United Nations

Report of the Committee on Contributions

Sixty-eighth session (9-27 June 2008)

General Assembly

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Summary

At its sixty-eighth session, the Committee on Contributions, in accordance with the mandate given to it by the General Assembly in its resolution 61/237, reviewed the methodology of the scale of assessments in order to reflect the capacity of Member States to pay (chap. III).

With regard to the methodology for the scale of assessments, the Committee:

(a) Recalled and reaffirmed its recommendation that the scale of assessments for the next assessment period continue to be based on the most current, comprehensive and comparable gross national income data, and recommended that the General Assembly encourage Member States which have not yet done so to implement the System of National Accounts, 1993;

(b) Recalled and reaffirmed its recommendation that conversion rates based on market exchange rates be used for the scale of assessments, except where that would cause excessive fluctuations and distortions in income;

(c) Decided to further consider the base period, the debt-burden adjustment, and the low per capita income adjustment at its next session in the light of the guidance of the General Assembly.

The Committee also decided to further consider the questions of annual recalculation and large scale-to-scale increases in rates of assessment at its future sessions in the light of any guidance from the General Assembly.

With regard to multi-year payment plans (chap. IV), the Committee concluded that the system of multi-year payment plans continues to be a viable means available to Member States to assist them in reducing their unpaid assessed contributions and in providing a way for them to demonstrate their commitment to meeting their financial obligations to the United Nations. The Committee noted that no new multi-year payment plans had been submitted, and recommended that the General Assembly encourage other Member States in arrears for the purposes of the application of Article 19 of the Charter of the United Nations to consider submitting multi-year payment plans.

With regard to the application of Article 19 of the Charter of the United Nations (chap. V), the Committee:

(a) Encouraged all Member States requesting an exemption under Article 19 that are in a position to do so to consider presenting a multi-year payment plan;

(b) Recommended that the following Member States be permitted to vote in the General Assembly until the end of the sixty-third session of the Assembly:

(i) Central African Republic;

(ii) Comoros;

(iii) Guinea-Bissau;

(iv) Liberia;

(v) Sao Tome and Principe;

(vi) Somalia;

(vii) Tajikistan.

The Committee decided to hold its sixty-ninth session from 1 to 26 June 2009.

[27 June 2008]

Contents

Chapter I

Attendance

1. The Committee on Contributions held its sixty-eighth session at United Nations Headquarters from 9 to 27 June 2008. The following members were present: Joseph Acakpo-Satchivi, Kenshiro Akimoto, Meshal Al-Mansour, Abdelmalek Bouheddou, Petru Dumitriu, Gordon Eckersley, Bernardo Greiver, Ihor V. Humenny, Vyacheslav A. Logutov, Gobona Susan Mapitse, Richard Moon, Hae-yun Park, Eduardo Ramos, Henrique da Silveira Sardinha Pinto, Luis M. Hermosillo Sosa, Lisa P. Spratt, Thomas Thomma and Wu Gang.

2. The Committee elected Mr. Greiver as Chairman and Mr. Ramos as Vice-Chairman.

3. The Committee expressed its appreciation to its former Acting Secretary, Mya M. Than, for her service in the Committee, and welcomed the Secretary, Lionelito Berridge.

Chapter II
Terms of reference

4. The Committee on Contributions conducted its work on the basis of its general mandate, as contained in rule 160 of the rules of procedure of the General Assembly; the original terms of reference of the Committee contained in chapter IX, section 2, paragraphs 13 and 14, of the report of the Preparatory Commission (PC/20) and in the report of the Fifth Committee (A/44), adopted during the first part of the first session of the General Assembly on 13 February 1946 (resolution 14 (I) A, para. 3); and the mandates contained in Assembly resolutions 46/221 B, 48/223 C, 53/36 D, 54/237 C and D, 55/5 B and D, 57/4 B, 58/1 A and B, 59/1 A and B, 60/237, 61/2 and 61/237.

5. The Committee on Contributions had before it the summary record of the Fifth Committee at the sixty-second session of the General Assembly relating to agenda item 132, entitled “Scale of assessments for the apportionment of the expenses of the United Nations” (A/C.5/62/SR.2) and the verbatim record of the 25th meeting of the General Assembly at its sixty-second session (A/62/PV.25), and had available the relevant report of the Fifth Committee to the Assembly (A/62/478).

Chapter III
Methodology for the preparation of the scale of assessments

6. The Committee on Contributions recalled that, in its resolution 55/5 B, the General Assembly had established the elements of the methodology used in preparing the scale of assessments for the period 2001-2003. The General Assembly had also decided, inter alia, that the elements of the methodology should remain fixed until 2006, subject to the provisions of its resolution 55/5 C, in particular paragraph 2 of that resolution, and without prejudice to rule 160 of the rules of procedure of the General Assembly. Pursuant to that decision, the Committee had used the same methodology in preparing the scale of assessments for the period 2007-2009.

7. The Committee also recalled that, in its resolution 58/1 B, as reaffirmed by its resolution 61/237, the General Assembly had requested the Committee, in accordance with its mandate and the rules of procedure of the General Assembly, to review the methodology of future scales of assessments based on the principle that the expenses of the Organization should be apportioned broadly according to capacity to pay. On the basis of those mandates, the Committee carried out an initial review of the elements of the methodology of the scale of assessments at its sixty-seventh session. At its sixty-eighth session, the Committee proceeded to undertake an in-depth study of the methodology of the scale of assessments in order to reflect developments in the capacity of Member States to pay. The Committee decided to continue its detailed review of the methodology at its sixty-ninth session on the basis of the guidance from the General Assembly at its sixty-third session for the purpose of formulating recommendations on a scale methodology for 2010-2012.

8. In reviewing the elements of the scale methodology, the Committee was guided by the general mandate given to it under rule 160 of the rules of procedure of the General Assembly, to the effect that it should advise the General Assembly on the apportionment of the expenses of the Organization among Member States broadly according to capacity to pay, as well as the requests contained in resolution 58/1 B and the mandate of the Assembly provided in resolution 61/237.

