR rouble as a base and to establish a linkage between the rouble and the United States dollar. Other members did not consider it desirable to derive estimates in United States dollars of national income of countries with a multiple exchange rate system by special calculations of exchange rate ratio or purchasing power parities (PPPs). They maintained that conversion of national income into United States dollars should be made on the basis of effective exchange rates, and for countries with a multiple exchange rate system it would be up to the Committee to choose the most suitable one for conversion purposes.

58. For market economy countries, the Committee has relied until now exclusively on the average annual market exchange rates as published by IMF in International Financial Statistics for computing national income in United States dollars. At present, IMF has listed 15 countries with multiple exchange rates although, according to the agency, many more would be listed if information were available. In the case of all the 15 listed, IMF has been able to establish, in consultation with the Governments concerned, a "principal rate" of exchange. It is that rate that is used by the Committee on Contributions. It is relevant to note that in virtually all cases the "principal rate" of exchange is the highest of the rates and thus yields a national income in United States dollars greater than would be the case using any of the subsidiary rates.

59. The myriad problems with exchange rates led some members of the Committee to consider whether an ideal converter might not be relative PPPs. Others thought it might not.

C. Purchasing power parities

60. The Committee was informed of the developments in the United Nations International Comparison Project (ICP). Until the fourth phase, the development of ICP followed on a straight line with a continuously growing participation of Member States (10 countries in phase I, 16 in phase II, 34 in phase III and 60 in phase IV). Phase V (1985 as a reference year), however, was beset with severe financial difficulties because contributions to the ICP Trust Fund had stopped. That had had negative consequences on participation, especially in Latin America (where, instead of 16 countries as in phase IV, only a few will participate in the present phase) and to some extent also in Asia, so that despite the larger participation in the developed world and in the African region (supported by the European Economic Community (EEC)), the total number of countries in phase V would most likely be smaller than in the previous phase. Thus, the earlier hope that ICP would become universal within a few decades was still quite distant from its realization. The financial shortage might also jeopardize the quality of the results, since country experts would not have sufficient occasions to meet with each other to match specifications for the price comparison.

61. The Statistical Office has continued its work on phase V, and at the same time preparatory work was being carried out for the next phase. However, owing specially to the difficulties mentioned, it has maintained its earlier position that ICP results at the present time have not yet ripened sufficiently to be used for international policy purposes. Similar views were also expressed by the World Bank. The only exception was the European Community, which has been using the regional PPPs for various financial purposes.

62. Several members of the Committee expressed regret over the deterioration in the financing of ICP and urged that its financing be given an appropriate high priority in the voluntary contributions of Member States. They also urged Member States to participate positively in the project. Alternatively, in the absence of PPPs, the price-adjusted rates of exchange (PARE) might be considered to adjust for inflation.

D. Price-adjusted rates of exchange

63. Many members of the Committee noted that distortions in national and per capita income levels in United States dollars of a country were sometimes the product of changes in exchange rates that did not adequately reflect its domestic inflation rates vis-à-vis other countries. To meet that problem the Committee had for a number of years considered the use of PARE. PARE had been described in previous reports of the Committee. Essentially, the process involved analysing price changes in individual countries and comparing them to movements of exchange rates, starting from a particular base year. The PARE thus derived had the effect of reducing the average national income when converted into United States dollars of countries whose currencies had become overvalued vis-à-vis the United States dollar and to increase the income of countries whose currencies had become undervalued.

64. In the past, the Committee had thus been able to use such pseudo exchange rates (or similarly deflated figures provided by the World Bank) to adjust the incomes of some countries where high inflation uncompensated by adequate movement in official exchange rates would otherwise grossly distort the situation. There had, however, been some concern that some correction had not been applied systematically to all countries and it was in order to try to meet such concern that the Committee had continued to discuss and review a scale-wide PARE approach.

65. The major technical difficulty had been the need to choose a base year that reflected what was seen to be a "correct" range of exchange rates. The Secretariat had prepared and submitted to the Committee at its present session a series of PARE calculations based on 1975 rates of exchange.

66. A question was raised by the Committee regarding the choice of 1975 as the base year. The Committee requested that the Statistical Office examine whether the differences between exchange rates and PPPs were larger or smaller in 1975, the current base year of the method, than in other years for which information was available. Given the small sample of countries participating in ICP and PPPs available for 1970, 1975 and 1980, it was tentatively concluded that the assumption that 1975 exchange rates approximated better PPPs than exchange rates in other years could not be substantiated. That notwithstanding, 1975 could still better serve the role of base year than any other year, since more detailed information was available for that year.

67. Another deficiency of the current PARE method, as pointed out in the study, was that adjusted incomes did not reflect changes in the terms of trade and transfer payments. The Committee asked that another study be submitted to it at its next session that would incorporate the above-mentioned changes and would experiment with a varying base year selected to better reflect the individual situation of a country.

68. As in the past, questions were raised regarding the propriety of modifying national income data primarily supplied by Member States, as the correction of domestic inflation through the change in exchange rate was the primary responsibility of each Member State and lay within the scope of its competence and sovereignty. Such an arbitrary adjustment of exchange rates and national incomes without any linkage to the country's real economic conditions could lead to considerable distortion of relative capacity to pay of Member States.

