REPORT

OF THE

COMMITTEE ON CONTRIBUTIONS

GENERAL ASSEMBLY

OFFICIAL RECORDS: THIRTY-EIGHTH SESSION

SUPPLEMENT No. 11 (A/38/11)

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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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CONTENTS

CONTENTS (continued)

ANNEXES

I. MEMBERSHIP OF THE COMMITTEE

1. The forty-third session of the Committee on Contributions was held at United Nations Headquarters from 3 to 27 May 1983. The following members were present:

Syed Amjad Ali

Mr. Andrzej Abraszewski

Mr. Nobutoshi Akao

Mr. Mohammed Sadiq Al-Mahdi

Mr. Hélio De Burgos-Cabal

Mr. Anatoly Semënovich Chistyakov

Mr. Hamed Arabi El Houderi

Mr. Leoncio Fernández Maroto

Mr. Richard Vognild Hennes

Mr. Lance Joseph

Mr. Japhet Gideon Kiti

Mr. Wilfried Koschorreck

Mr. Rachid Lahlou

Mr. Zoran Lazarevic

Mr. Atilio Norberto Molteni

Mr. Yang Hushan

Mr. Philippe Zeller

2. The Committee elected Syed Amjad Ali Chairman and Mr. Japhet G. Kiti Vice-Chairman.

II. CONSIDERATION OF GENERAL ASSEMBLY RESOLUTIONS 34/6 B, 36/231 A AND 37/125 B AND VIEWS EXPRESSED IN THE FIFTH COMMITTEE AT THE THIRTY-SEVENTH SESSION

3. At its thirty-fourth session, the General Assembly adopted resolution 34/6 B, the relevant operative paragraph of which reads as follows:

"*The General Assembly*,

"...

"2. *Requests* the Committee on Contributions to study in depth and report to the General Assembly at its thirty-fifth session on ways and means of increasing the fairness and equity of the scale of assessments, bearing in mind the debate under agenda item 103 in the Fifth Committee during the thirty-fourth session of the Assembly, and, in particular:

"(*a*) Methods which would avoid excessive variations of individual rates of assessment between two successive scales, including ways of setting a percentage limit or percentage points limit or a combination of the two;

"(*b*) Ways of taking into account conditions or circumstances which adversely affect the capacity to pay of Member States and ways of setting objective criteria by which these conditions or circumstances can be taken into account in the elaboration of the scale of assessments;

"(*c*) Ways of taking into account the particular situation of Member States whose earnings depend heavily on one or a few products;

"(*d*) Ways of bringing up to date the values of the per capita allowance formula and their effects on the scale of assessments;

"(*e*) Ways of taking into account the different methods of national accounting of Member States, including the leval of different inflation rates and their effects on the comparability of national income statistics;

"(*f*) Ways of taking into account the concept of accumulated wealth and the ways by which criteria could be developed to enable it to be applied as a factor in setting the scale of assessments;

"(*g*) Methods to ensure that all countries are assessed on data covering the same period of time so that data used are comparable;

"(*h*) Effects of altering the statistical base period in the scale of assessments."

4. At its thirty-sixth session, the General Assembly adopted resolution 36/231 A, the relevant operative paragraphs of which are quoted below:

"*The General Assembly*,

"...

"1. *Reaffirms* its previous decisions that, in the measurement of the capacity of Member States to pay, the following elements should be taken into account, in order to prevent anomalous assessments resulting from the sole use of estimates of national income:

"(*a*) Due consideration to developing countries, in general, and to the countries with the lowest per capita income, including the least developed countries, in particular, in view of their special economic and financial problems;

"(*b*) The continuing disparities between the economies of developed and developing countries;

"(*c*) Conditions or circumstances which adversely affect the capacity of Member States to pay;

"(*d*) The particular situation of Member States whose earnings depend heavily on one or a few products;

"(*e*) The ability of Member States to secure foreign currency;

"(*f*) The concept of accumulated national wealth;

"(*g*) The existence of different methods of national accounting of Member States, including the level of different inflation rates and their effects on the comparability of national income statistics;

"2. *Requests* the Committee on Contributions to prepare a set of guidelines for the collection and presentation of data by Member States, in order to ensure that adequate data and statistical information are submitted to the Committee on a uniform and comparable basis;

"3. *Requests* the Committee on Contributions to submit to the General Assembly at its thirty-seventh session a thorough study on alternative methods to assess the real capacity of Member States to pay that takes fully into account Assembly resolution 34/6 B, all the elements listed in paragraph 1 above, including a new statistical base period, a revised upper limit of the low per capita income allowance formula and a limit for increases between two successive scales of assessments;".

5. Finally, in its resolution 37/125 B of 17 December 1982 the General Assembly

"1. *Reconfirms* that the real capacity to pay of Member States is the fundamental criterion on which the scale of assessments is based;

"2. *Decides* that the Committee on Contributions may extend its sessions, as necessary, in order to:

"(a) Submit to the General Assembly at its thirty-ninth session the study called for in paragraph 3 of Assembly resolution 36/231 A, together with its proposals for methods which it should use in determining future scales of assessments;

"(b) Submit to the General Assembly no later than at its thirty-ninth session a set of guidelines for the collection and presentation of data as requested in paragraph 2 of resolution 36/231 A, taking into account the views expressed by a number of delegations concerning, in particular, the comparability of national income data."

6. The Committee proceeded to consider the various elements contained in the above resolutions. It noted the concerns expressed in the Fifth Committee regarding the inability of the Committee to provide alternative methods to assess the real capacity to pay, as contained in paragraph 3 of resolution 36/231 A. The Committee, therefore, explored various alternative methods that significantly departed from the present methodology. Four such alternatives were proposed and discussed: alternative I consisted of assessments by groups; alternative II related assessments to personnel and sovereignty factors; alternative III consisted in using accumulated national wealth as measurement of the real capacity to pay; alternative IV represented significant variants of the current methodology.

III. ALTERNATIVE METHODS TO ASSESS THE REAL CAPACITY OF MEMBERS TO PAY

A. Alternative I - Groupings

7. The first alternative examined by the Committee addressed the possibility of devising a new approach whereby the expenses of the Organization would be based on explicit recognition of the existing differences between groups of countries. It was submitted by the proposer that such an approach could assist in meeting current difficulties arising from lack of comparability of data between countries and, in some cases, the problems arising from different methods of national income accounting. It was suggested by the proposer that this approach could also accommodate many of the concerns enumerated in General Assembly resolutions 34/6 B and 36/231 A, in particular the requirement to give due consideration to developing countries in view of their special economic and financial problems, and the need to take into account the continuing disparities between the economies of developed and developing countries.

8. The proposal was outlined in the following terms.

9. Three distinct groups suggested themselves:

(a) OECD countries, a relatively homogeneous group consisting mainly of developed market economy countries;

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

(c) "Others", comprising all other Members of the United Nations not specified under (a) and (b), including most of the member States of the Group of 77.

The third group was more diverse than the other two. Nevertheless, it would include some 78 countries currently assessed at the floor. It would also include the more advanced and larger developing countries.