A. Elements of the methodology for the preparation of the scale of assessments

9. The Committee recalled that the same methodology used in preparing the scale of assessments for the past two scale periods had been used in preparing the scale of assessments for the period 2007-2009. The Committee also noted that the current scale had been adopted by the General Assembly based mainly on information contained in the Committee's report on its sixty-sixth session, with some additional adjustments.

10. A detailed description of the methodology used in preparing the current scale is contained in annex I to the present report. In the absence of any further guidance from the General Assembly, the Committee reviewed the elements of the current methodology further. It also considered various suggestions for alternative approaches and possible elements for changes in the scale methodology.

1. Income measure

11. The Committee recalled and reaffirmed its earlier recommendation at its fifty-sixth session, in 1996, that future scales of assessments should be based on estimates of gross national product (GNP).[1] The Ad Hoc Intergovernmental Working Group on the Implementation of the Principle of Capacity to Pay had also recommended the use of GNP as a first approximation of capacity to pay, based on data reliability, availability, comparability and simplicity.[2] That approach had since been maintained by the Committee and accepted by the Assembly in the context of the adoption of the scales for the periods 1998-2000, 2001-2003, 2004-2006 and 2007-2009, although under the terminology of the System of National Accounts, 1993 (1993 SNA), GNP was known as gross national income (GNI). The Committee recalled that the concept of gross national product (GNP) in the 1968 SNA had been renamed gross national income (GNI) in the 1993 SNA. The renaming of GNP as GNI was a refinement of product and income concepts and did not entail a change in the actual coverage of the concept.

12. The Committee discussed the comparability of data between countries reporting under the 1993 System of National Accounts and those reporting under the 1968 SNA. Information available to the United Nations Statistics Division indicates that, as at 31 December 2007, 123 countries and territories, representing an estimated 92.9 per cent of the total world GNI in 2006 and 67.3 per cent of world population, had implemented the 1993 SNA. The Committee noted that the updated information on implementation of the 1993 SNA reflects steady continued progress, as shown in the table below.

	Number of countries and territories reporting under the 1993 SNA as at 31 December	*Estimated per cent of the total world GNI*
2007	123	92.9 (of 2006 GNI)
2006	109	92.5 (of 2004 GNI)
2005	102	92.4 (of 2003 GNI)

13. The Committee noted that universal implementation of the 1993 SNA would provide for a more comparable measure of Member States' capacity to pay. Given the impact on comparability of the GNI data, the Committee discussed ways to increase the implementation of the 1993 SNA. Upon inquiry, the Statistics Division informed the Committee about its work and efforts, including workshops, towards facilitating the implementation of the 1993 SNA.

14. At its sixty-sixth session, the Committee recommended that the scale of assessments for the period 2007-2009 be based on the most current, comprehensive and comparable GNI data and, in that context, the Committee had before it a comprehensive database for the period 1999-2004 for all Member States containing information on various items, such as measures of income in local currencies, population, exchange rates, total external debt stocks, repayments of principal, and total and per capita income measures in United States dollars. The primary source

[1] *Official Records of the General Assembly, Fiftieth Session, Supplement No. 11A* and corrigendum (A/50/11/Add.2 and Corr.1), chap. IV.C, para. 28.

[2] A/49/897.

for income data in local currencies was the national accounts questionnaire completed yearly for the United Nations by Member States. For those countries for which full replies to the questionnaire had not been received, data had been collected or estimates prepared by the United Nations Statistics Division based on information from other national and international sources, notably the regional commissions, the International Monetary Fund (IMF) and the World Bank.

15. In reviewing the statistical information provided, the Committee was guided by the mandate provided in General Assembly resolution 48/223 C to base the scale on reliable, verifiable and comparable data and to use the most recent figures available.

16. The Committee discussed the issue of availability of data, taking into account the criteria set by the General Assembly. The Committee assessed the situation based on the latest experience of the Statistics Division. Upon inquiry, the Committee was informed that the situation reported at its sixty-seventh session had not changed significantly. In striking the balance between timeliness and the other criteria set by the Assembly, the Secretariat continued to feel that it was most appropriate to base the scale on data with a time lag of two years (t-2). Given the lack of comprehensive data, it was not possible to shorten the two-year time lag. Even with a time lag of two years, it was necessary to supplement data from the national accounts questionnaire and other official sources with materials from other national and international sources, notably the regional commissions, the IMF and the World Bank. In some cases, it was also necessary to include estimates prepared by the United Nations Statistics Division. Another important factor was that some countries finalized national accounts data with a time lag of two years. Furthermore, the external debt figures from the World Bank, required for the calculation of the scale of assessments, were available only with a time lag of two years.

17. **The Committee recalled and reaffirmed its recommendation that the scale of assessments for the next assessment period continue to be based on the most current, comprehensive and comparable GNI data. The Committee welcomed the progress in implementation of the 1993 SNA, as reflected by the 123 countries reporting under this system at end-2007 as compared to 109 countries at end-2006. In the light of the foregoing, the Committee recommended that the General Assembly encourage Member States which have not yet done so to implement the 1993 SNA.**

2. Conversion rates

18. In its resolution 55/5 B, the General Assembly decided that the scale of assessments for the period 2001-2003 should be based on a number of elements and criteria, including conversion rates based on market exchange rates (MERs), except in cases where that would cause excessive fluctuations and distortions in the income of some Member States.

19. The Committee recalled that previous scales had used MERs except where that would cause excessive fluctuations and distortions in the income of some Member States, when price-adjusted rates of exchange (PAREs) or other appropriate conversion rates were used.

20. The MERs used to convert GNI data in national currency to United States dollars were generally annual averages of rates communicated by States members of

IMF and published in *International Financial Statistics*. When MERs were not available from the *International Financial Statistics* or the IMF economic information system, United Nations operational rates or other information were used in the initial set-up for the scale.

