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FIFTH COMMITTEE
34th meeting
held on
Wednesday, 13 November 1991
at 3 p.m.
New York

# SUMMARY RECORD OF THE 34th MEETING

Chairman: Mr. MUNTASSER (Vice-Chairman) (Libyan Arab Jamahiriya)

Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. MSELLE

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The meeting was called to order at 3.20 p.m.

AGENDA ITEM 116: UNITED NATIONS COMMON SYSTEM (A/46/30 and A/46/275; A/C.5/46/28, A/C.5/46/35, A/C.5/46/31 and A/C.5/46/33)

AGENDA ITEM 117: UNITED NATIONS PENSION SYSTEM (A/46/9 and A/46/614; A/C.5/46/15, A/C.5/46/31 and A/C.5/46/33)

1. Mr. BEL HADJ AMOR (Chairman, International Civil Service Commission), introducing the seventeenth annual report of the International Civil Service Commission (ICSC) (A/46/30), said that the task of preserving and maintaining the common system was not easy, particularly at the present juncture. In making recommendations and taking decisions the Commission had always endeavoured to take into account the diversity of the organizations within the common system. It was important for the Fifth Committee to bear that diversity in mind as it considered the report, as it was the Member States who could assist the Commission in achieving a balance between the responsibilities of the agencies, their own objectives and the aspirations of staff.

2. The report was being presented in two volumes. Volume II was devoted to the Commission's views on its functioning and its response to the document on the same subject presented by the Administrative Committee on Coordination (ACC).

3. In recent years criticism of the Commission had been concentrated on a perceived lack of transparency and the defects of the Commission's methods of reporting to the General Assembly. A number of constructive changes had been introduced as a result, including an improved reporting format, and the participation of the organizations and of the staff in the Commission's decision-taking meetings. In its report the Commission had attempted to make clear that in a number of areas criticism directed towards the Commission applied equally to the organizations and the staff, which must assume their responsibilities.

4. The Commission's reactions to ACC's comments and recommendations were based on a pragmatic approach which enabled it to single out those suggestions that would help the Commission to improve its functioning without compromising its own responsibilities or encroaching on the authority and prerogatives of the General Assembly. The Commission was motivated fundamentally by its statutory requirement to preserve its independence.

5. During the current year, the Commission had been faced with two issues threatening to undermine the unity and cohesiveness of the common system, the decisions taken by the International Labour Organisation (ILO) and the International Telecommunication Union (ITU) to grant special benefits to their staff. In both cases, the administrations of those organizations should have consulted the Commission in advance and their actions should not create

(Mr. Bel Hadj Amor)

precedents. The Commission was mandated to maintain the cohesiveness and integrity of the common system but it could not carry out that task if the organizations did not cooperate.

6. The Commission had studied the methodology to be used to determine the pensionable remuneration of ungraded officials, in cooperation with the United Nations Joint Staff Pension Board. It was for the governing body of an organization to decide whether or not its elected officials should be participants in the Pension Fund, but the pensionable remuneration of those participating should be determined in accordance with the methodology used to arrive at the pensionable remuneration of the United Nations Development Programme Administrator and the United Nations Director-General for International Economic Cooperation and Development. The Commission had also made recommendations regarding the procedure to adjust the pensionable remuneration of ungraded officials.

7. The Commission continued to monitor the margin between the remuneration of United Nations officials in the Professional and higher categories in New York and their counterparts in comparable posts at Washington, a procedure which took an inordinately high proportion of its time. At the slightest hint of the possibility of a salary freeze, the representatives of the organizations and the staff prolonged discussions on the margin in the hope of forestalling the freeze. It was important for the member States to be aware of the general malaise that the recent freeze had created throughout the system and to reassure the executive heads and the staff of their commitment to a just and fair remuneration system which functioned smoothly. The General Assembly must take policy decisions to introduce a stability that was badly needed in that fundamental element of the Professional salary system. It should be recalled that the Commission had emphasized the need to discontinue five-year averaging of the margin so as to stabilize the system.

8. The current level of the margin stood at 118.9, a figure which took into account the results of the latest grade equivalency study completed recently by the Commission. The report provided details of the recent developments regarding the salary-setting procedures for the comparator civil service. It also provided the details of the Commission's consideration of the proposed measures to avoid a prolonged freeze. It was important to note that the proposal for use of partial post adjustment increases would be required for only a brief period, possibly only for part of 1993. The margin would gradually be reduced and the goal set by the General Assembly would be achieved without the need for intervention on the part of the General Assembly or the Commission. There was every likelihood that after 1995 the margin would fall below 115.

9. It had been difficult for the Commission to reach a consensus on the subject of the margin; while some of its members had opposed a suspension of the margin range even temporarily, others had been of the view that the difficulties could be overcome by suspending the automatic implementation of

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freezes until the full impact of the changes in the salary system of the comparator was felt in 1994.

10. The Commission had recommended an increase in the base salary scale of 8.6 per cent effective 1 March 1992. The financial implications of that recommendation for the entire system were estimated at $5.9 million for 1992. A major portion of that cost was associated with the mobility and hardship allowance and would be financed through extrabudgetary resources. The operation of the mobility and hardship scheme would be reviewed by the Commission in 1992.

11. In its report the Commission proposed a methodology for determining which was the highest paying national civil service.

12. In connection with the comprehensive review of conditions of service of Assistant Secretaries-General/Under-Secretaries-General, the Commission had concluded that no rigid linkage could be established between the common system and the comparator civil service, but had nevertheless established some working equivalents. It consequently recommended an increase in net remuneration levels for staff at the ASG and USG levels in a range of 7 to 11 per cent and the corresponding adjustments in the scale of pensionable remuneration. The granting of subsidies for housing and for representation allowances would remain at the discretion of the executive heads.