10. The proportion of United Nations expenses to be borne by each of the three groups could be determined within ranges reflecting recent experience. 1/ For purposes of the Committee's discussion, the following broad parameters were suggested:

Group	Range %
OECD countries	70-75
Centrally planned economies	15-20
All other countries	10-15

The determination of the exact percentages would be essentially a political decision. The shares could be negotiated at the beginning of each scale period. Alternatively, they might be held to apply for a longer period, say three scale periods.

11. Once the percentage to be borne by each of the groups had been determined, two alternatives were presented regarding the distribution among members within each group. One would be for individual groups themselves to assess their own members; the other would be for the Committee on Contributions to continue, as currently, to recommend to the General Assembly for decision the scale for each individual country within its group. The Committee would employ more or less the same criteria for 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 others.

12. It was suggested that such an approach had similarities with the arrangements for funding of the International Fund for Agricultural Development (IFAD) and the Common Fund. In those cases, it was agreed that certain groups should be responsible for certain shares of the expenses of the fund concerned.

13. During the discussion of alternative I, it was said that the approach had the merit of being innovative and relatively uncomplicated and was responsive to the current thinking in the Fifth Committee and the General Assembly with respect to increases or decreases in rates of assessment of groups of countries. Questions were raised, however, as to the legal basis for setting up the groups and the rationale for assigning a percentage share for each group. The validity of alternative I was questioned, since it did not seem to be based on economic factors reflecting the capacity to pay of individual Member States. Furthermore, it could introduce elements of confrontation between and within groups. It was also argued that the third group could not be institutionalized because of irreconcilable differences among certain of its members. In that connection, it was also mentioned that the only group that was legally institutionalized was the group of permanent members of the Security Council and that, in the context of group assessment, it could be especially assessed to reflect its privileged position. Views were, however, expressed that it was not in conformity with the letter and spirit of the Charter of the United Nations to classify the permanent members of the Security Council as a group, and that the contributions of the Members of the United Nations should not relate to their position in the Organization.

14. The Committee discussed whether or not alternative I, which is assessments in two stages - by group and then by Member within each group - was within the mandate of the Committee and fell within Article 17 of the Charter. The Committee recognized those and other difficulties involved in the implementation of alternative I. However, in view of the simplicity of the formula and the relative comparability of statistical data within each group, the Committee would like to study alternative I further at its next session.

B. Alternative II - Personnel and sovereignty factors

15. Although the scales of assessment of the States Members of the United Nations have been based primarily on national income statistics, different criteria were used in whole or in part by other organizations in the United Nations system: ocean tonnage by the International Maritime Organization (IMO), aircraft usage components by the International Civil Aviation Organization (ICAO) or classes of contributions freely chosen by the Member State, as in the case of the International Telecommunication Union (ITU). Thus, in these organizations, a member's assessment has an objective relationship to the activity of the organization. A roughly analogous arrangement would be possible for the United

Nations. Under alternative II the rate of assessment of Member States would be based on alleged tangible benefits such as the number of nationals employed by the United Nations. Besides prestige, employment in the United Nations was said to produce remittances in convertible currency, salaries, allowances, etc. Thus, the following two components could serve as basis for an assessment rate:

(1) Personnel factor (75 per cent): Ratio of personnel costs applicable to nationals of a Member State to total United Nations personnel costs, then multiplied by 75 per cent (percentage of United Nations budget attributable to personnel costs);

(2) Sovereignty factor (25 per cent): ratio of Member State to total United Nations membership 1/157 multiplied by 25 per cent equals 0.16 per cent.

16. As an example, assuming that personnel costs were uniform, Member States with 10 and 100 United Nations employees out of 10,000 would be assessed as follows:

$$(10/10{,}000 \times 75) + 0.16 = 0.075 + 0.16 = 0.235$$

$$(100/10{,}000 \times 75) + 0.16 = 0.75 + 0.16 = 0.91$$

17. If the personnel and sovereignty factors were adopted as bases for the scale of assessments, they would be susceptible of modification by other factors, such as a supplement for the permanent members of the Security Council, a host country supplement, a supplement for the relative size of the mission or a specified reduction in the sovereignty factor for the least developed countries (a reduction similar to that used in the peace-keeping scale). All these elements are measurable.

18. Alternative II was also considered a departure from the current methodology. It could hardly be said that it reflected the capacity to pay of Member States. Moreover, Member States have drawn more advantages from the United Nations than just a few placements in the Secretariat, for example, through the work of the United Nations in the economic, political and social areas. It was mentioned that to make direct links between the rate of assessment and the number of staff members would go against the independent status of an international civil service. A contrary view was also expressed. The Committee plans to study alternative II in greater depth at its next session and to include in its study the possibility of further linking rates of assessment to benefits derived by Member States.

C. Alternative III - National wealth

19. Alternative III was not yet developed in detail. It was recalled that, in response to resolution 34/6 B, paragraph 2 (f), the Committee, at its forty-first session, examined a detailed analysis of actual data on national wealth and its components, covering 60 countries, and concluded that sufficient progress has not been made in the areas of methodology, availability and comparability of coverage of national wealth statistics to warrant their use as a main indicator in the determination of relative capacity to pay. Nevertheless, at its current session, the Committee reiterated its interest in being continually kept informed of the developments in the matter.

D. Alternative IV - Variants of current methodology and their effects on assessable income

20. The Committee carefully investigated the alternatives of combining variations or refinements with the current methodology in order to take better into account the conditions or circumstances which adversely affect the capacity of Member States to pay. Particular attention was given to the use of economic and social indicators, to adjustments for inflation and changes in exchange rate and to other elements that are part of the current methodology.

1. Integration of economic and social indicators in the current assessment scale methodology

21. In examining the elements enumerated in resolutions 34/6 B and 36/231 A quoted in paragraphs 3 and 4 above, the Committee identified them as socio-economic concerns. For purposes of exploring the possibility of integrating those concerns into the existing assessment methodology, the Committee distinguished long-term concerns from short-term concerns. Long-term concerns could be taken to relate to lack of industrial development, infrastructure, educational development, health facilities and insufficient food supply and malnutrition. Short-term concerns could be found in indicators such as terms of trade, export earnings, external public debt service, international reserves, wars and natural disasters. These could be taken into account if they related to the base period.

22. The long-term concerns were found not only in poor developing countries but in other countries whose per capita income levels were relatively high but whose income was mostly generated by the export of a few products which were mainly primary commodities, including depletable natural resources. The lack of industrial development and infrastructure implied that those countries had to rely on considerable imports of manufactured goods which have shown steady price increases, while their exported products experience volatile price fluctuations in the international market. It has been argued that those countries should be allowed to reserve and use part of their income to improve their economic and social conditions. In other words, attention is focused on the concept of assessable income to reflect the real capacity to pay. It is defined as the difference between national income and allowable deductions.

23. Under the current methodology for establishing the scale of assessments, only countries with a per capita income below $2,100, the per capita income limit used in the establishment of the scale for 1983-1985, receive relief in the form of deductions. The argument was made that developing countries, irrespective of their per capita income, should be entitled to take deductions from national income in order to enable them to reach an acceptable level of development. The long-term economic and social concerns, therefore, could form part of the general methodology for assessments.