21. In considering which MERs should be replaced for the 2007-2009 scale, the Committee reviewed the cases of those countries for which per capita GNI had increased by over 50 per cent or decreased by over 33 per cent during the last two consecutive three-year reference periods, namely 1999-2001 and 2002-2004. In so doing, it looked in particular at cases where the MER valuation index (MVI) was greater than 1.2 or less than 0.8 — reflecting an excessive appreciation or depreciation, respectively, of more than 20 per cent. Information on the steps to identify which MERs should be replaced and on calculation of the MVI is contained in annex II to the present report.

22. In reviewing this element of the methodology, the Committee looked at the overall number of cases which would need to be reviewed in detail resulting from application of the existing criteria to updated data relating to 2001-2006. The number of cases which would need to be examined totalled 59, as compared to 25 in 2006:

Number of Member States with a per capita GNI which decreased by over 33 per cent and with an MVI less that 0.8	1
Number of Member States with a per capita GNI growth rate above 50 per cent and an MVI greater than 1.2*	58

* A total of 62 countries had a per capita GNI growth rate above 50 per cent and 96 countries had an MVI greater than 1.2.

23. Upon inquiry, the Statistics Division informed the Committee that the large number of cases arises primarily from the significant fluctuation of exchange rates against the United States dollar in recent periods. Based on current data, the world average MVI was 1.11, while in the 2007-2009 scale period the world average MVI was closer to 1. In order to moderate the impact of recent exchange rate fluctuation, the Statistics Division suggested the examination of revised criteria based on world averages. Possible revised criteria could focus on the review of cases of those countries whose per capita GNI had increased by over 50 per cent or decreased by over 33 per cent of the world average per capita GNI growth rate, and where MVI was more than 20 per cent above or below the world average MVI. The application of these revised criteria resulted in identifying 9 Member States for review (8 having above 50 per cent of the world average per capita GNI growth rate and above 20 per cent of world average MVI, and 1 having below 33 per cent of the world average per capita GNI growth rate and below 20 per cent of the world average MVI).

24. The Committee noted that a detailed review of 59 cases, as generated by application of the existing criteria, would not be feasible. The Committee also noted that no single criteria would automatically solve all problems satisfactorily, and any criteria would be used solely as a point of reference to guide the Committee in identifying Member States whose MERs should be reviewed. The Committee would recommend replacement of a MER only in such cases where the related review

determined that its use would result in excessive distortions or fluctuations in GNI figures after conversion to United States dollars.

25. The Committee discussed further the concept of purchasing power parity (PPP). A representative of the World Bank presented the 2005 results of the International Comparison Programme. The Programme was launched in 1968 by the United Nations Statistics Division and the University of Pennsylvania to estimate the PPPs of countries, and was transferred to the World Bank as of the 1993 round. The International Comparison Programme surveys have been conducted every three to five years, depending on the region, and the price data thus collected are combined with other economic variables from countries' national accounts to calculate PPPs.

26. Upon request by some members, the Committee was informed by the Secretariat that the latest quota shares adopted by IMF on 28 March 2008 are based on a formula that blended GDP converted at both market and PPP exchange rates in a ratio of 60 and 40 per cent.

27. The Committee was further informed that a member's quota plays a key role in defining four aspects of that member's relationship with IMF:

(a) The amount of financial resources that a member contributes to IMF;

(b) The member's voting power in institutional decision-making;

(c) The level of access to IMF financing;

(d) The member's share of general special drawing right allocations.

Some members of the Committee were of the view that the quota system of IMF was not applicable to the United Nations scale of assessments.

28. Underlying the concept of purchasing power is the assumption that the value of a unit of a currency is closely related to the amount of goods and services that it can buy in its country of issue, i.e., its internal purchasing power. Conceptually, the PPP calculations are based on the estimation of the ratio of internal purchasing powers between two countries. Put in its simplest form, the PPP between country A and country B is the ratio of the respective price levels of a fixed basket of goods and services:

$$\text{PPP between B and A} = \frac{\text{Price level of a fixed basket of goods and services in country B}}{\text{Price level of a fixed basket of goods and services in country A}}$$

29. In other words, a PPP is defined as the number of units of country B's currency that are needed in B to purchase the same quantity of goods and services that one unit of country A's currency will purchase in A. The PPPs can be expressed in terms of the currency of either of the two countries.

30. The inclusion of countries in the International Comparison Programme rose from 10 in 1970 to 147 in the 2005 round. As the data are not available on a regular basis, data collected under previous rounds of the International Comparison Programme are extrapolated to estimate PPPs in the years in which data are not collected from participating countries. In addition, the data for non-participating countries are estimated on the basis of a formula established by the International

Comparison Programme for this purpose, using information from neighbouring participating countries.

31. Some members of the Committee noted that the International Comparison Programme had made improvements and the programme now covered 147 Member States. Those members felt that PPP data should continue to be reviewed for possible utilization to derive alternative conversion rates in the scale of assessment methodology. If data collection were conducted more frequently, PPP would be of further value. Furthermore, over time, PPP could provide better, more comprehensive coverage of Member States' economic capacity because it would include all goods and services, not just the 30 per cent of goods in the tradable sector covered by the MER approach. In addition, PPP would help to address MERs disadvantage of being overly influenced by speculative currency flows.

32. Other members expressed serious reservations about the use of PPP in preparing the scale of assessments. Those members expressed reservations that it exaggerated national income of developing countries and eventually increased their share of world GNI. Some members felt that in the light of the great differences of views on the issue in the context of the United Nations scale, there was no merit in further discussing it without further guidance from the General Assembly. In the view of some members, PPP reflected capacity to consume rather than capacity to pay. Methodologically, given that PPP is based on hypothetical, non-existent currency conversion rates, it is not suitable for the purposes of assessing Member States' capacity to pay. They also had serious concerns about the variable quality of the data given that PPP was not available for many countries and, where available, was based on extrapolations and estimates based on surveys. In their view, PPP did not measure capacity to pay in United States dollars because it included goods and services that were not tradable internationally. Some members noted that the data used for the calculation of scale of assessment, to the extent possible, should be current, comprehensive and comparable. Those members pointed out that the PPP data did not seem to satisfy those criteria in that they were not available on an annual basis and not available for all Member States.