IV. OTHER MATTERS CONSIDERED BY THE COMMITTEE

A. Low per capita income allowance formula

69. In paragraph 3 of its resolution 39/247 B of 12 April 1985, the General Assembly requested the Committee on Contributions to examine the conceptual feasibility of supplementing the present methodology so that each Member State might be assigned a relevant base relief gradient on the basis of its national income and, if possible, to report to the Assembly at its fortieth session.

70. In its representation to the Committee on Contributions at its forty-fifth session, the representative of Saudi Arabia added that:

"The rationale for this proposal arises from the fact that at present Member States are assigned one singular base relief gradient, of 85 per cent, irrespective of their real capacity to pay ... the Committee on Contributions would examine the feasibility of introducing a graduated range of base relief gradients formulated according to the gross national income (GNP) criterion. Such a range could extend from a maximum 85 per cent base relief gradient for a very small economy with a small GNP at or below a certain minimum figure, to a minimum 10 per cent base relief gradient for a very large economy with a large national income at or above a certain maximum figure. Thus each eligible Member State, currently entitled to relief, would first be assigned a relevant base relief gradient according to the level of its gross national income, before the application of the low per capita income allowance formula in the normal manner."

71. For illustrative purposes, the Committee had before it the grouping of countries having per capita income under \$2,200, the current low per capita income limit, in accordance with the size of their national incomes. Then each group was assigned a base relief gradient ranging from 85 per cent for those countries whose national incomes were below \$1,000 million to 35 per cent for those with national incomes above \$100,000 million.

72. Calculations were made for one or a few countries in each income group and the results as seen in the table below showed that by applying a graduated range of relief gradient increases in rate of assessment could range from 1 basis point (or 0.01 per cent) to 134 points.

73. It was observed that for Member States that were eligible for deduction under the low per capita income allowance formula, a reduced relief gradient would increase their assessable incomes and, as a result, their rate of assessment. A graduated reduction of the relief gradient would lower the total relief granted to all Member States that were entitled under the current formula. Since the relief granted was by definition equal to the total burden of relief borne by Member States with per capita income above the limit, the latter's rates of assessment would be to that extent reduced.

Member State	National income (1)	Assessable	Rate of	Assessable	Rate of
		income (\$2,200/85 (2)	assessment per cent) (3)	income (graduated relief (4)	assessment range of gradient) (5)
Lesotho	513	183	0.002	183 (85)	0.002
Senegal	1 951	554	0.007	719 (75)	0.008
Jamaica	2 496	1 488	0.018	1 607 (75)	0.019
Ecuador	8 394	4 661	0.055	5 539 (65)	0.066
Pakistan	23 668	6 211	0.074	12 372 (55)	0.147
Egypt	24 165	9 227	0.110	14 499 (55)	0.172
Algeria	30 636	24 315	0.289	26 546 (55)	0.315
Poland	61 750	50 847	0.604	55 978 (45)	0.665
Mexico	127 486	110 837	1.316	120 631 (35)	1.432
India	129 349	28 848	0.343	87 966 (35)	1.045
Brazil	194 975	151 810	1.803	177 201 (35)	2.104
China	255 936	63 804	0.758	176 823 (35)	2.100

Note (1), (2) and (4): in millions of United States dollars.

(3) and (5): in percentage.

74. The Committee noted in particular the implications on rates of assessment of countries with a large population and low per capita income. If the above testing reflected accurately the intent underlying the proposal, then that intent seemed to go in the opposite direction of the guidelines provided by the General Assembly during the past decade.

B. Collection of contributions

75. The Committee took note of the report of the Secretary-General which indicated that, at the conclusion of its session, two Member States, Equatorial Guinea and South Africa, were in arrears in the payment of their assessed contributions to the expenses of the United Nations under the terms of Article 19 of the Charter.

76. In regard to the collection of contributions, the Committee reaffirmed its previous decision to authorize its Chairman to issue an addendum to the current report, should it be necessary.

C. Payment of contributions in currencies other than United States dollars

77. Under the provisions of paragraph 3 of its resolution 40/248 of 18 December 1985, the General Assembly empowered the Secretary-General to accept, at his discretion and after consultation with the Chairman of the Committee on Contribution, a portion of the contributions of Member States for the calendar years 1986, 1987 and 1988 in currencies other than United States dollars.

78. At its current session, the Committee considered a report of the Secretary-General on the arrangements made for payments by Member States of their 1986 contributions in currencies other than United States dollars. The Committee noted that five Member States would avail themselves of the opportunity of paying the equivalent of \$US 2.3 million in 5 of the 17 non-United States dollar currencies acceptable to the Organization. In accordance with the recommendation of the Fifth Committee, the Committee also noted that the Secretary-General had continued to give absolute priority to each Member for payment in its own currency, to the extent that that currency could be used by the United Nations.

79. The Committee recommended that the Secretary-General should continue to be authorized to make similar arrangements for the year 1987.

D. Date of the next session

80. The Committee decided to hold its forty-seventh session in New York either from 15 June to 3 July 1987 or from 22 June to 3 July, depending on the guidelines of the General Assembly. The forty-eighth session was tentatively scheduled in New York for four weeks in June 1988.

Notes

1/ Official Records of the General Assembly, Thirty-eighth Session, Supplement No. 11 (A/38/11), paras. 7-12.

2/ Ibid., Fortieth Session, Supplement No. 11 (A/40/11).

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