24. A question was raised about the propriety of judgements by the Committee on Contributions on the expenditure patterns of sovereign States. The choice of socio-economic indicators reflects value judgements: could the Committee decide for a sovereign State that it was better to build a hospital than a mosque or a church? Views were expressed that the lack of industrial development, infrastructure, educational development, health facilities, etc., were already reflected in national income. There was a measure of double counting (or double

subtraction) if they were again taken into account for deductions purposes. Mention was also made that industrialization entailed huge external costs, such as air and water pollution and crime in urban areas. Furthermore, that type of methodology involved numerous practical difficulties, such as availability of comparable data and determination of norms and weights for each factor. It was pointed out repeatedly that national and per capita income should continue to be universal indicators which reflected broadly the capacity to pay of Member States.

25. In spite of those reservations, the Committee proceeded to explore the various indicators that could best express those long-term economic and social concerns. A list of indicators given in annex I to the present report shows the degree of availability of data for countries and years. From that list, the Committee selected for illustrative purposes the following indicators on the basis of availability of data for most Member States:

(a) Manufacturing as a percentage of total gross domestic product;

(b) Manufactured exports as a percentage of total exports;

(c) Three main export commodities as a percentage of total exports;

(d) Percentage share of active population employed outside agriculture;

(e) Number of telephones for 1,000 persons;

(f) Literacy rate;

(g) Per capita cereal production.

26. The results of one approach of integrating the above socio-economic indicators in the present assessment scale methodology are shown in annex II to the report. Using national and per capita income averages over the period 1971 to 1980 and the current low per capita income allowance formula with an upper limit of $2,100 and a relief gradient of 85 per cent, taxable income was derived for a sample of 61 Member States:

(a) In column (11) of annex II, the low per capita income allowance formula or deduction was replaced by a modified allowance which included not only per capita income but also the seven indicators mentioned earlier. A weight of 0.5 was accorded to per capita income and an equal weight of 0.071 to each of the other indicators. Further details of the calculation of the relief are explained in annex II. It suffices to indicate here that the relief method adopted is similar to that incorporated in the present low per capita income allowance formula.

(b) In column (12) of the same annex, the modified allowance formula included only the seven indicators, excluding per capita income. In that case, each of the indicators was given a weight of 1 divided by 7 or 0.143.

27. During the discussion, several proposals were made regarding the norms to be used in the illustration. One proposal considered was to use for each indicator the average for all developed countries. Another was to use as norms the level of the indicators for the most developed among the developing countries. A third suggestion was to use as norms the level of the indicators for the least developed among the group of developed countries as a whole. For purpose of illustration in

this report, the norms chosen were made to equal the average of the attainment of developed countries and that of Brazil, which was assumed to be the most developed among developing countries. The results given in columns (11) and (12) of annex II were viewed with great concern by the Committee as drastic changes, upward and downward, were shown for many countries included in the sample.

28. The taxable income of China, India and Pakistan, countries with a relatively very low per capita income, has more than doubled using the modified formula with per capita income and seven indicators, and more than tripled using the deduction formula based exclusively on the seven indicators without per capita income. The taxable income of countries, such as Chile, Colombia, Egypt, Indonesia, Malaysia, Mexico, Morocco, the Philippines, Thailand and Turkey, has also increased sharply with the application of these two modified formulae. On the other hand, it was noted that the resulting taxable income of Iran (Islamic Republic of), Iraq, the Libyan Arab Jamahiriya, Saudi Arabia, and the United Arab Emirates shown in columns (11) and (12) fell substantially when using the modified formula as compared with the present formula. It is worthwhile to note that the taxable income of most developed countries decreases as a result of the application of the modified formula.

29. In general, when the average values of indicators are relatively further removed from the norm than per capita income from $2,100, a country will experience a reduction in its assessable income as compared with the result under the current methodology. Inversely, for countries whose indicators have an average value closer to the average value of the norms than per capita income to $2,100, an increase in taxable income will result when additional indicators are incorporated in the modified formula with per capita income as in column (11) or when they replace per capita income as in column (12). The above observations generally apply to countries that have per capita income lower than the limit. For those countries with per capita income above the limit, assessable income derived from the modified formula would be as a rule lower than under the present methodology, because the total relief to be absorbed is less when additional indicators are incorporated.

30. The results presented in annex II showed the complexity of the problem of integrating economic and social indicators into the present methodology for assessment. The Committee would like to point out that by varying norms and weights completely different results would be obtained. The Committee further noted that the scope and coverage of economic and social indicators vary widely among countries and would create their own distortions in the capacity to pay of Member States. For example, in centrally planned economies there are no breakdowns of total industrial activities. Data which appear under manufacturing for these countries include also mining, electricity, gas and water. Similarly, in some developing countries the process of mining is included in manufacturing, which results in inflated figures for manufacturing.

31. Other concerns examined by the Committee related to more recent developments such as the burden imposed by external public debt service which, for some countries, has increased in recent years relative to their export earnings. The latter have been greatly reduced owing in part to unfavourable terms of trade suffered by certain countries. As a consequence, the international reserves of these countries have also dwindled. Those indicators, such as external public debt service as a ratio of export earnings or national income, or international

reserves, could be considered as reflecting circumstances which occur most recently and outside the base period used in the establishment of the scale of assessments.

32. A suggestion was made that perhaps one way to take into account recent circumstances which could adversely affect the capacity to pay would be to shorten the base period. Another way would be to take those elements into consideration during the mitigation process for individual cases as has been the practice of the Committee with respect to wars and natural disasters.

33. It has been generally agreed that the question of integration of socio-economic indicators was extremely complex and should be studied more thoroughly at the next session. Although some reservation was again expressed on the relevance of these indicators as additional measurements of the capacity to pay, the Committee decided to explore further the technical aspects of this alternative which includes the availability of comparable statistics for all Member States and the difficulties encountered in their utilization. It requested the United Nations Statistical Office to approach other international organizations, such as the United Nations Educational, Scientific and Cultural Organization (UNESCO), International Labour Organisation (ILO) or other units of the United Nations, such as the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Industrial Development Organization (UNIDO) regarding the setting of norms, and to explore other statistical sources besides the World Bank and the International Monetary Fund (IMF) for data on external public debt service, international reserves, etc.

2. Adjustments for inflation and changes in exchange rates

34. In resolutions 34/6 B, paragraph 2 (e), and 36/231 A, paragraph 1 (g), the General Assembly requested the Committee on Contributions to take into account the level of different inflation rates and their effects on the comparability of national income statistics.

35. It is recalled that the current methodology relies on the use of statistics of national income at market prices in United States dollars. Changes in the value of national income in United States dollars could arise from changes in the volume of output and change in price levels. The latter consists of two elements: changes in domestic prices and changes in the rate of exchange between the national currency and the United States dollar.

36. It is noted that exchange rates used for comparison purpose do not always reflect adequately variations of domestic inflation which differ between individual countries. To the extent that relative domestic inflation remains inadequately corrected by the devaluation of its national currency, a country's national income expressed in United States dollars tends to be incorrectly estimated in relation to the national incomes of other countries.