33. Another alternative discussed in detail was the use of a currency basket — namely, the special drawing rights (the weighted average of four major currencies calculated and used by IMF) — to replace the United States dollar as a single conversion base, which in the view of some members could provide a more balanced approach. Those members felt that utilization of special drawing rights as a conversion rate could moderate the impact of exchange rate fluctuations of the United States dollar.

34. On the basis of an analysis prepared by the Statistics Division, the Committee studied possible implications of the utilization of special drawing rights. The Statistics Division analysis reflected that the ranking of countries based on their GNI is the same for a particular year regardless of whether GNI is expressed in United States dollars or in special drawing rights. However, as the scale of assessments is based on the averages of the three-years base or six-years base periods, and the average share of each country is a weighted average of the shares of individual years in the period, the average shares based on special drawing rights will be different from those based on United States dollars. Essentially, using special drawing rights instead of United States dollars as the unit of measurement of GNI in the calculation of the scale of assessments has the effect of putting more weight on

the years in the base period in which the United States dollar is relatively strong, and less weight on the GNI of the years in the base period in which the United States dollar is relatively weak.

35. Some members pointed out that the analysis did not find any noticeable attenuating effects of the use of special drawing rights or of any other single currency contained in the basket on the impact of excessive fluctuations of the United States dollar on the assessment rates of Member States.

36. Some members expressed doubt about the usefulness of special drawing rights for comparison purposes. Those members noted that the special drawing right is only a hypothetical currency in that it is not used in transacting business in the economy. Some members also noted that the special drawing right comprises only a limited number of currencies held as foreign exchange reserves.

37. The Committee decided to continue its consideration of alternative conversion rates at its next session, in the light of the guidance of the General Assembly.

38. **The Committee recalled and reaffirmed its recommendation that conversion rates based on MERs be used for the scale of assessments, except where that would cause excessive fluctuations and distortions in the GNI of some Member States expressed in United States dollars at MERs, in which case PAREs or other appropriate conversion rates should be employed.**

39. **The Committee decided further to use PAREs or other appropriate conversion rates as part of the preparation for the next scale based on the revised criteria referred to in paragraph 23 of the present report.**

3. Base period

40. The Committee recalled its consideration of that element of the methodology at its sixty-seventh session and noted that its previous assessment remained valid. The methodology used in preparing the current scale of assessments was based on the average of the results of machine scales using base periods of three and six years. Data on GNI, converted into United States dollars, were averaged over a designated base period, using the most recently available data at the time that the scale was considered by the Committee. The base period used had varied over time from 1 to 10 years. The scales for the previous three scale periods 2001-2003, 2004-2006 and 2007-2009 had all used the average of the results of machine scales using base periods of three and six years.

41. That approach was a compromise between those arguing for shorter and those arguing for longer base periods. It gave greater weight to the most recent three-year period since the related data were included in both machine scales. For example, in the current scale, data for the period 2002-2004 were included in both machine scales while data for 1999-2001 were included in only one.

42. The Committee remained of the view that it would be technically sounder to use a single base period. One member felt that a change could be made to a four-year period. Some members favouring a shorter base period considered that it would better reflect Member States' current capacity to pay. Other members preferred a longer base period, on the grounds that it would promote greater stability and predictability in the scale by evening out excessive fluctuations from year to year. The Committee noted that the current method had been a compromise reached by

the General Assembly between those favouring short and long base periods. Some members were of the view that the base period, once established, should not be subject to frequent change. Other members felt that while stability was welcome, it should be subordinate to capacity to pay.

43. Some members recalled the Committee's earlier view that the base period should be a multiple of the scale period[3] so that data from some years would not be used more frequently than data from others. Over one or several scale periods, that recommendation would avoid using data from some years more frequently than data from other years. There were diverging opinions as to whether that view retained its validity, and base periods of different lengths were considered. Others noted that there should be a correlation between the length of the scale period and the length of the base period.

44. **The Committee decided to keep under review the issue of the base period in the light of its general mandate and would welcome further guidance by the General Assembly.**

4. Debt-burden adjustment

45. The debt-burden adjustment had been an element of the scale methodology since 1986. It was intended to reflect the impact of having to repay the principal on external debt on the capacity to pay of some Member States. Interest on that debt was already reflected in the data for GNI. The debt-burden adjustment was a separate step that was effected by deducting notional annual repayments of external debt, as defined in step 2 of the scale methodology (see annex I) from Member States' GNI. While some members of the Committee had expressed reservations about the adjustment, others had argued that it was necessary for measuring the real capacity to pay of Member States.

46. The Committee recalled that the General Assembly had decided to use debt-stock data for the scales for the period 2001-2003, which it had also applied for the periods 2004-2006 and 2007-2009. The size of the adjustment in the current scale was lower than it had been in previous scales except for the 1998 scale, which was based on the debt-flow approach. That change in the size of the adjustment was due to decreasing debt levels relative to GNI, as shown in the most recent World Bank figures.

47. The data used for both variants of the debt-burden adjustment were provided by the *World Bank Global Development Finance* database for debt reporting system countries. During the period 1999-2004, that source covered 135 countries for debt stock and ranged from 133 to 134 countries for debt flow. The countries covered were developing countries that were members of and borrowers from the World Bank and had per capita GNI below a given threshold. In 2006, the World Bank set the threshold at $10,725. Currently, all countries for which debt figures were available were automatically considered for the debt-burden adjustment.

