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DRAFT REPORT

Addendum

E. Methodology to take into account the high levels of indebtedness

12. The Committee had before it a paper prepared by the secretariat which included proposals to incorporate in the present assessment scale methodology indicators regarding debt, international reserves and terms of trade. It discussed extensively the relevance of two of those indicators, i.e., debt and international reserves, while only briefly reviewing the suggested modified assessment methodology which it felt needed further study at future sessions.

13. In discussing the indicators, it noted various deficiencies in the data which would have to be resolved in the future before a systematic incorporation of that information in the assessment scale formula could be contemplated. The data on debt suffered from incomparability as they were obtained from different sources. Some of the data were obtained directly from the countries concerned, through a questionnaire sent by the United Nations Statistical Office. Others were derived from the World Tables on debt published by the World Bank or from a publication by the OECD Development Assistance Committee (DAC), both of which included mainly data on developing countries.

14. Most of the information thus compiled referred to long-term external debt, but for some countries short-term private debt was also included, resulting in considerable inflation of the figures. For other countries, only data on public external debt were available. Data on debt for some developed countries referred only to government external debt; and for the majority of developed countries no data on debt at all could be obtained.

15. Several members noted that the debt of developing countries generally referred to funds required for financing development projects in the country, while debt of developed countries, particularly their private external debt, might have been just a transfer of funds to finance their lending to other countries. That applies in particular to the short-term debt of private banks which, if included, would, for many countries, reflect the financial intermediary function of those countries in the international financial markets. They added that to use the figures of those countries as information on debt without presenting the counterpart information on assets would seriously distort the comparability of the debt data.

16. Some members expressed preference for using debt service rather than information on debt as debt service had a more immediate effect on the capacity to pay than debt itself. Debt service showed more clearly the impact because debt outstanding with different payment schedules and interest rates would result in different amounts of debt service which could not be clearly identified in the total amount of debt outstanding. On the other hand, it was recognized that for some countries, a large proportion of their total external debt composed of concessional loans, i.e., soft-term credit, and thus the use of total debt could be overrepresenting their financial pressure. It was, however, recognized that less information on debt service was available. It was, furthermore, pointed out that debt service includes the payment of the principal as well as the interest payments and that the latter are already deducted to arrive at national income. As a majority of countries were now paying only interest and not the principal, incorporation of debt service into the assessment formula would result in duplication of deductions. It was recognized that use of debt service as an indicator might provide a distorted picture because renegotiation of debt may result in delayed interest payments or in the incorporation of debt service in the principal, so that debt-service information might under-represent the difficulties faced by many countries with regard to debt.

17. Comparability and relevance of data were also the main issues in the discussion of data on international reserves. For the majority of countries, information could be obtained through the International Financial Statistics (IFS), a publication of IMF. Some members wanted to include also gold in international reserves, which were defined by the United Nations Statistical Office as the sum of a country's foreign currency reserves, its holdings of special drawing rights (SDRs) and its reserve position in IMF. Others pointed out that international reserve data for some developed countries that had convertible currencies were not comparable with those of other countries, as currencies of developed countries were generally accepted as a form of payment. That would reduce their need to hold large foreign currency reserves. Other members, however, explained that that prerogative would not apply to those developed countries whose currencies, though convertible, were internationally not accepted as a form of payment.

18. In general, there was considerable unease about the lack of data, the inadequacies of data available and the crudeness of information for comparison purposes. It was agreed that the data presented constituted only a very rough indicator for the financial difficulties faced by several members. Some

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members of the Committee expressed doubt regarding the feasibility of ever developing a balanced and equitable methodology that could take into account the serious economic and financial situation of the world. Nevertheless, in light of deep concern expressed inter alia at the Fifth Committee and in the preambular part of resolution 39/247 B about the overall problem of indebtedness, particularly for developing countries, it was concluded that this important new problem must be taken into account in developing a new scale of assessments. That said, the Committee was disinclined to adopt a methodology that would be binding for all future scales which, because of the inadequacies described, would be entirely inappropriate. Accordingly, the Committee opted for a pragmatic formula in its recommendation for the 1986-1988 scale without prejudice to the future position it might adopt on the basis of more comprehensive and systematic information. It was a strong sense of the Committee that all Member States should co-operate with the United Nations Statistical Office in providing such information in future years.

19. As to what then should be done for 1986-1988, on the basis of available data, essentially three approaches suggested themselves. One was to take debt as a ratio of export earnings and to rank countries accordingly. Another was to do the same but this time using the ratio of debt to national income. A third approach was a combination of the first two. The Committee in the event opted for the latter using a weighting of 80 for debt/export earnings and 20 for debt/national income.