37. The Committee examined various alternatives suggested to correct the over- or under-estimation of changes in a country's national income since the base year due to variations in over- or undervaluation of its currency with respect to the United States dollar. In lieu of the average market rates or United Nations operational rates of exchange, one option would be to use "pseudo" rates of exchange, which are defined as the product of the rate of exchange between one United States dollar and units of the local currency, and the ratio of the domestic price index relative to

an average world or United States price index. Increases or decreases of national income since the base year which had been the results of differences in domestic inflation rates of Member States would be adjusted by this method.

38. The effects of the adjustment made on the basis of "pseudo" rates of exchange are shown in annex III of the report. For countries with overvalued currencies, the actual exchange rate of the United States dollar in terms of local currency is lower than the "pseudo" rate of exchange (index in column (4) less than index in column (5)). For countries with undervalued currencies, the actual exchange rate is higher (index in column (4) greater than index in column (5)). Use of the "pseudo" rate of exchange would bring a country's rate of inflation in United States dollars into line with world inflation for the period.

39. However, the use of the "pseudo" rate presupposes that at the reference year or period used as basis for comparison, the correct situation prevails with respect to exchange rates between Member States' currencies and the United States dollar and that their relative capacity to pay at the base was correctly assessed. Detailed explanations of the implications in the use of the "pseudo" rate are given in annex III to the present report. In order to investigate the establishment of a correct base year, a suggestion was made to utilize the newly developed purchasing power parities (PPP) to adjust exchanges at the base year. The Committee had been informed in 1978 of the international comparison project (ICP) which was a co-operative venture of the United Nations Statistical Office, the World Bank and the University of Pennsylvania, with the aim of establishing a world-wide system of consistent and reliable comparisons of the real product and purchasing power of countries. While the use of PPP would establish the correct relationships at the base year, the application of the "pseudo" rates would update these relationships during the intervening years for which PPPs were not available.

40. The Committee was informed by an expert in charge of ICP in the Statistical Office that the project had now entered phase IV, which would generate benchmark price and quantity estimates for 1980 covering about 70 countries. This information would become available at about the end of 1984 on a world-wide basis, but preliminary estimates of national income based on PPP for these countries could be submitted to the Committee at its next session. From the tentative list of Member States participating in that project for 1980, 41 are countries with current rates of assessment above 0.03 per cent. The Committee noted that among the countries which did not figure on the list were China, Egypt, the German Democratic Republic and the USSR. Their non-participation in the project would substantially reduce the usefulness of this alternative in the establishment of the scale of assessments.

41. The Committee recognized the deficiencies in the system-wide use of the "pseudo" exchange rates, particularly if such adjustments to exchange rates were applied without proper determination of the correctness of national income data at the base period. Questions were also 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. The Committee recognized that the setting of prices and rates of exchange was important in the overall economic mechanisms of countries and that their changes, brought about by national domestic and foreign economic policies, affected the dynamics of the value of national incomes and thus the changes in a State's relative capacity to pay. It was emphasized that the main objective of the

current exercise was to enhance the comparability of data provided by Member States by eliminating, as far as possible, distortions caused by varying levels of inflation and exchange rate changes in national and assessable income and, therefore, in the relative capacity to pay of Member States.

42. The Committee decided to study these alternatives further and to test the effects of their application on the rates of assessment of all Member States before arriving at any decisions concerning them. It requested the Statistical Office to prepare the necessary documents based on the use of "pseudo" rates for all countries for its consideration at the next session.

3. Other considerations concerning the assessment scale methodology

43. In resolution 36/231 A, paragraph 3, the Committee on Contributions was requested to submit to the General Assembly at its thirty-seventh session a thorough study on alternative methods to assess the real capacity of Member States to pay that takes into account Assembly resolution 34/6 B, all the elements listed in paragraph 1 [of the resolution], including a new statistical base period, a revised upper limit of the low per capita income allowance formula and a limit for increases between two successive scales of assessment.

44. The elements listed in paragraph 1 of resolution 36/231 A were dealt with in part III, sections 1 and 2, of the report. The Committee exchanged preliminary views on the remaining factors such as base period, low per capita income allowance formula and limits for increases between two successive scales.

(a) Length of the base period

45. Prior to 1952, the Committee determined the scale of assessments on the data of a single year; in 1952, the scale was based on an average of national income estimates for two years. In 1953, the Committee decided for the first time to base its calculations on an average of national income estimates for three years, in the belief that a three-year base period provided a more appropriate means of reflecting the relative economic changes and was long enough to lessen the influence of short-term fluctuations in economic conditions and of movements in exchange rates.

46. In 1977, the Committee adopted a seven-year base period on the ground that it would tend to alleviate the sharp variations in rates of assessment. It retained that base period for the establishment of the scale for 1980-1982 for the same reason. The current scale (1983-1985) was based on a 10-year period prescribed by the General Assembly in resolution 36/231 A, paragraph 4 (a), apparently for the same reason.

47. It was observed that sharp fluctuations in the recent economic situation of many developed and developing countries would have a significantly smaller impact on averages of national income statistics over a 10-year period than over a shorter base period of, say, three or five years. However, it was argued that experience favoured the continuation of the current base period in order to minimize variations between successive scales. The Committee agreed to continue to examine this issue at its next session in the light of existing economic realities.

48. Notwithstanding the length of the base period, it was suggested that if a country's average national income in the last three years should fall below the average of the three preceding years, no increase in its rate of assessment should be effected. Another suggestion for general application on national income estimates of all Member States would be to give, for instance, a weight of 2 for data of the last three years of the base period and a weight of 1 for other years. Contrary views were also expressed. The Committee would discuss in depth those and other proposals on the length of the base period at its next session.

(b) <u>Low per capita income allowance formula - a built-in tax progression in the current methodology</u>

49. Various statements had been heard in the Fifth Committee that the increase in a country's rate of assessment had exceeded the growth of its national income over the same periods. That was due to an element of tax progression built into the calculation of taxable income through the application of the low per capita income allowance formula.

50. Under the present methodology, when per capita income of a Member State is less than the upper limit of $2,100, that State would receive a percentage reduction from its total national income calculated as follows:

$$\frac{\$2,100 - \text{per capita national income}}{\$2,100} \times 85 \text{ per cent}$$

On the other hand, when the per capita national income of a Member State is equal to or greater than $2,100, that State's assessable income will be higher than its national income by the ratio of the total relief granted to States with per capita income below $2,100 to the total national incomes of Member States with per capita incomes equal to or greater than $2,100.

51. The assessable (sometimes called "taxable") incomes calculated by the present formula are shown in column 10 of annex II to the present report. 2/ Assessable income represents an increasingly higher proportion of national income as per capita income increases towards the limit, currently of $2,100. The table given below, which is an excerpt from annex II for selected countries, shows clearly that relationship between assessable and national income.