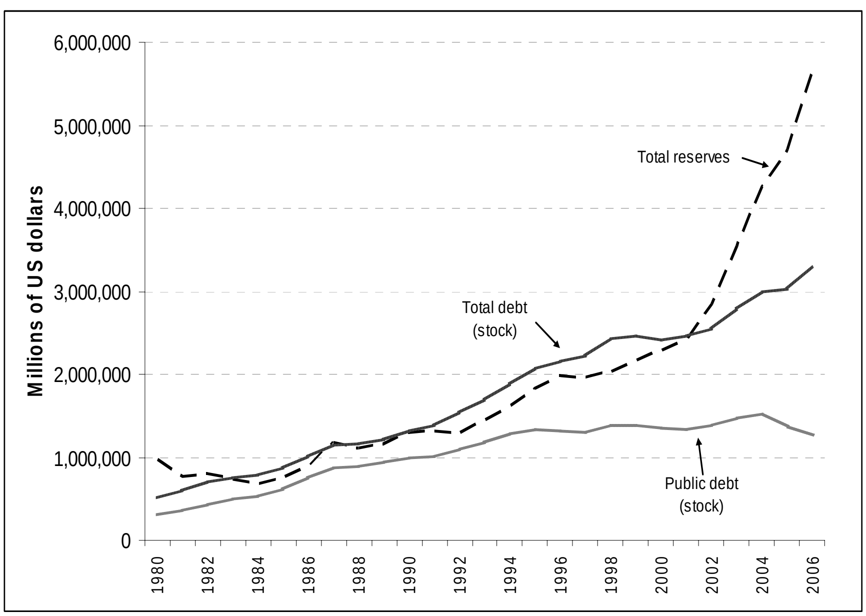
48. Limitations in the data available at the time that the adjustment was introduced had led the Committee to recommend to the General Assembly that it base the adjustment on a proportion of the total external debt stock of the Member States concerned. For that purpose, it was assumed that debt was repaid over a period of

[3] *Official Records of the General Assembly, Fiftieth Session, Supplement No. 11* (A/50/11), chap. III.C, para. 18.

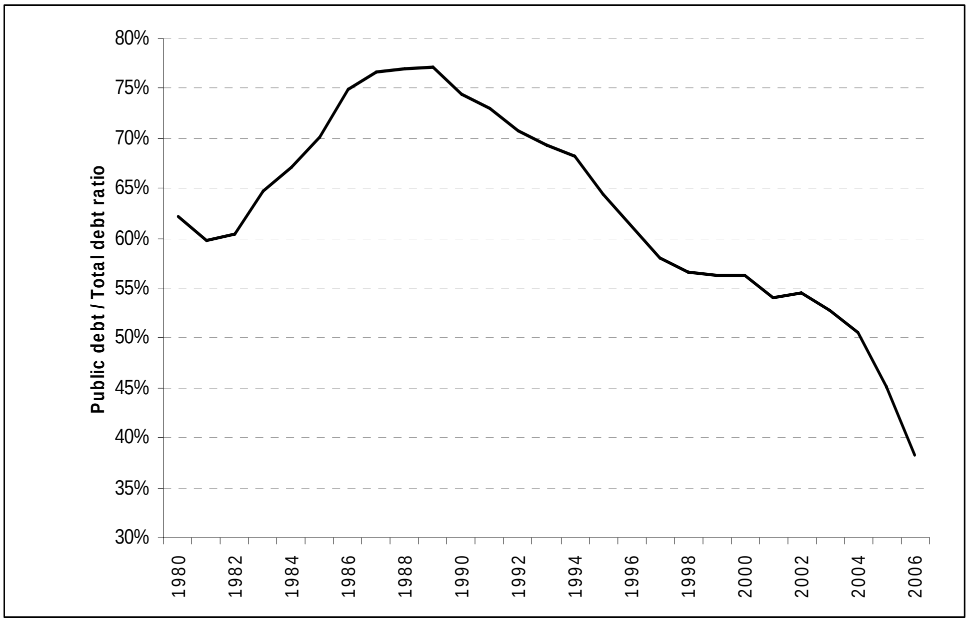
eight years, so that the adjustment to national income data was 12.5 per cent of total external debt stock. That became known as the debt-stock approach. Total debt stocks included public and publicly guaranteed long-term debt, private non-guaranteed long-term debt, the use of IMF credit and estimated public and private short-term debt. Principal repayments were part of total debt flows, which also included disbursements, net flows and transfers on debt and interest payments, and consisted of the amounts of principal repaid in foreign currency in the year specified.

49. In reviewing the validity of the assumption of an eight-year repayment period, the Committee noted that the repayment period of principal showed that, based on actual data, the repayment period of total external debt had declined from 9.9 years in 1999 to 6.9 years in 2005. During the same period, the repayment period of public and publicly guaranteed debts had declined from 12.9 years to 8.7 years. Some members felt that consideration should be given to using a debt-flow data instead of debt stock. Other members felt that the debt-stock approach should be retained.

50. In the past, the Committee had decided to use total debt rather than public debt in its analysis because of the availability of data on total debt only and the lack of distinction between public and private debt in the data available from the Organization for Economic Cooperation and Development. However, the Committee noted that the availability of data on public debt and publicly guaranteed debts had improved substantially. Whereas in 1985 there were data available for only 37 countries, now data were available for 135 countries. Consequently, some members noted that non-availability of data was no longer a valid reason for not using public debt data for debt-burden adjustment. Some members felt that total foreign exchange reserves should also be taken into account as a factor in determining the debt-burden adjustment. Other members felt that the level of reserves has already had an impact on economic performance and is finally reflected in the economic indicators taken into account to determine the scale of assessment of a Member State. Some members noted that public debt was relatively stable, while total debt had risen over time. The development of public debt, total debt and total reserves are shown in the figure below.



51. Some members considered that the use of public external debt was preferable to the use of total external debt since public debt had to be repaid from the government budget and reflected the responsibility of the government. They noted that the use of public external debt had been intended when that element of the methodology was introduced in 1986. Other members expressed the view that the use of total debt stock was necessary as total external debt reflected capacity to pay, and that private debt presented an important component of the total debt stock, influencing the overall Member States' capacity to pay to a great extent. The ratio of public debt to total debt since 1980 is shown in the figure below.



52. Some other members emphasized the fact that during the last decade the world economy had undergone tremendous changes, in which private investment (debt) played a predominant role. Those members felt that those circumstances no longer justified the existing debt adjustment for private debt and therefore private debt should either be eliminated or given a smaller emphasis (for example, 50 per cent) as compared to public debt.