13. The Commission had undertaken a comprehensive review of pensionable remuneration and consequent pensions for the General Service and related categories of staff. In the first instance ICSC had recommended a revised scale of staff assessment rates. It had also decided to conduct a study of local practices with regard to pensions and to collect all relevant data for the introduction of the income replacement approach used in conjunction with local taxes. The Commission intended to submit its final recommendations to the General Assembly at its forty-seventh session. All the studies had been carried out in close cooperation with representatives of the organizations, the staff and the Joint Staff Pension Board.

14. In 1991, in cooperation with representatives of the organizations and the staff, the Commission had carried out a survey of best prevailing conditions of service in Geneva and Vienna. In Geneva the survey had resulted in an increase in salaries of some 10 per cent, whereas in Vienna current salary scales for the General Service staff and language teaching staff were 2.05 and 6.7 per cent higher, respectively, than the salary scales indicated by the survey. ICSC intended to review the methodologies for carrying out surveys at headquarters and non-headquarters duty stations in 1992 and 1993 respectively.

15. In conclusion, he noted that in his consultations with the executive heads of most of the common system organizations, a common thread had been the expression of great concern at the deterioration in the purchasing power of Professional staff remuneration and the resulting discontent among staff

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members, with consequent difficulties of programme delivery. While the members of ICSC were wholly cognizant of Member States' budgetary constraints, they could not ignore the fact that the wealth of the common system resided in its human resources, namely a staff which served Member States and must be motivated by fair and competitive conditions of service.

16. Mr. AITKEN (Chairman of the United Nations Joint Staff Pension Board) introduced the Board's report (A/46/9) and referred to the major administrative and policy considerations.

17. The actuarial valuation of the Fund as at 31 December 1990 indicated that the actuarial situation had markedly improved since 1988. The imbalance had decreased from 3.71 per cent to 0.57 per cent of pensionable remuneration and was now less than one tenth of the imbalance of 10 years earlier. That change had been wrought through the introduction of a number of economy measures affecting pensions and an increase in the rates of contribution of both participants and organizations. Nevertheless, an actuarial balance had not yet been achieved and the Committee of Actuaries had reaffirmed its view, which was shared by the Pension Board, that it was desirable to increase the contribution rate, now at 23.7 per cent, to 24 per cent. The Board had been unable to agree on when and how such an increase should be implemented and had decided not to recommend an increase in the contribution rate for the time being.

18. In general the Board had a very positive view of the investment performance of the Fund, the management of which was the direct responsibility of the Secretary-General.

19. The Fund covered its own administrative costs, which related basically to its secretariat and constituted approximately one third of the total administrative budget, as well as costs relating to the management of investments, including the activities of the Investment Management Service, which accounted for the remaining two thirds.

20. The Board had endorsed and submitted to the General Assembly the revised budget estimates for 1990-1991 of $32.7 million and the proposed estimates for 1992-1993 of $40.7 million. The major factor in the growth between the bienniums was the expected increase in advisory and custodial fees for the Fund's investments, which were linked to the value of the portfolio. Other increases stemmed from the fact that the Fund was a service entity and needed additional resources to cope with the increasing demands generated by the growth in the number of participants and beneficiaries, of whom there were now more than 58,000 and 32,000, respectively.

21. The Advisory Committee, in its report (A/46/614), had recommended approval of the revised estimates for 1990-1991 and recognized the need for additional resources for the biennium 1992-1993 to meet the costs of the next phase of the project to replace the existing computer systems and of changes

(Mr. Aitken)

in the organizational structure and the operation of the Fund's secretariat, as well as of additional staffing to cope with the increasing volume of work. The Advisory Committee had also proposed a reduction in the number of additional posts requested, which would decrease administrative expenses for the biennium 1992-1993 by some $270,000. Even if those reductions were approved, it should still be possible to pursue the essential priorities of the Board with regard to improving the administrative and operational capacity of the Fund's secretariat.

22. The Board had been unable to reach a consensus on the comprehensive review of General Service pensionable remuneration and consequent pensions. The Board had examined numerous pension calculations and comparisons prepared jointly by the secretariats of ICSC and the Board, as well as a number of alternatives to the present methodology. It had concluded that further studies were required, particularly in respect of the alternative of applying local practice, as was done for General Service salaries, and in respect of applying the income replacement approach and relating the income replacement ratios for General Service staff to those for Professional staff at the same location. The Board had also decided to continue studying alternatives to the use of dollar-based staff assessment rates to calculate pensionable remuneration by grossing up net salaries, by, for example, the direct use of local taxes or an average thereof.

23. The question of General Service pensionable remuneration and consequent pensions was highly important from the perspective of staff/management relations. The further study of alternatives, including the possible retention of the current methodology, would assure all the parties concerned that full and thorough consideration would be given to the implications of all the methodologies before any decision was taken.

24. The Pension Board had also been unable to reach a consensus on the methodology for determining the pensionable remuneration of ungraded officials who were participants in the Fund, which included the executive heads of the specialized agencies. It had therefore decided to defer making any definitive recommendations on either the methodology or on amendments to the Fund's Regulations until ICSC or the governing bodies of the organizations concerned had commented thereon.