Countries	National income (million $US) (1)	Per capita income ($US) (2)	Assessable income (million $US) (3)	Assessable income as percentage of national income (4)
India	89,053	147	18,701	21.0
Egypt	14,863	397	4,622	31.1
Nigeria	35,494	532	12,990	36.6
Brazil	135,946	1,262	89,860	66.1
Poland	49,33[illegible]	1,443	36,259	73.5
Argentina	45,352	1,775	39,410	86.9
		[2,100: Limit]		
Venezuela	29,003	2,382	34,297	118.2
Italy	193,000	3,446	228,230	118.2
German Democratic Republic	69,625	4,139	82,334	118.2
France	326,049	6,170	385,566	118.2

52. That relationship holds true for the same country at different periods of assessment. If Argentina's average national income and per capita income were increased by 20 per cent in the next period of assessment and if the low per capita income allowance formula were still applicable as at present, the following situation could be observed:

	Current period	Next period	Change %
1. National income (million $US)	45,352	54,422	+20
2. Per capita income ($US)	1,775	2,130	+20
3. Assessable income (million $US)			
Current method	39,410	64,327	+63
Previous method	39,410	54,422	+38
4. Assessable income as percentage of national income (current method)	86.9	118.2	

While the increase in national and per capita income is only 20 per cent, the increase in assessable income amounts to 63 per cent, which explains in large measure the perception of Member States in a similar situation that there was a disproportionate increase in their rate of assessment in relation to their national income growth. This phenomena of "jump" in taxable income would have been less pronounced with the application of the low per capita income formula that was used prior to 1979, which would have produced only an increase of 38 per cent in taxable income instead of 63 per cent. That method distributed the total amount of relief pro rata to all countries instead of only to countries with per capita incomes equal to or above the limit according to the current method. However, the breakpoint between receivers and absorbers of relief would shift below the per capita income limit. Annex IV gives the comparison of the effects of the application of the low per capita income allowance formula for selected countries prior to and since 1979. Another suggestion was put forward that developing countries should not share the burden of relief when their per capita income was above the upper income limit. The Committee did not study the implications of bringing up to date the values of the per capita income allowance formula at this session but intends to do so at the next session.

(c) Limits for increases between two successive scales of assessments

53. In response to the request of the General Assembly in resolution 36/231 A, paragraph 3, the Committee had before it three schedules of limits that could be considered to mitigate excessive variations, not only for increases but also for decreases, between successive scales of assessments. These schedules of limit are reproduced in annex V to this report.

54. The first set of limits consists of a combination of two restrictions, percentage limits and percentage point limits, to be applied to the machine scale. Of the two types of limit, the most restrictive one would be used.
It was noted that generally, for countries with lower rates of assessment, the percentage limit was more restrictive while, for those with higher rates, the percentage point limits was more restrictive.

55. The second set of limits included percentage limits but not percentage point restrictions. It was more restrictive than the first set for rates ranging below 1 per cent.

56. The third set of limits covers eight rate brackets as compared with five rate brackets of the two preceding sets. Objections were raised on the use of this formula.

57. Another proposal for solving the problem of excessive variations would be to define excessive variation as any variation which exceeds the average variation.

58. While recognizing that the device of setting percentage or percentage point limits was mechanistic and arbitrary, just as the low per capita income allowance formula, and might also distort the principle of relative capacity to pay, the Committee, however, felt that the problem of excessive variations of individual rates of assessments between two successive scales was becoming more acute and should be studied further by actual tests of the effects of these sets of limits next year.

IV. GUIDELINES FOR THE COLLECTION AND PRESENTATION OF DATA

59. In response to paragraph 2 of resolution 36/231 A, in which the General Assembly requested the Committee on Contributions "to prepare a set of guidelines for the collection and presentation of data by Member States in order to ensure that adequate data and statistical information are submitted to the Committee on a uniform and comparable basis", the Committee reviewed a paper prepared by the United Nations Statistical Office describing the guidelines followed in the compilation and estimation of national income and related statistics for purposes of formulating a scale of assessments. The paper summarized the practice of sending out questionnaires to all Member States, requesting national income data or, if not available, related aggregates necessary to derive national income estimates.

60. The Committee noted that for countries with centrally planned economies, which utilize the material product system (MPS) as differentiated from those with market economies which use the present system of national accounts (SNA), the questionnaire, for the first time last year, included a detailed itemized conversion from net material product to national income at market prices. That enabled the Committee to study more closely the conceptual differences between the two economic systems and provided the members with additional information to assess the reliability of national income data.

61. The Committee was further informed that the Statistical Office analysed the reported data and compared those with supplementary information obtained from national and international sources in order to assess further and improve data comparability. The Committee generally felt that the procedures set in the guidelines effectively responded to the concerns expressed by some Members in the Fifth Committee relating to the question. During the discussion, a view was expressed that the letter accompanying the questionnaire would be better understood by Governments and, thus, would more effectively serve its purpose if it could be modified to include, in cases where national income was not available, a list of all related aggregates that might be provided instead, as well as all supplementary data needed in order to arrive at national income at market prices.

62. With regard to the conversion of data into a uniform period coverage, an opinion was also expressed that further study should be made of the difference between the Hejra fiscal year used by one Member State and the Gregorian calendar year, which is the basis of the period coverage of national income. In order to ensure that all countries are to be assessed on data covering the same period of time in the formulation of the scale of assessments, account should be taken that the Hejra year is 11 days shorter than the Gregorian year.

63. A question was raised with reference to an apparent inconsistency in the data being used by the Committee on Contributions. It was noted that whereas the rates of economic growth of certain Member States with centrally planned economies, as published in United Nations documents, showed an increase, their corresponding United Nations rates of assessment were on a downward trend. It was explained that the growth rates referred to increases based on gross domestic product (GDP) at constant prices in national currency. This rate of increase was not always borne out when figures were calculated at current prices in United States dollars which is the measure used by the United Nations in determining capacity to pay.

64. The Committee recalled that it had reviewed at length, at its forty-second session, other issues related to collection and compilation of data, including priority in the use of data sources, method of estimating national income and conversion of data. Should the General Assembly decide on an alternative method to establish the scale of assessment which would involve the use of economic and social indicators, an examination of guidelines for the collection of those data would then be required.

V. OTHER MATTERS CONSIDERED BY THE COMMITTEE

A. Collection of contributions

65. The Committee took note of the report of the Secretary-General which indicated that at the opening of the resumed session of the General Assembly on 10 May 1983, eight Member States, the Central African Republic, Chad, the Comoros, El Salvador, Grenada, Guinea-Bissau, Mauritania and South Africa, were in arrears in the payment of their assessed contributions within the terms of Article 19 of the Charter. The Committee inquired into the procedures followed by the Secretariat by which Member States concerned were informed ahead of time of their arrears under Article 19 and reaffirmed its previous decision to authorize its Chairman to issue an addendum to the present report, should it be necessary.

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

66. Under the provisions of paragraph 3 of resolution 37/125 A, the General Assembly authorized the Secretary-General to accept, at his discretion and after consultation with the Chairman of the Committee, a portion of the contributions of Member States for the calendar years 1983, 1984 and 1985 in currencies other than United States dollars.

67. At its current session, the Committee noted from the Secretary-General's report on the arrangements for the payment by Member States of their 1983 contributions in currencies other than United States dollars that eight Member States had availed themselves of the opportunity of paying the equivalent of $US 3.2 million in eight 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.