53. One of them noted that the large emerging economies were the major beneficiaries of such changes. They achieved unprecedented economic growth and turned into major investors both in developed and developing countries on the strength of their accumulated huge foreign currency reserve or foreign borrowing.

54. From the analysis of information provided by the Statistics Division, the Committee noted that 100 Member States benefit from debt-burden adjustment, while 31 Member States absorb the debt-burden adjustment. The Committee also noted that 11 Member States with the largest reductions account for about 57 per cent of the total shift in percentage points. Some members questioned the technical soundness of the debt-burden adjustment since it mixed income and capital concepts. Some members also felt that since the national income figures (GNI) that were the starting point for the scale of assessments accounted fully for interest payments on external debt on an accrual basis, regardless of whether those payments

were actually made on time, there was no need to retain that element of the methodology. Some members considered that the adjustment should continue to be part of the methodology, reflecting an important factor in Member States' capacity to pay.

55. **The Committee decided to consider the question of the debt-burden adjustment further at its next session in the light of any guidance provided by the General Assembly.**

5. Low per capita income adjustment

56. The low per capita income adjustment has been an important element of the scale methodology from the outset. The adjustment currently has two parameters: a threshold level of per capita GNI to determine which countries would benefit; and a gradient to set the size of the adjustment. Since the adoption of the 1995-1997 scale, the threshold, which had previously been a set dollar amount, has been the average per capita GNP/GNI for the membership. The gradient had grown over the years, from 40 per cent in 1948 to 85 per cent in 1983. Since the calculation of the scale for the period 1998-2000, the gradient has been fixed at 80 per cent.

57. The Committee recalled that at its sixty-seventh session, it had decided to further consider the question of the low per capita income adjustment at future sessions on the basis of additional information from the United Nations Statistics Division. The Statistics Division had presented a report to the Committee on alternative definitions of the low per capita income adjustment threshold.

58. In reviewing that element, the Committee recalled that its terms of reference called for the consideration of comparative income per head of population in order to prevent anomalous assessments resulting from the use of comparative estimates of national income, and noted that an allowance for low per capita national income had been part of the methodology since the preparation of the first scale of assessments.

59. Some members noted, however, that that had produced the effect of accumulating relief in Member States with a significant share of world GNI. There was an issue of whether the total relief had been fairly distributed among all Member States below the threshold. Accordingly, those members felt that that element of the methodology should be revised.

60. Some members stated that they believed that the formula was based on transparent, technical and objective criteria that were applied uniformly to all Member States whose per capita GNI was lower than the determined threshold, and that therefore the current methodology should be retained. Those members argued that any proposal to set a limit on the low per capita income adjustment would be discriminatory, arbitrary and without any technical justification.

61. The Committee recalled that it had previously discussed the issue of the discontinuity experienced by Member States that had moved up through the threshold of the adjustment between scale periods. Instead of benefiting from the adjustment, such countries had had to share the cost. Member States that had moved up through the threshold of the adjustment between scale periods had not only ceased to benefit from the adjustment but had also helped to pay for it.

62. One alternative approach proposed was to delay by a few years or phase in the increase related to having to help to pay for the adjustment. Under that approach, any Member State which crossed the threshold during a scale period would not be subject to adjustment for the next scale period. That could apply to Member States which moved up through the threshold, as well as to those which moved down through the threshold.

63. Another approach would be to create a range whereby Member States 20 per cent below or 20 per cent above the threshold would neither receive nor pay for any benefit. The Committee felt that that proposal to establish a neutral zone around the threshold merited further review. Some members expressed the view that a range from 20 per cent below to 20 per cent above the threshold would be too wide and that Member States might remain within such a range for an excessive length of time. The Committee also looked at proposals which focused on ranges of 5 per cent and 10 per cent above and below the threshold.

64. In reporting on the issue at the sixty-eighth session of the Committee, the Statistics Division noted that one alternative approach that could be considered by the Committee was the use of the world median per capita GNI to define the low per capita income adjustment threshold. The median is a value larger than or equal to the per capita GNI of at least one half of the States Members of the United Nations and smaller than or equal to the per capita GNI of at least an equal number of Member States. One appealing characteristic of the median was that it was a robust measure, since in general it was less sensitive than the average to the occurrence of a few extreme data points.

65. The Committee noted that the median per capita GNI among States Members of the United Nations was lower than their average per capita GNI. The reason for that was that the distribution of per capita GNI data was markedly asymmetric, with more than 70 per cent of the countries having per capita GNI below the world average. By using median per capita GNI, a smaller number of Member States would be eligible to benefit from the low per capita income adjustment. On the other hand, Member States with a relatively high per capita GNI would benefit as a result of the low per capita income adjustment threshold being set on the basis of the world median per capita GNI, in that they would have to absorb a smaller amount of the relief granted to fewer countries relative to the amount that they would have to absorb with the world average per capita GNI being used to determine the threshold.

66. Some members felt that the median could be a valid alternative approach to defining an alternative threshold. However, other members did not favour that approach, which set the threshold at a much lower level and would provide insufficient relief for Member States with low per capita incomes. Those members noted that, as was the case when the average per capita GNI was used as the threshold, countries might not graduate from low per capita income adjustment relief as long as they were part of the lower 50 per cent of countries ranked in ascending order of the level of per capita GNI. They also felt that the median approach, which was limited to mechanical determination of the middle of the range, did not take into account actual values of per capita GNI and their impact on eligibility in terms of the low per capita income adjustment.

67. The Committee also considered the alternative approach of fixing the low per capita income adjustment threshold in real terms instead of setting it at the current average world per capita income for the scale base period. For example, the average

per capita GNI of a specific reference year could be used, but it could be updated according to the world inflation rate so as to keep its real value constant over time. In that way, a country's individual position with respect to the low per capita income adjustment threshold would be rendered independent of the performance of other countries. By fixing the threshold to a specific value in real terms, the growth rates in per capita GNI reported by most countries would probably lead to a gradual reduction in the number of beneficiaries of the low per capita income adjustment over time.