25. The question of the longer-term modification of the pension adjustment system related to the determination of initial local currency pensions of participants in the Professional and higher categories who provided proof of residence outside the United States. Ever since exchange rates had begun to move freely 20 years earlier, the Board had been struggling to find a solution to the problems which arose when the initial local currency value of the dollar pension entitlement declined because the local currency had appreciated against the dollar. The problem had placed participants retiring in certain countries at a considerable disadvantage in terms of the relationship between their initial local currency pension and the cost of living in their place of

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retirement. Some participants found themselves having to speculate on the impact of future exchange rate movements on the level of their initial local currency pensions, should they remain in service longer, and faced the possible anomalous situation of longer service resulting in a diminished pension in local currency terms.

26. There had been attempts over the past 15 years to address the problem in different ways and the General Assembly had in 1990 adopted a transitional measure to replace the interim measure adopted in 1987 that had expired in 1990.

27. The Board was now presenting a consensus proposal on a longer-term approach to the determination of the initial local currency pension, which involved improving the "Washington Formula" to provide greater compensation for cost-of-living differences at locations with higher post-adjustment classifications than New York; the objective being to obtain income replacement ratios that were within an acceptable range of the corresponding ratio in New York, not to obtain the same income replacement ratios as in New York. By amending the four key parameters in the "Washington Formula", which were described in paragraph 143 of the Board's report, the current differences in the income replacement ratios between different duty stations would be reduced substantially. The details of the Board's proposals were set out in paragraph 175 of its report and included a call for additional studies on the applicability of the proposed modification to General Service staff, taking into account the comprehensive review of the pensionable remuneration and pensions of such staff and on a possible change of the "120-per-cent cap" under the two-track pension adjustment system, which was described in paragraph 139 of the report, and the application of the special index for pensioners that took into account any tax advantage.

28. Because the transitional measure would expire on 31 March 1992, the Board recommended that its proposals to modify the "Washington Formula" should enter into effect on 1 April 1992.

29. The actual costs of the proposals would depend on the evolution of the value of the dollar in relation to the currencies of the countries of retirement of future beneficiaries and on the evolution of the post-adjustment classification in New York, which had an impact on the scale of pensionable remuneration of staff in the Professional and higher categories and, consequently, on their dollar pension entitlements. On the basis of the hypothetical expenses the Pension Fund would have had to meet under the exchange-rate and post-adjustment movements over the past five years, the Consulting Actuary had estimated the cost of the proposals to be on the order of 0.3 per cent of pensionable remuneration. However, in view of the uncertainties as to future costs, the Board would monitor the situation closely and report on it at the next valuation of the Fund, at which time it would consider the need for and the timing of changes in the rate of contributions.

(Mr. Aitken)

30. The Board's proposals represented a reasonable and balanced response to the request of the General Assembly in resolution 45/242, paragraph 5.

31. The recent practice by the Board of reaching decisions and making recommendations by consensus had probably lessened the need or urgency delegations had felt in the past to reconsider the proportionate representation of the General Assembly and of other governing bodies on the Board. No changes had therefore been proposed for the moment in the size and composition of the Board.

32. The Board believed that the time had come to adopt a two-year cycle for its regular sessions and it was accordingly proposing an amendment to article 14 (a) of the Regulations to provide for reporting to the General Assembly at least once every two years instead of annually. That would not prevent the Board from holding special sessions to deal with matters requiring urgent attention between its regularly scheduled sessions. The special sessions would have a limited agenda and would be short.

33. Mr. FORAN (Acting Under-Secretary-General for Administration and Management), speaking as representative of the Secretary-General for the investments of the United Nations Joint Staff Pension Fund, introduced the report of the Secretary-General (A/C.5/46/15) on the investments of the Fund for the year ending 31 March 1991. It was similar in format to the reports of recent years so that there would be a basis for comparison.

34. Although the period covered by the report was one of the most difficult the Fund had experienced in the world's financial markets, as a result of political events in Eastern Europe, the Gulf crisis and a slow-down in economic expansion, the market value of the Fund's assets had increased by 9.1 per cent, from $8,558,000 to $9,338,000, and the investment return had been 8.9 per cent, which was equivalent to an inflation-adjusted or real rate of return of 3.8 per cent. Consequently, the return could be considered a good one. Moreover, table 1 of the report showed that the real rate of return over the past 30 years had been 3.3 per cent, which slightly exceeded the actuarial assumption for the Fund's investments.

35. With regard to investment diversification, the proportion of the assets in equities had been reduced from 40 per cent on 31 March 1990 to 39 per cent on 31 March 1991, while the bond portion of the portfolio remained unchanged at 39 per cent. Cash and short-term reserves had been increased from 9 per cent to 12 per cent owing to uncertainty in the financial markets and as a way of taking advantage of relatively higher short-term interest rates during much of the period under review.

36. The Fund had continued to expand its investments in developing countries and development institutions, which had risen by a total of 12.4 per cent over the previous year.

(Mr. Foran)

37. For a number of years, the Fund had had a policy of diversifying its investments not only by sector but also by currency. It currently held investments in 42 countries and 33 currencies. Safe investment was its first priority in the selection of assets. In late 1985, the Fund had adopted a defensive strategy whereby realized profits were held in short-term investments or invested in bonds. Between 1 January 1986 and 31 December 1990, $2.1 billion of realized profits had been so invested. The diversification policy and the defensive strategy had helped to protect the Fund in a time of turbulence and crisis.

38. Interest rates were on the whole declining world wide, and that might as a consequence benefit equity markets. The Fund had gradually begun building up the equity sector of the portfolio, although it would continue to maintain a stable level of fixed-income securities with high yields to ensure a steady stream of income. The defensive strategy would basically be continued, although in a less active manner than in recent years.