C. Representation by the Dominican Republic

68. The Committee had before it a letter dated 29 December 1982 from the Chargé d'Affaires of the Permanent Mission of the Dominican Republic to the United Nations requesting the Committee on Contributions to review the rate of assessment of the Member State, taking into account circumstances which had adversely affected its capacity to pay. Among the circumstances cited were the high cost of petroleum and its derivatives, the high price of imported products from developed countries which, when combined with the depressed price of cane sugar, its main exporting commodity, had exacerbated the economic situation of the Dominican Republic.

69. In a communication from the Permanent Representative of the Dominican Republic dated 15 April 1983 to the Secretary-General of the United Nations, additional statistical data were provided on balance of payments for the period 1978-1982; per capita real income for the years 1970-1980; gross national product (GNP) in current prices for the period 1976-1980; and total population for 1975-1981. The Committee reviewed that information together with other data submitted by the Secretariat which covered a number of countries having similar rates of assessment

as that of the Dominican Republic. It noted that data on GNP and total population provided by the Government did not differ in any measure from the basic data used by the Committee in the establishment of the scale of assessments for 1983-1985.

70. After due consideration of the special situation of the Member State and the Committee's past practice on appeals by Members for a change of assessments in a year when the scale is not up for review, the Committee decided that it would take the Government's representation into account when it reviewed the next scale of assessments.

D. Authorization sought by the International Atomic Energy Agency (IAEA)

71. In accordance with the agreement between the United Nations and the specialized agencies and IAEA, the United Nations has, since 1971, regularly supplied IAEA with per capita net national products of all States members of IAEA, as used by the Committee on Contributions in the establishment of the scale of assessments. These per capita income figures had been used by IAEA secretariat but not submitted to the Agency's executive board, as they were considered confidential. However, at the request of IAEA, the Committee on Contributions agreed that these data could be disclosed to the Board of Governors of IAEA in order to facilitate their review of the principles of assessment.

E. Date of the next two sessions

72. On the basis of the work programme currently envisaged under General Assembly resolutions 37/125 B, 36/231 A and 34/6 B, the Committee decided that it would hold its forty-fourth session from 4 to 29 June 1984 and its forty-fifth session from 3 to 28 June 1985 in New York.

Notes

1/ *Official Records of the General Assembly, Thirty-seventh Session, Supplement No. 11* (A/37/11), para. 37.

2/ Annex II covers 61 countries that have rates of assessments above 0.03 per cent according to the scale of assessments for 1983-1985.

ANNEX I

<u>Availability of socio-economic indicators to supplement national and per capita income in the present assessment scale methodology</u>

	Availability in terms of all countries and years*	Availability in terms of 61 countries with current rate of assessment over 0.03 per cent
I. Indicators reflecting long-term concerns		
A. Level of industrial development		
1. Percentage share of manufacturing in total gross domestic product	A	A
2. Percentage share of manufactured exports to total exports	A	A
3. Percentage share of three main export commodities in total exports	A	A
4. Per capita energy production	B	A
5. Per capita energy consumption	A	A
6. Percentage share of active population employed outside agriculture	A	A
7. Value of production of basic industries per capita	C	C
B. Infrastructural development		
1. Number of telephones per 1 000 persons	A	A
2. Transportation		
(a) Highways	...	...
(b) Railways	...	...
(c) Airways	...	...
C. Educational development		
1. Percentage of literate population	B	A
D. Health conditions		
1. Life expectancy at birth	A	A
2. Number of physicians per 1 000 inhabitants	B	A
3. Number of infant survivals per 1 000 births	B	A

	Availability in terms of all countries and years*	Availability in terms of 61 countries with current rate of assessment over 0.03 per cent
E. Insufficient food supplies and malnutrition		
1. Per capita food consumption (daily caloric intake)	B	A
2. Per capita cereal production	B	A
F. National wealth	C	C
II. <u>Indicators reflecting recent developments which impair capacity to pay</u>		
1. Public debt service (interest and amortization) as percentage of:		
(a) National income	B	B
(b) Export earnings	B	B
(c) International reserves	B	B
2. Central government surplus or deficit as percentage of total central government expenditures	B	A
3. International reserves as percentage of		
(a) National income	A	A
(b) Export earnings	A	A
4. Changes in the level of international reserves	A	A
5. Changes in terms of trade (changes in the ratio between the unit values of imports and exports)	B	B

	Availability in terms of all countries and years*	Availability in terms of 61 countries with current rate of assessment over 0.03 per cent
III. Actual expenditures that affect socio-economic concerns		
1. Gross fixed capital formation by type:		
(a) Non-residential construction	C	C
(b) Residential construction	C	C
(c) Other construction	C	C
(d) Land improvement (including plantation and orchard development)	C	C
(e) Transport equipment	B	B
(f) Other machinery and equipment	B	B
(g) Breeding stock, dairy cattle, etc.	C	C
2. Central government expenses on:		
(a) Education	B	B
(b) Health	B	B
(c) Economic services	C	C
(i) Agriculture		
(ii) Mining, manufacturing, construction (excluding fuel and energy)		
(iii) Fuel and energy		
(iv) Transport and communication		
(d) Housing and community amenities	C	C
(e) Defence	C	C
(f) Other (general public services, social security and welfare, etc.)	C	C
3. Expenditure on technical and scientific research and development	C	C

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* Categories of availability in terms of years and countries

A 80 per cent or better
B 50 to 80 per cent
C Under 50 per cent

ANNEX II

Taxable income based on a modified formula for countries with rates of assessments above 0.03 per cent according to the scale of assessments for 1983-1985