20. Having thus established a ranking of countries, the next question was to decide which should benefit and where to establish the cut-off point. It was recognized that the answers to each of these questions were, in the nature of things, going to be arbitrary. Nevertheless, a decision of some kind needed to be made. The overall sense of the Committee was to make as a cut-off point the index of 100 and then to include all countries above that line except in the case of some developed countries, viz. Australia, Denmark, Iceland, Sweden and the United Kingdom.

21. The third question to be resolved was the nature of the relief deduction to be made. Again, various options were considered, implying either straight percentage deductions from national income or percentage of debt then deducted from national income. The final choice of the Committee was to make deductions of 20, 15 and 10 per cent of debt from national income according to whether the countries ranked exceeded a ratio on the table of 200, 150 and 100.

22. The foregoing is a highly compressed account of very detailed exchanges bearing on quite complex issues. For example, in regard to the ranking of countries, some members were of the view that the only credible index was debt as a proportion of export earnings, on the grounds that exports were the main source of funds for repayment of principal and interest. Others considered the ratio of net exports, i.e., the difference between exports and imports, to debt more meaningful. Another view expressed was to rank countries only according to the ratio between debt and national income.

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23. A further matter requiring decision was whether the relief of debt should be deducted from national or assessable income. In the end, it was decided that the former was the more appropriate in part because it compensated better for the strains on developing countries' economies. A further protracted discussion ensued over the sequence of the various steps in the process of preparing the scale, with some members holding that the scheme of limits should be applied in advance of any relief afforded for debt and others maintaining that the limits must follow logically as the final step in the process if only to prevent variations beyond those mandated under paragraph 1 (f) of resolution 39/247 B.

24. The list of countries for which relief on account of the seriousness of the debt situation was recommended is given in annex ....

25. In addition to the debt problem, Committee members recognized other serious problems facing developing countries, including shortfalls in growth and export earnings and, especially in the case of African countries, drought and even famine. There was a sense, widely shared in the Committee, that the situation should be addressed as a specific response to paragraph 1 (e) of the resolution. In many cases, of course, the countries concerned were already assessed at the floor. Where that was not so, however, some additional relief was thought appropriate and was later effected through a carefully constructed mitigation process.

F. The scheme of limits to avoid excessive variations of individual rates of assessment between successive scales

26. In operative paragraph 1 (f) of resolution 39/247 B, the Committee was requested to use scheme III, as defined in paragraph 49 of its report (A/39/11), to limit the variations of individual rates of assessment between successive scales after pertinent modifications in the light of the views expressed by Member States in the Fifth Committee, particularly in respect of rates below the level of 1 per cent. Note was taken of the widespread sentiment expressed in the Fifth Committee (later articulated by its Chairman) that the percentage and percentage point limits earlier recommended for the rates below 1 per cent were too high and in some instances, the Member States at the lower end of the brackets would be called upon to absorb increases that would still appear to be unacceptably high.

27. The following modifications were made accordingly by the Committee for four brackets under 1 per cent:

Rate bracket	Percentage limits From	Percentage limits To	Index point limits From	Index point limits To
0.76 - 0.99 per cent	15.0	12.5	14	11
0.51 - 0.75 per cent	20.0	15.0	12	10
0.25 - 0.50 per cent	25.0	17.5	8	6
0.05 - 0.24 per cent	30.0	20.0	3	2

28. A modified scheme III as given below was developed and adopted by the Committee on Contributions for use in the preparation of the scale of assessments for 1986-1988. Scheme III as presented in paragraph 49 of document A/39/11 is also included below to facilitate comparison.

Combination of percentage limits and index point limits with eight rate brackets

If the present official scale is	The percentage change in the new machine scale should not be more than the lesser of:			
	Previous scheme III		Modified scheme	
	Percentage limits	Index point limits	Percentage limits	Index point limits
Above 5.00 per cent	5.0	75 points	5.0	75 points
2.50 - 4.99 per cent	7.5	30 points	7.5	30 points
1.00 - 2.49 per cent	10.0	20 points	10.0	20 points
0.76 - 0.99 per cent	15.0	14 points	12.5	11 points
0.51 - 0.75 per cent	20.0	12 points	15.0	10 points
0.25 - 0.50 per cent	25.0	8 points	17.5	6 points
0.05 - 0.24 per cent	30.0	3 points	20.0	2 points
0.01 - 0.04 per cent	-	1 point	-	1 point

29. On the basis of the formula adopted to take into account the high levels of indebtedness, the Committee then applied the modified scheme III limits to the machine scales taking into account its decision given in paragraph 10 on reducing the share in the relief burden for four Member States and paragraph 1 (d) of resolution 39/247 B on assessment rates of least developed countries.