39. Decisions affecting the investments of the Fund were and would continue to be made on the basis of long-term strategies rather than on short-term considerations, and its performance should be assessed on the basis of returns over a substantial period of time. The Fund's main objective continued to be to ensure the preservation of its principal, with safety as the primary criterion.

40. In accordance with the decision adopted by the Committee at its 14th meeting, the Chairman invited the President of the Coordinating Committee for Independent Staff Unions and Associations of the United Nations System (CCISUA) to take the floor.

41. Mr. HEWSON (President of the Coordinating Committee for Independent Staff Unions and Associations of the United Nations System) said that there was noticeably low morale among the staff of the organizations of the common system, fueled by, among other things, what they perceived to be a deliberate attempt at arbitrary curtailment of their conditions of service and their acquired rights.

42. The staff representatives had grown increasingly frustrated by a Fifth Committee bent on micro-management and an ICSC determined to anticipate the Fifth Committee's every wish. The General Assembly had rejected ICSC recommendations arrived at with input from the staff representatives, and those representatives had been denied access to the informal consultations in which sensitive decisions affecting staff remuneration and conditions of service were made.

43. The system for establishing Professionl remuneration needed to be overhauled. The constraints imposed by an inadequate margin range had kept Professional remuneration levels artificially depressed and had disrupted the normal functioning of the post adjustment system.

(Mr. Hewson)

44. Some Member States had resorted to supplementary payments as a means of attracting their nationals to work in the Organization. That practice created a class system among the staff since it implied that some Member States felt that only their nationals deserved higher levels of pay. On the other hand, it made those staff members dependent on their Governments and prevented them from being truly international civil servants as required by the Charter. Lastly, it showed without a shadow of doubt the inadequacy of common-system remuneration.

45. The United States Federal Civil Service, which was the comparator for determining remuneration in the United Nations, had been lagging behind its own comparator, the United States private sector, by 30 per cent. One could not but question the equity of the current 110-120 margin range. The United States Federal Civil Service was no longer and had not been for years the best paid national civil service. For that reason, ICSC must be mandated to continue without delay the study on the best paid national civil service, a task which it seemed reluctant to pursue with the necessary speed.

46. If a breakup of the system was to be avoided, it was also essential to eliminate the 115 five-year average and suspend the 120 limit of the margin range, at least until the expected effects of the Federal Pay Reform Act began to be felt.

47. The staff had with increasing concern seen how their employers, instead of recognizing the deficiencies of the system and adjusting Professional remuneration accordingly, were now trying to curtail the pensions of General Service staff, who were already adversely affected by the arbitrary division of staff into two separate categories and the limited career prospects available to them.

48. The staff could not understand why a pension system that had proved satisfactory over the years should now be in danger of abandonment. A survey of local conditions to determine pensionable remuneration could not be justified since that would mean that at some duty stations retired staff would spend their old age in poverty. At the lower grades, even General Service salaries were so low that a decent standard of living was impossible. CCISUA could not accept the argument that staff representatives had been closely involved in the consideration of General Service pensionable remuneration by ICSC and hoped that future studies would be carried out in close cooperation with the staff.

49. The staff of the General Service and related categories seemed to be perceived as transient employees. That impression must be dispelled. There was a need to return to non-evaluative nomenclature and recognize that all staff members were vital to the Organization, that all were international civil servants and that all were equally entitled to careers.

50. Mr. Hewson withdrew.

51. <u>In accordance with the decision taken by the Fifth Committee at its 14th meeting, the Chairman invited the President of the Federation of International Civil Servants Associations (FICSA) to take the floor</u>.

52. <u>Mr. FREEMAN</u> (President, Federation of International Civil Servants Associations) expressed the staff's profound feeling of frustration at the ongoing charade that passed for staff participation in the consultative and decision-making processes that determined their conditions of service. A case in point was the fact that the Commission dismissed out of hand the views submitted by FICSA on the restructuring of ICSC.

53. Over the previous 16 years, the Fifth Committee and ICSC had seen to it that the salaries and pensions of the international civil service had reached a new low. ICSC considered any review mandated by the Fifth Committee an opportunity to reduce further the staff's conditions of service. The purchasing power of Professional salaries in some duty stations had been eroded by as much as 30 per cent. Professional staff retired with a paltry sum, on average, of 46 per cent of their base salary. When initiatives had been taken by certain agencies to redress that situation, ICSC had treated the persons responsible as renegades determined the undermine the common system for having the courage to develop solutions to problems that the Fifth Committee would not even acknowledge.

54. By refusing to listen to staff views, the Committee had allowed conditions of service to deteriorate to a point where staff had no choice but to unite in industrial action.

55. United Nations staff would no longer accept the patriarchal relationship between personnel and administration and wanted to participate as equal partners in the processes that determined their conditions of service and their livelihood. They wanted the Committee to put an end to the usual rubber-stamping of ICSC recommendations and give real consideration to staff issues.

56. With regard to pensions, it was time to increase contributions to 24 per cent, as had been agreed in 1982. The accumulation rate of 2 per cent should commence at the beginning of one's career and should continue through 35 years of service. Professional staff expected that the purchasing power of their initial pensions in local currency would be equal to those of colleagues in New York, the base city: at least 50 per cent of pensionable remuneration after 25 years of service, in other words full Option D.

57. Professional salaries were based on a comparator civil service whose remuneration lagged behind local conditions by some 32 per cent, and the existing margin/freeze methodology guaranteed that competitiveness in Professional salaries would never be restored. The upper limit of the margin range should be suspended until the full impact of the United States Federal Employees Pay Comparability Act was known. The five-year average and 115 mid-point should be eliminated and the concept of freeze as a means of

(Mr. Freeman)

controlling Professional remuneration must be done away with. Full steps must be taken to restore Professional purchasing power at all duty stations.