Countries	National income average 1971-1980 1/ ($US million)	Per capita income average 1971-1980 1/ ($US)	Additional socio-economic indicators: Manufacturing as a % of total GDP	Manufactured exports as a % of total exports	Three main export commodities as a % of total exports	% share of active population employed outside agriculture	Number of telephones per 1 000 persons	Literacy rate	Per capita cereal production	Taxable income (millions of US dollars): Present formula without indicators 1971-1980 $2 100 85%	Modified Formula: With indicators 1971-1980 $2 100 85%	Modified Formula: With indicators 1971-1980 85%
Limit		$2 100	24	45.5	31.6	74.8	228	86	2 880	$2 100	$2 100	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Algeria	1 656	676	12	1.2	97.6	50.1	19	37	2 363	702	620	538
Argentina	45 352	1 775	37	25.2	26.4	87.0	91	94	3 345	39 410	42 580	48 792
Austria	37 630	5 007	29	86.1	16.7	90.9	325	99	3 535	44 498	41 019	40 484
Australia	75 941	5 485	22	24.7	26.9	94.2	440	100	3 428	89 903	82 780	81 701
Belgium	63 953	6 519	26	76.7	23.5	96.9	332	99	3 800	75 627	69 712	68 804
Brazil	135 946	1 262	23	29.4	32.1	61.8	45	76	2 493	89 860	99 367	108 899
Bulgaria	13 426	1 536	46	65.4	24.9	66.7	116	93	3 611	10 364	12 955	14 444
Canada	149 974	6 556	18	53.8	27.1	95.0	648	98	3 374	177 350	163 480	161 349
Chile	9 352	909	20	62.3	64.0	81.5	48	88	2 662	4 844	6 203	7 563
China	176 885	189	25	32.0	...	40.2	...	66	2 467	40 152	96 730	153 396
Colombia	15 499	646	21	20.0	72.3	72.6	54	81	2 364	6 385	8 112	9 847
Cuba	10 430	1 109	61	0.4	95.4	76.7	33	96	2 672	6 247	6 911	7 575
Czechoslovakia	36 659	2 467	63	86.2	29.4	89.7	196	95	3 340	43 350	39 960	39 439
Denmark	37 429	7 390	19	56.1	14.2	93.0	569	99	3 345	44 261	40 800	40 268
Egypt	14 863	397	14	18.6	63.1	49.6	12	44	2 760	4 622	6 294	7 970
Finland	24 134	5 113	25	76.1	36.0	87.0	447	100	3 122	28 539	26 307	25 964
France	326 049	6 170	27	76.7	20.2	91.4	372	99	3 412	385 566	355 411	350 779
German, Dem. Rep.	69 625	4 139	59	93.1	19.1	90.4	176	...	3 641	82 336	75 895	74 906
Germany, Fed. Rep. of	427 543	6 933	38	87.8	25.8	96.0	404	99	3 381	505 586	466 045	459 970
Greece	22 812	2 504	17	49.9	30.3	62.8	266	81	3 365	26 976	24 866	22 709
Hungary	14 144	1 338	59	70.0	8.0	84.3	107	98	3 553	9 787	15 418	15 217
India	89 053	147	15	55.4	24.9	36.8	3	36	1 996	18 701	41 265	63 873
Indonesia	30 967	226	9	4.0	68.1	41.1	3	62	2 203	7 494	10 492	13 506
Iran (Islamic Rep. of)	47 520	1 418	12	1.6	96.0	61.5	23	50	3 138	34 404	26 799	19 195
Iraq	15 907	1 406	7	0.3	98.7	59.8	26	18	2 134	11 453	7 915	4 392
Ireland	8 970	2 799	33	50.0	22.3	79.2	172	98	3 451	10 607	9 778	9 650
Israel	11 270	3 225	26	74.9	46.2	93.1	271	88	3 141	13 327	12 285	12 125
Italy	193 000	3 446	31	83.9	13.2	88.8	301	98	3 517	228 230	210 380	207 638
Japan	531 300	4 737	30	95.9	21.5	89.0	424	99	2 949	628 283	579 145	571 597
Kuwait	14 167	13 623	6	7.5	87.2	98.3	143	60	...	16 753	15 443	7 792
Libyan Arab Jamahiriya	13 990	5 641	3	0.2	99.7	84.3	21	50	3 305	16 543	15 250	5 364
Luxembourg	2 907	8 076	30	76.7	...	96.9	539	99	3 800	3 437	3 169	3 127
Malaysia	10 852	897	17	28.5	42.2	52.2	33	60	2 562	5 577	6 516	7 464
Mexico	82 518	1 347	24	42.9	54.8	64.0	62	76	2 771	57 432	60 835	64 303
Morocco	9 349	532	17	17.1	47.7	48.8	11	28	2 640	3 421	4 406	5 396

Countries	National income average 1971-1980 1/ ($US million)	Per capita income average 1971-1980 1/ ($US)	Additional socio-economic indicators: Manufacturing as a % of total GDP	Manufactured exports as a % of total exports	Three main export commodities as a % of total exports	% share of active population employed outside agriculture	Number of telephones per 1 000 persons	Literacy rate	Per capita cereal production	Taxable income (millions of US dollars): Present formula without indicators 1971-1980 $2 100 85%	Modified Formula: With indicators 1971-1980 $2 100 85%	With indicators 1971-1980 85%
Limit		$2 100	24	45.5	31.6	74.8	228	86	2 880	$2 100	$2 100	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Netherlands	89 335	6 516	27	54.0	96.2	94.6	453	99	3 338	105 642	97 380	87 483
New Zealand	13 075	4 245	23	20.8	46.6	90.7	545	99	3 345	15 461	14 252	14 067
Nigeria	35 494	532	9	0.6	98.1	46.7	2	15	2 295	12 990	11 060	9 152
Norway	25 700	6 393	18	53.6	50.7	92.3	402	99	3 218	30 391	28 014	27 649
Pakistan	14 334	201	15	52.6	44.0	46.5	3	21	2 270	3 325	6 263	9 210
Peru	11 660	743	26	32.2	44.6	62.7	27	72	2 106	5 258	6 975	8 693
Philippines	16 699	390	25	16.0	32.4	54.0	13	87	2 211	5 143	8 817	12 494
Poland	49 333	1 443	47	70.3	28.5	69.6	88	98	3 515	36 259	46 601	53 075
Portugal	14 078	1 474	36	71.8	24.6	73.8	120	70	3 076	10 516	12 888	15 146
Romania	21 512	1 008	50	66.3	18.6	52.8	56	98	3 411	12 003	18 361	23 144
Saudi Arabia	45 323	6 072	5	0.6	97.3	39.9	24	3	2 669	53 596	49 404	10 886
Singapore	5 232	2 310	26	45.4	42.7	97.8	204	75	3 003	6 187	5 703	5 135
South Africa	32 282	1 251	22	44.4	32.0	71.5	98	57	2 831	21 209	24 601	28 014
Spain	103 477	2 892	30	73.9	20.8	82.8	280	87	3 149	122 365	112 795	111 325
Sweden	66 241	8 073	23	80.3	17.8	95.0	744	99	3 065	78 332	72 206	71 265
Thailand	15 877	374	19	27.6	36.7	24.6	9	84	2 175	4 794	7 764	10 743
Turkey	37 059	914	18	25.4	40.0	45.6	32	60	2 931	19 270	22 556	25 844
United Arab Emirates	10 219	19 102	3	0.5	94.9	95.5	207	21	...	12 084	11 139	4 712
United Kingdom of Great Britain and Northern Ireland	233 771	4 182	25	78.8	20.5	98.0	415	99	3 275	276 443	254 823	251 502
United States of America	1 540 073	7 097	24	67.5	18.6	97.8	770	99	3 576	1 730 888	1 678 761	1 656 881
Uruguay	4 149	1 469	21	27.0	35.3	88.1	96	94	2 822	3 091	3 373	3 657
Union of Soviet Socialist Republics 2/	572 341	2 239	52	34.1	11.2	83.6	80	99	3 460	676 816	623 882	615 751
Venezuela	29 003	2 382	16	2.1	25.0	82.0	65	82	2 625	34 297	27 432	22 551
Yugoslavia	36 839	1 716	36	78.2	80.0	62.6	71	85	3 510	31 128	31 834	32 556

1/ The above data are for illustration purposes only and do not necessarily reflect the data approved by the Committee for use in the establishment of the scale of assessments for 1983-1985.

2/ Including Byelorussian SSR and Ukrainian SSR.