68. It was noted that that approach was similar to the one adopted by the Committee prior to the 1995-1997 scale period. The Committee was informed that the only difference was that the current proposed approach established clear modalities for the update of the fixed threshold in the following period (i.e., the fixed threshold would be moved to the following period on the basis of the implicit price deflator during the period).

69. The Committee noted that the proportion of countries whose per capita GNI was below the current world average per capita GNI had remained relatively stable between 1970 and 2006, varying only slightly from 72.1 per cent to 69.3 per cent over 36 years. However, if the threshold had remained at its 1990 real value (based on average per capita GNI) over the same period, the proportion of countries receiving the low per capita income adjustment benefit would have decreased steadily, from 77.9 per cent in 1970 to 67.7 per cent in 2006.

70. The Committee noted that one of the difficulties with that approach was deciding on which year's per capita GNI should be used as a reference value. The selection of the year to be used as a reference value would have an impact on the number of Member States receiving the adjustment, as well as the size of the adjustment. One possible approach would be to set a reference value based on current information, rather than a historical point of reference. Some members expressed interest in further exploring the establishment of a fixed threshold. Other members expressed the view that the current threshold should be retained.

71. The Committee requested the Statistics Division to carry out further analysis of the various options considered by the Committee, including approaches to the phasing of the low per capita income adjustment when a Member State crossed the threshold between periods, the application of a fixed threshold and the application of a threshold based on the median.

72. **The Committee decided to further consider the question of the low per capita income adjustment at its next session on the basis of additional information from the United Nations Statistics Division taking into account all the components of Member States' capacity to pay, and in the light of any guidance provided by the General Assembly.**

6. Floor

73. The Committee noted that for the current scale, 21 Member States, of which 14 were on the list of least developed countries, had been raised to the floor. Some members questioned whether the floor should be lowered by expanding the number of decimal points of the scale from the current three digits to four in order to better reflect capacity to pay. Some members noted that the General Assembly had already reduced the minimum level of assessment, or floor, from 0.01 per cent to 0.001 per

cent as from 1998, and that the amounts involved continued to reflect a practical minimum contribution that Member States should be expected to make to the Organization.

7. Ceilings

74. The Committee recalled that the current methodology included a maximum assessment rate, or ceiling, of 22 per cent and a maximum assessment rate for the least developed countries, or least developed countries ceiling, of 0.010 per cent.

B. Other suggestions and other possible elements for the scale methodology

1. Annual recalculation

75. The Committee recalled that it had first considered the proposal for automatic annual recalculation of the scale in 1997. The Committee had considered the question on a number of occasions since then, most recently at its sixty-seventh session.

76. In revisiting the question at its sixty-eighth session, the Committee noted that the arguments for and against annual recalculation of the scale had not changed. Members supporting the idea considered that annual recalculation of the scale would better approximate the current capacity of Member States to pay, as each year the scale would be based on the most up-to-date data available. Those members recognized that various technical issues would need to be dealt with but considered that that was feasible, would help smooth out large scale-to-scale increases and did not entail a yearly revision of the scale methodology.

77. Members that did not support the idea considered that annual recalculation would not be simply a technical exercise and that it was more likely that it would lead to an annual renegotiation of the scale. They also considered that it would make the annual assessments of Member States less stable and predictable and would contradict rule 160 of the rules of procedure of the General Assembly. They also noted that it might involve additional costs, such as for travel of members of the Committee and conference services.

78. **The Committee agreed to study the question of annual recalculation further at its future sessions, in the light of any guidance provided by the General Assembly.**

2. Large scale-to-scale increases in rates of assessment

79. In its resolution 61/237, the General Assembly noted that the application of the current methodology had led to substantial increases in the rate of assessment of some Member States, including developing countries. In the course of consideration of the scale by the Assembly, a number of members had expressed their concern at those large increases and various proposals had been made to alleviate the situation.

80. A similar concern had led to the addition of a scheme of limits to the scale methodology in the 1986-1998 scales, which had restricted large scale-to-scale increases and decreases faced by Member States. The General Assembly had

subsequently decided to phase it out over two scale periods. Since the calculation of the 2001-2003 scale, the effects of the scheme of limits had been fully eliminated.

81. As part of the agreement on the scale for the period 2001-2003, the General Assembly had applied transitional measures for some Member States facing particularly large increases in their rates of assessment. Taken together with the application of an additional payment by the United States in 2001, those measures had spread the increase for the countries affected over the three years of the scale period. In the 2001-2003, 2004-2006 and 2007-2009 scales, the Assembly had agreed to the mitigation of some increases through voluntary burden shifting and to voluntary increases in the rate of assessment of some Member States.

82. At previous sessions, the Committee had considered phasing in large scale-to-scale increases in equal instalments over the three years of the validity of the scale, defining "large" as an increase of more than 50 per cent. Some members argued that in many instances, large scale-to-scale increases reflected an actual increase in the capacity to pay, that the rates of Member States with very low rates of assessment should increase only by a large percentage and that introducing an additional threshold would become another cause of discontinuity. Some members also pointed out that any Member State which moved up from the floor would reflect a minimum increase of 100 per cent.

83. Some members noted that the problem of discontinuity could be addressed through the consideration of other proposals, such as delaying or phasing in the increase when Member States passed the low per capita income adjustment threshold. Some members linked the issue of large scale-to-scale increases to the length of the base period, stating that a longer base period would reduce the number of countries affected by scale-to-scale increases.