58. The methodology for determining General Service salaries and pensions should not be tampered with. Those salaries and pensions were based on local conditions and were in perfect synchronization with the marketplace, in accordance with the Flemming principle. The way to redress the "anomaly" whereby in some duty stations mid-level Professionals received salaries and pensions equivalent to the higher-level General Service staff was to restore the lost purchasing power of Professional salaries, not to cut General Service salaries.

59. With regard to the restructuring of ICSC, the Committee should give careful consideration to the proposals by FICSA and ensure that staff/management relations were governed by the principles laid down in international labour conventions.

60. Staff would not accept a delay in the implementation of their recommendations. The "comprehensive review" of 1990 had merely proved that there was no sincere desire on the part of the General Assembly to resolve that very serious situation. If the General Service's conditions of service underwent the same fate as those of the Professionals, all staff would understand that the Member States had no interest in preparing staff to meet the new challenges facing the United Nations in the coming decade. The responsibility for all that resulted from such a decision would rest with them.

61. Mr. Freeman withdrew.

62. Mr. GREGG (Australia), speaking on behalf of the delegations of Australia, Canada and New Zealand, explained their general approach to the ICSC report. The remuneration package offered to United Nations staff must be sufficiently attractive for the recruitment and retention of high-quality personnel. However, decisions on staff remuneration could not be taken in a vacuum. Remuneration increases in real terms must be accommodated within the overall resource envelope approved by the General Assembly and by the governing bodies of the other organizations in the common system.

63. It was unfortunate that the International Telecommunication Union (ITU) and the International Labour Organisation (ILO) had taken ill-advised unilateral action which breached the common system. It was to be hoped that the resolution to be adopted by the Committee would indicate clearly the importance of preserving the common system. The Secretary-General might also convey that message vigorously to the executive heads of organizations, and Member States themselves should coordinate their positions better so that delegations attending agency meetings were aware of the problem. Finally, it might be time to consider sanctions against those organizations which did not respect the common system.

(Mr. Gregg, Australia)

64. The three delegations fully supported the recommendations on pensions made by ICSC in chapter III of its report. Uniform regulations should be applied to the pensionable remuneration of all ungraded officials participating in the Pension Fund. A comprehensive review of the pensionable remuneration of General Service and related categories of staff was also needed. A system in which salaries were based on the best prevailing conditions of employment where no comparability existed in relation to pensions must clearly be corrected.

65. They reserved their position on the question of the margin pending further clarification of some of the issues in informal consultations. They were disposed to accept the proposed increase in the current base salary scale but would have preferred to have more information about the operation of the new mobility/hardship scheme. They had reservations about the suggestion that an alternative comparator service should be identified, particularly in view of the projected increases in United States civil service remuneration. They did not support the Commission's recommendation in paragraph 159 and annex V of its report and thought that the exercise should be abandoned.

66. The three delegations had no objection to consideration of an increase in net remuneration at the assistant-secretary-general level. But they hoped that the resulting cost increases would be offset by economies. Similarly, the very high costs arising out of the survey of the best prevailing conditions of service at Geneva were presumably due to inflation and would have no impact on the rate of real growth of the proposed budget for the biennium 1992-1993.

67. The central problem with the functioning of the Commission had been a lack of transparency which had undermined the confidence of Member States both in the Commission itself and in the entire remuneration system. For far too long the efforts to make the conditions of service of the staff fairer and more transparent had been frustrated by vested interests.

68. Organizations and their staffs constantly demanded higher salaries and greater benefits which were justified not by increased productivity or improved service to Member States but by artfully designed indices of comparison and by questionable assumptions about the relationship between international civil servants and the private sector.

69. It was a fact that the Organization did not have a limitless capacity to pay salaries. The Member States expected much from the Organization and appreciated the competence, dedication and idealism of its staff, but they expected remuneration demands to be reasonable. The pension cuts and pay freezes of recent years had been made because it had become obvious that the level of remuneration was excessive. At the same time, it was deeply regrettable that the failure of Member States to honour their financial obligations obliged ICSC to function in a climate of constant uncertainty, to the extent that at times there had been doubts as to whether salaries could be paid.

(Mr. Gregg, Australia)

70. The ACC review of the functioning of ICSC (A/46/275) was disappointing. More radical solutions were required, and it was vital in particular that the ICSC secretariat should be completely independent, so as to avoid the possibility of a conflict of interests.

71. Although the ACC recommendations were not objectionable, their implementation would not help to improve the present situation. Many of them seemed designed mainly to further the interests of ACC rather than of the Member States. The conclusions reached by the Commission, although sensible in the main, were too bland. Additional funds should be allocated to the Commission so that it could meet for longer sessions, and it should concentrate on major policy issues and submit biennial reports. A period of office of up to 12 years was too long; the Commission's membership should be rotated more frequently.

72. The three delegations would participate constructively in the informal consultations, with a view to drafting a resolution which equitably balanced the interests of the staff, the organizations and the Member States.

AGENDA ITEM 114: SCALE OF ASSESSMENTS FOR THE APPORTIONMENT OF THE EXPENSES OF THE UNITED NATIONS (continued) (A/46/11 and Add.1 and Add.2/Rev.1)

73. Mr. SARDENBERG (Brazil) said that in the current scale of assessments his country was the twelfth-largest contributor to the regular budget even though its per capita income ranked fifty-seventh among the 159 Members which the United Nations had when the scale had been calculated. The years 1980 to 1989, which served as the basis for the assessments, had not been favourable for Brazil or for the overwhelming majority of developing countries. The results for 1991 had not been much better despite the efforts to redress the imbalances and solve the internal problems impeding the resumption of economic growth. It was from that perspective that Brazilian society and its Congress would examine the proposal of the Committee on Contributions, which would increase Brazil's rate of assessment from 1.45 to 1.59 per cent, making it the tenth-largest contributor to the Organization.