Explanatory notes to annex II

Columns (11) and (12) of this annex show the effects of two alternative ways of incorporating additional socio-economic indicators in the assessment scale formula for the 61 countries that have rates of assessments above 0.03 per cent according to the scale for 1983-1985.

The national and per capita income data used in this modified formula are the averages for the base period 1971-1980, which are shown in columns (1) and (2) of the annex. The data on socio-economic indicators are presented in columns (3) through (9). They refer to recent periods, generally 1978 or 1979.

The norms or limits, including for per capita income, are shown under the indicator heading in columns (2) through (9). For illustrative purposes, the norm for each indicator was defined to be the average of the values of the indicators for OECD countries and those for Brazil, the latter being given a weight of 0.5. Brazil was selected to represent the group of most developed among the developing countries.

Three versions of the modified allowance formula are presented in columns (10), (11) and (12). Column (10) represents taxable income according to the present formula, which could be considered to be a special case of a general formula, with per capita income being given a weight of 1 and all other indicators a weight of zero. In column (11), an alternative is presented which combines per capita income and other indicators, with per capita income being given a weight of 0.5 and other indicators an equal weight of 0.071 each. Column (12) represents the third version of the modified formula, which is based on the seven economic and social indicators but excludes per capita income; the latter could be considered to be assigned a weight of zero, and the seven indicators a weight of 0.143 each.

The modified formula was applied only to countries for which the formula produced a positive deduction, i.e., on the average, the actual values of the indicators are below the norms. When the deduction was negative, the modified formula was not applied; instead, the country's national income was adjusted upward proportionally by the amount of relief granted to countries having an average indicator below the norm, very similar to the distribution of relief according to the low per capita income allowance formula.

As the annex covers 61 countries but not the entire membership of the United Nations, the adjustment factor applied to national income of countries which have indicator values above the average of the limits or norms could not be accurately quantified. Instead, it was an approximation derived by multiplying the adjustment factor for the period 1971-1980 of 1.1825 with the ratio of the relief received by countries in columns (11) or (12) to the amount of relief given according to the present formula as shown in column (10).

ANNEX III

Comparison between taxable income levels based on actual exchange rates and pseudo exchange rates

Country	Indices of change in average values of the period 1971-1977 relative to 1969-1975					Taxable income (millions of $US)		
	National income in local currency	Real income in local currency	Domestic prices	Exchange rate		Based on actual exchange rate 1971-1977 $2 100 85%	Based on pseudo exchange rate 1971-1977 $2 100 85%	Column (7) as percentage of Column (6)
				Actual	Pseudo			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Argentina	126.2	105.4	1 050.0	878.4	902.1	30 277	28 824	95.2
Germany, Federal Republic of	131.5	105.0	112.0	89.4	96.2	419 511	389 803	92.9
Indonesia	159.8	116.6	141.1	102.9	121.2	4 969	4 002	80.5
Iran, (Islamic Republic of)	178.5	115.9	153.5	99.7	131.9	20 675	12 787	61.9
Iraq	171.0	122.3	134.4	96.1	115.5	5 117	3 747	73.2
Japan	138.4	109.2	119.9	94.6	103.0	496 201	455 672	91.8
Mexico	127.6	109.2	138.2	118.3	118.7	36 494	36 228	99.3
Oman	185.7	105.9	170.8	97.4	146.7	784	381	48.6
Poland	116.5	118.9	106.6	108.8	91.6	28 499	38 768	136.0
Union of Soviet Socialist Republics	113.9	108.6	102.0	97.3	87.6	481 927	711 859	147.7

Explanatory notes to annex III

Using as examples the data on the Federal Republic of Germany and the Union of Soviet Socialist Republics shown in annex III, the application of "pseudo" rate would reduce the taxable income of the Federal Republic of Germany by 7.1 per cent, while it would increase the taxable income of the Soviet Union by 47.7 per cent. This corrective measure would be justified, if and only if at the base period the exchange rates of the deutsche mark and the rouble with the United States dollar were deemed correct. If they were not correct at the base year, and if the deutsche mark were already overvalued in the base period, the use of the "pseudo" rate would only provide a partial correction of the national income of the Federal Republic of Germany in United States dollars. On the other hand, if the deutsche mark were undervalued at the base period, the apparent overvalued actual exchange rate would already have had the effect of correcting national income figures for the recent period as compared with the earlier period. The introduction of the "pseudo" rate would not be necessary and would tend to worsen rather than correct the situation. The reverse reasoning could apply to countries, such as the Soviet Union, which experienced an apparent undervaluation of their national currencies in relation to the rest of the world for the period under review.

ANNEX IV

Comparison of the effects of the application of the low per capita income allowance formula for selected countries prior to and since 1979

Country	Per capita income (1971-1980) (in $US)	National income (1971-1980)	Taxable income (1971-1980) (present method) a/	Taxable income (1971-1980) (old method) b/	% changes in taxable income
		(millions of United States dollars)			
	(1)	(2)	(3)	(4)	5 = (3)/(4)
Kuwait	13 623	14 167	16 753	15 735	+6.5
Sweden	8 073	66 241	78 332	73 575	+6.5
Union of Soviet Socialist Republics	2 239	572 341	676 816	635 707	+6.5
Trinidad and Tobago	2 215	2 414	2 854	2 681	+6.5
Argentina	1 775	45 352	39 410	43 773	-10.0
Yugoslavia	1 716	36 839	31 128	34 574	-10.0
Burma	110	3 482	678	753	-10.0
Mali	96	592	111	123	-10.0

a/ Total relief distributed *pro rata* to countries above the per capita income limit of $2,100.

b/ Total relief distributed *pro rata* to all countries.

ANNEX V

Limits on variations between successive assessment scales

1. Combination of percentage limits and percentage point limits

Percentage limits

If the present official scale is	the percentage change in the new machine scale should not be more than
above 1.00 per cent	10 per cent
0.76 - 1.00 per cent	25 per cent
0.51 - 0.75 per cent	33 per cent
0.05 - 0.50 per cent	50 per cent
0.01 - 0.04 per cent	50 per cent (or one point)

Percentage point limit

If the present official scale is	the percentage change in the new machine scale should not be more than
above 1.00 per cent	30 points
0.76 - 1.00 per cent	20 points
0.51 - 0.75 per cent	15 points
0.05 - 0.50 per cent	10 points
0.01 - 0.04 per cent	1 point

2. Percentage limits with five rate brackets

If the present official scale is	the percentage change in the new machine scale should not be more than
Above 1.00 per cent	10 per cent
0.76 - 1.00 per cent	15 per cent
0.51 - 0.75 per cent	20 per cent
0.04 - 0.50 per cent	25 per cent
0.01 - 0.03 per cent	50 per cent (or one point)

3. Percentage limits and percentage point limits with eight rate brackets

Present official scale	Percentage change in the new machine scale	Changes in percentage points in the new machine scale
Above 5.00	5.0	75 points
2.50 - 4.99	7.5	30 points
1.00 - 2.49	10.0	20 points
0.76 - 0.99	15.0	15 points
0.51 - 0.75	20.0	10 points
0.25 - 0.50	25.0	5 points
0.05 - 0.24	30.0	3 points
0.01 - 0.04	50.0	1 point

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