74. The scale proposed by the Committee on Contributions represented an anomalous assessment for his own and for many other countries, demonstrating the need for the methodology for the calculation of the scale and its application to be thoroughly reviewed. The Preparatory Commission of the United Nations had foreseen that the comparison of national incomes, although it was to be the reference base for assessments, might possibly prove a biased and even misleading indicator, and it had therefore decided that other factors should be taken into account. It remained necessary to take other factors into account and to determine the weight which should be assigned to them. For example, there was no valid technical argument for applying a gradient of 85 per cent to the low per capita income adjustment. The value of that indicator had to be constantly updated in order to maintain its real historic dimension.

(Mr. Sardenberg, Brazil)

75. Net outgoing financial flows, an aggravating factor in the overall imbalance of production and consumption in the world, should be taken as an indicator of the lessened ability of a number of Member States to secure the hard currency which they needed in order to participate actively in the international economy and even to fulfil their obligations to the United Nations. Unfortunately, the persistent effects of the debt crisis reaffirmed the need to continue to apply a debt-adjustment factor in the assessment of the rates of the developing countries. That factor relied on a technical formulation derived from recognition of the fact that the establishment of the scale of assessments was not and should not be simply a technical matter.

76. If the scale did not succeed in adequately reflecting the comparative capacity to pay of Member States, it would prove to be a divisive issue and might contribute to an increase in unavoidable arrears of payment to the Organization. Accordingly, any constructive approach to the determination and adoption of a fair and correct scale must comply fully with the guidelines already approved by the General Assembly in previous resolutions, some of them on the recommendation of the Committee on Contributions itself, as in the case of resolution 45/256 A. Such a constructive approach also required a uniform and equitable application of technical devices such as price-adjusted rates of exchange (PARE) wherever needed. In addition, a careful examination should be made of alternatives which might establish closer links between different degrees of representation, participation, advantages such as the privilege of having all the documentation in a country's own language, and its financial contribution.

77. There must also be complete transparency in the work of the Committee on Contributions, which could be ensured by allowing observer delegations to attend its meetings and by giving unrestricted access to the documents used by the Committee in its deliberations.

78. Although his delegation was ready, as on previous occasions, to take a positive approach to what was a very important issue, it thought that the scale proposed in document A/46/11/Add.2, as orally amended, was unsatisfactory; the Brazilian delegation looked forward to contributing to its improvement.

79. Mr. SAHU (India) said that several complex factors went into the determination of a country's assessment and a modification of any one of them could have a net effect that was significantly different from what might be anticipated. Moreover, given the nature of the scale, one country's gain was another's loss. It was therefore commendable that the Committee on Contributions had recommended a scale which took account of the varying concerns of the States Members of the United Nations. The Committee had been assisted in its task by the admission to the United Nations of the Democratic People's Republic of Korea and the Republic of Korea and by Japan's generous gesture in contributing 50 ad hoc adjustment (mitigation) points.

(Mr. Sahu, India)

80. For over four decades, the scale of assessments had been based on the capacity-to-pay principle. Even if the system had some drawbacks and it was difficult to measure capacity to pay accurately in statistical terms, there appeared to be no viable alternative. The capacity to pay, modified to take into account actual ability to pay, remained the most important factor for determining contributions. Chapter VIII of the report of the Committee on Contributions mentioned other factors which his delegation believed should not be taken into account. Some of those factors were variable and impossible to measure, and his delegation would not support any proposal to link contributions to membership of certain bodies, since that would derogate from the principle of the sovereign equality of Member States. The special responsibilities of the permanent members of the Security Council were to some extent already reflected in the higher rates of assessment for special peace-keeping accounts authorized by that body. Those rates should be applied to all activities mandated by the Security Council that had financial implications.

81. It was surprising that some developed countries had been given relief under the debt adjustment formula. In future, the Committee on Contributions should remedy that anomaly, for example, by restricting debt relief adjustment to countries included in the World Bank list of indebted countries whose per capita income did not exceed the upper per capita income limit determined by the General Assembly. He would like the Secretariat to examine that possibility and inform the Fifth Committee of the outcome.

82. His delegation agreed with the view expressed in paragraph 17 of the report of the Committee on Contributions that the upper per capita income limit was a concept that referred to a minimum level of income required to satisfy the basic needs of the population. Although that limit should not necessarily be the same as the average world per capita income, it would be useful in statistical and arithmetical terms if it was, because the upper per capita income limit would then be automatically adjusted and there would not be a divisive debate about it in the General Assembly every time the scale was considered. If, for various political reasons, an upper limit of $3,000 was not acceptable, the figure of $2,800 might be accepted as a compromise solution in order to maintain the limit at the same real value as in 1985. An alternative way of resolving the problem without increasing the category of countries benefiting from the low per capita income allowance formula would be to examine the possibility of increasing the relief gradient from 85 per cent to perhaps 90 per cent. He urged the Committee on Contributions to consider that option at its next session.

83. His delegation agreed with the vast majority of the membership that the 10-year statistical base period made it possible to strike an appropriate balance between accurately reflecting capacity to pay at any given point in time and indicating real national wealth more accurately by eliminating short-term fluctuations in national income. In paragraph 57 of its report, the Committee on Contributions noted that the progressive application of the

(Mr. Sahu, India)

scheme of limits over a three-year scale period could lead to the phasing out of the scheme. His delegation was prepared to examine that possibility in greater depth but it was important to ensure that any modification of the current scheme would not be detrimental to the developing countries. His delegation would not support any proposal to modify the scheme of limits which called for the adoption of one-year scale periods and it strongly supported the recommendation by the Committee on Contributions that the new scale should be adopted for the three-year period 1992-1994. The scale had traditionally been adopted for a three-year period; that had the added advantage of giving contributions some stability and continuity. Furthermore, it ensured that the Committee on Contributions had enough time to consider important methodological matters in the intervening years, which would otherwise be impossible.

84. The Committee on Contributions had used price-adjusted rates of exchange (PARE) for seven countries. Although the concept of PARE seemed reasonable at the technical level, its implications for the scale were far from clear to his delegation and the impact of its use on the assessments of various Member States, particularly developing countries, should be ascertained before it was employed on a much wider basis. The application of the concept must not add to the burden on developing countries through the redistribution of additional points.

85. Over the past few years, his delegation had called for greater transparency in the work of the Committee on Contributions, particularly in regard to the process of distributing ad hoc adjustment (mitigation) points. Significant progress had been made during the previous session of the General Assembly, when certain criteria for the provision of mitigation were identified. Similarly, there had been considerable improvement in the communication mechanism between Member States and the Committee on Contributions. Information meetings had generated considerable interest among Member States, as was shown by the level of participation in them. His delegation wished to see the system of consultations institutionalized on a more permanent basis and it supported all measures aimed at further strengthening the trust of Member States in the procedures and functioning of the Committee on Contributions.

86. Mr. GABRIEL (Philippines) said that the Committee on Contributions had once again presented a scale of assessments based on capacity to pay which attempted to incorporate and reconcile the divergent and sometimes conflicting views of Member States. The need was not to change the existing methodology but rather to search constantly for ways of improving it so that it became fairer and more equitable.

87. In the past, his delegation had supported the use of a 10-year statistical base period and it continued to believe that the merits of a reasonably long base period outweighed its disadvantages. That should not preclude the Committee from re-examining the matter in the light of the

(Mr. Gabriel, Philippines)

changes that had recently occurred in the world. He referred, in particular, to the complete transformation of existing economic structures in Eastern Europe, the consequences of military conflicts in the Middle East which had drastically reduced national incomes there, and the difficulties of developing countries which had been further aggravated by the generally poor global economic situation that made it extremely difficult for them to revive their economies, much less reduce the heavy burden of their foreign debt. The situation had become extreme in the Philippines, where measures to revive the seriously deteriorating economy had been almost totally negated by a series of natural disasters. The magnitude of those problems must be reflected in some way in any data intended for future use to determine national income, if the goal of drawing up a scale of assessments that would be a reliable gauge of capacity to pay at the time of payment was to be attained.

88. Although the Committee had attempted to take account of as many such factors as it could, it was obvious that the more recent developments could not have been considered because the data on them were not available. It might thus be necessary for the Committee to determine how best to take account of any changes which had had a major impact on the national income of Member States, so as to update its assessment of current capacity to pay.

89. On the subject of the debt adjustment formula, his delegation agreed that the Committee had done the best that it could, in the absence of a better formula, to take account of the foreign debt problem, but it urged the Committee to continue studying how the existing formula could be modified to provide more adequate and tangible relief.

90. His delegation fully supported the Committee's decision to use an upper per capita income limit of $2,600 for the new scale of assessments, but it hoped that it would continue to monitor the situation and adjust the limit accordingly to ensure that it remained realistic. His delegation also supported the Committee's decision to continue to use the same scheme of limits, but it urged it to continue to explore the other proposals in that regard and to consider whether maintaining the scheme of limits was still to the advantage of most Member States.

91. His delegation was glad to note that the Committee had made some progress in the use of price-adjusted rates of exchange (PARE) and urged it to continue its work in that area, because PARE had proven their worth as a tool for correcting inflation-related distortions.

92. In spite of the efforts of the Committee on Contributions to improve its methodology, the current scale still had imperfections. It was to be hoped that the Committee would eventually be able to improve the methodology to the point where capacity to pay at the time of payment would be realistically reflected in the data base and the mitigation process would become unnecessary. In the meantime, his delegation fully supported the scale of assessments recommended by the Committee on Contributions and hoped that the General Assembly would approve it by consensus.

93. Mr. GOUDIMA (Ukraine) said that the merit of the current methodology and, in particular, of the capacity-to-pay principle, was that it was intended to determine a fair assessment for each Member State, taking into account its particular problems. There had, however, sometimes been difficulties with the practical application of the principle.

94. Ukraine was currently facing serious difficulties. Industrial and agricultural production had plummeted, inflation was increasing and the level of well-being of the population was declining. Huge resources were being devoted to mitigating the consequences of the Chernobyl disaster. However, those problems had apparently not been reflected in the recommendations of the Committee on Contributions. Although the assessment proposed for Ukraine did show a slight decrease, it was in no way proportionate to the difficulties besetting the country.

95. His delegation considered that the current methodology for determining the scale of assessments should be improved to allow for an objective evaluation of the real problems of each country and, if necessary, an independent analysis of the statistical data submitted by Member States, including the exchange rate. Among other things, a shorter statistical base period should be used.

96. One serious flaw in the current methodology was the system of limits to prevent excessive variations in assessments between successive scales. Such an adjustment was purely mechanical and at variance with the principle of capacity to pay. The distortions caused by that system had been aggravated with the adoption of each new scale, and the time had come for the matter to be thoroughly reviewed. It was satisfactory that the Committee on Contributions had considered that problem during its previous session.

97. The Committee on Contributions had considered the scheme of limits for several years in the early 1980s and its deliberations had always focused on the limitation of increases in assessments. It was only at the last moment, and without any detailed analysis, that similar limits had been placed on possible decreases in the assessments. When those limits had been introduced, it was clear who was to bear the consequences, positive or negative. That was evident from the very narrow limits set for countries with assessment rates of more than 5 per cent.

98. In the recommended scale of assessments, it had been possible to redistribute 382 points to 19 Member States under the scheme of limits. Only 89 points had gone to developing countries, while 293, or 77 per cent of the total redistributed, had gone to developed countries, one of which had received 224 points, in other words, more than half the total. As for the countries that had been adversely affected by the scheme of limits, the combined assessments of the Soviet Union and the countries of Eastern Europe accounted for 272 points, or 71 per cent of the total.

99. Ms. PERKOVIĆ (Yugoslavia) thanked the Committee on Contributions for the transparency of its work in preparing the new scale of assessments. Regrettably, however, the shortcomings of the methodology had surfaced again. It was clear that objective criteria which would fully reflect the capacity to pay had not yet been found. Contributions to the budget were evolving in a way that seemed to bear no relation to each Member State's capacity to pay. For example, the member countries of the Organization for Economic Cooperation and Development (OECD), excluding Japan, had again been apportioned a lesser percentage than in the previous scale of assessments and, although the situation of the developing countries seemed to have been taken more fully into account than before, their apportionment was still relatively high considering the deterioration of their economic situation.

100. Capacity to pay must remain the fundamental criterion for determining the assessments of all Member States. The question was how best to determine capacity to pay. All data used had been either provided by Member States or estimated on the basis of such data. The question was, whether the data used were truly comparable.

101. With respect to the upper per capita income limit, although it had been increased from $2,200 to $2,600, it was questionable whether it had been adjusted in accordance with the evolution of the average world per capita income until 1989. The figure of $2,600 in fact represented a reduction in real terms of the level established in 1985. In her delegation's opinion, the level should have been raised to at least $2,800.

102. As for the concept of debt-adjusted income, the methodology used did not reflect the magnitude of the debt problem. Also, that concept departed from the intention that developing countries burdened by large amounts of external debt should receive debt-relief adjustment.

103. It had been proven that ad hoc adjustments to the machine scale (mitigation) could be a useful corrective when the methodology was still being refined. However, it should be noted that the Committee had not strictly adhered to the criteria set out in document A/45/11, paragraph 42, particularly the criterion that the maximum number of points given to any one country should be limited to two. Obviously, concern over the methodology of mitigation could have been eased to a considerable extent had there been as many offers from industrialized countries as when the current scale of assessments had been established, as the representative of Japan had pointed out.

104. Although it had been somewhat reduced, the rate of assessment proposed for Yugoslavia was still too high, since it did not accurately reflect its economic situation nor its ability to pay. What was particularly surprising was that the rate apportioned to Yugoslavia was extremely high in comparison to the rates of other countries with similar economies and of similar size. Her delegation therefore questioned the comparability of the statistical data used by the Committee on Contributions in calculating the proposed scale of assessments.

(Ms. Perković, Yugoslavia)

105. As far as the data for Yugoslavia were concerned, one of the major problems was the exchange rate, which did not reflect changes in domestic prices. For example, the per capita income in 1989, as calculated by the Committee on Contributions, was as much as $1,000 higher than the real per capita income since the high rate of inflation had not been taken into account. That enormous discrepancy had undoubtedly had a great impact on the calculation of the excessive rate of assessment for Yugoslavia, a country that had not received any points on the basis of ad hoc adjustments, even though its economic circumstances had undergone substantial negative changes owing to external debt servicing, structural adjustment hardships and exchange rate problems.

106. In view of the foregoing, her delegation found it extremely difficult to accept the Committee's proposal that the scale of assessments should be adopted for a three-year period, unless the necessary adjustments were made. At the appropriate time, her delegation would provide all the necessary data on the extremely heavy economic toll the current turmoil had taken on its economy.

107. Some ideas advanced in paragraph 47 of chapter VIII of the report of the Committee on Contributions merited consideration, although the principle of capacity to pay should still be used as a basis for the assessment of contributions. However, that principle should really be implemented and more reliable and objective data on national income should be gathered.

108. The statistical base period was no doubt an important element in determining a country's capacity to pay, and her delegation had studied with interest the pertinent statistical tables. It was understandable that no unanimity of opinion had been reached in the Committee on Contributions on that issue. On the one hand, a shorter base period would more realistically reflect capacity to pay at the time of payment, but, on the other hand, a 10-year statistical base period provided more stability. The possibility of shortening the statistical base period from 10 to 5, or even 3, years deserved further consideration by the Committee. The question of the scheme of limits also required additional consideration. As a means of avoiding excessive variations of individual rates of assessment between successive scales, it was an important factor in the current methodology, but at the same time it had a distorting impact on capacity to pay, the more so if one considered that the principal beneficiaries were the developed countries. Therefore, efforts should be made in future to preserve the scheme's benefits for the largest possible number of developing countries, while at the same time alleviating its most extreme negative effects. In addition, there was a need for further study of the question of price-adjusted rates of exchange, which had the potential to correct some distortions in the capacity to pay.

The meeting rose at 6.15 p.m.