84. **The Committee decided to continue to consider the feasibility of application of systematic measures of transitional relief for Member States facing large scale-to-scale increases in their assessment rates in the light of any guidance provided by the General Assembly.**

Chapter IV
Multi-year payment plans

85. In paragraph 1 of its resolution 57/4 B, the General Assembly endorsed the conclusions and recommendations of the Committee concerning multi-year payment plans,[4] which provided that:

(a) Member States should be encouraged to submit multi-year payment plans, which constituted a useful tool for reducing unpaid assessed contributions and a way to demonstrate commitment to meeting financial obligations to the United Nations;

(b) Due consideration should be given to the economic position of Member States, as not all of them might be in a position to submit such plans;

(c) Multi-year payment plans should remain voluntary and should not be automatically linked to other measures;

(d) Member States considering a multi-year payment plan should submit the plan to the Secretary-General for the information of other Member States and should be encouraged to consult the Secretariat for advice in its preparation, in which context it was suggested that the plans should provide for payment each year of the current year assessments of the Member State and a part of its arrears. Where possible, the plans should generally provide for elimination of the arrears of a Member State within a period of up to six years;

(e) The Secretary-General should be requested to provide information on the submission of such plans to the Assembly, through the Committee;

(f) The Secretary-General should be requested to submit an annual report to the Assembly, through the Committee, on the status of the payment plans of Member States as at 31 December each year;

(g) For those Member States in a position to submit a payment plan, the Committee and the Assembly should take the submission of a plan and its status of implementation into account as one factor in considering requests for exemption under Article 19 of the Charter.

In its resolutions 58/1 B, 59/1 B and 60/237, the Assembly reaffirmed paragraph 1 of its resolution 57/4 B.

86. In considering the matter, the Committee had before it the report of the Secretary-General on multi-year payment plans (A/63/68), which had been prepared pursuant to the recommendations of the Committee. It was also provided with updated information with regard to the status of payment plans.

87. The Committee was informed that the Secretariat had included in the *Journal of the United Nations* an announcement that the Committee would be considering multi-year payment plans at its sixty-eighth session and inviting any Member State that intended to submit such a plan to contact the Secretariat for further information. No new payment plans had been submitted.

88. The Committee recalled that a number of Member States had successfully implemented multi-year plans in recent years. Both Iraq and the Republic of

[4] Ibid., *Fifty-seventh Session, Supplement No. 11* (A/57/11), paras. 17-23.

Moldova had implemented plans in 2005, and Georgia and the Niger had implemented plans during 2007. Burundi had paid its arrears in 2003, although not in the context of a multi-year payment plan. Given that positive experience, the Committee had previously concluded that the system of multi-year payment plans, endorsed by the General Assembly in 2002, had made a positive contribution in encouraging and assisting Member States to reduce their unpaid assessed contributions and in providing a way for them to demonstrate their commitment to meeting their financial obligations to the United Nations. Further, the Committee recalled its recommendation that the General Assembly encourage other Member States in arrears for the purposes of application of Article 19 of the Charter of the United Nations to consider submitting multi-year payment plans. Upon inquiry, the Secretariat confirmed its availability to provide such assistance, as may be requested, to Member States interested in preparing a multi-year payment plan.

89. The Committee noted with concern that no new multi-year payment plans had been submitted this year, despite the proven success of the system. While information had been provided in the written and oral representations related to exemptions under Article 19 as to consideration being given to the possible submission of plans, no plans had actually been submitted in a number of cases. The Committee recognized the positive step taken by those Member States that had submitted plans. **While recognizing that the submission of multi-year payment plans was voluntary and not automatically linked to other measures, the Committee emphasized that it was important that Member States that had submitted such plans meet the commitments that they had made.**

90. The Committee noted that since the original terms of some payment plans were not being met, the length of the payment term might need to be adjusted. Some members of the Committee were of the opinion that Member States with substantial unpaid assessed contributions which had not yet exceeded the contributions of the prior two years due under Article 19 should pay in full and on time. In their view, multi-year plans alone were not sufficient to improve the financial situation of the Organization.

A. Status of payment plans

91. The table contained in paragraph 17 of the Secretary-General’s report (A/63/68) summarizes the status of the three payment plans covered as at 31 December 2007, submitted by Liberia in 2006 (second plan), Sao Tome and Principe in 2002 (first plan) and Tajikistan in 2000 (first plan). The Committee was also provided with information updated as at 27 June 2008.

Status of payment plans at 27 June 2008

(United States dollars)

	Payment plan	*Assessments at 31 December*	*Payments/credits*	*Outstanding at 31 December*
Liberia				
1999				1 147 524
2000		31 506	70 192	1 108 838
2001		16 166	630	1 124 374

	Payment plan	Assessments at 31 December	Payments/credits	Outstanding at 31 December
2002		17 137	5 465	1 136 046
2003		17 124	1 636	1 151 534
2004		20 932	2 899	1 169 567
2005		24 264	202	1 193 629
2006	150 000	23 024	100 453	1 116 200
2007		32 074	100 660	1 047 614
2008[a]		25 920	149 900	923 634
Sao Tome and Principe				
1999				570 783
2000		13 543	48	584 278
2001		14 254	157	598 375
2002	27 237	15 723	29 146	584 952
2003	42 237	17 124	929	601 147
2004	59 237	20 932	1 559	620 520
2005	74 237	24 264	202	644 582
2006	89 237	23 024	453	667 153
2007	114 237	32 074	810	698 417
2008[a]	134 237	25 920	—	724 337
2009	153 752			
Tajikistan				
1999				2 436 208
2000	65 251	63 507	205 389	2 294 326
2001	67 822	18 727	296 251	2 046 802
2002	67 822	22 205	306 961	1 765 046
2003	67 822	19 439	296 628	1 487 857
2004	67 822	26 183	400 955	1 113 085
2005	67 822	29 111	65 957	1 076 239
2006	203 466	26 583	107 184	995 638
2007	203 466	39 106	320 500	714 244
2008[a]	203 467	28 602	230 328	512 518
2009	203 467			
2010	203 467			

[a] As at 27 June 2008.

92. The Committee noted that Tajikistan had significantly exceeded the payments scheduled in its payment plan, Liberia had made regular payments over the previous three years and Sao Tome and Principe had not made any payments since 2002 and had fallen short of its payment plan.

B. Conclusions and recommendations

93. **The Committee recalled the past experience of the successful implementation of multi-year payment plans of Georgia, Iraq, the Niger and the Republic of Moldova, and recognized the considerable efforts made by those Member States to honour the commitments that they had made when they submitted their plans. The Committee concluded that the system of multi-year payment plans continued to be a viable means available to Member States to assist them in reducing their unpaid assessed contributions and in providing a way for them to demonstrate their commitment to meeting their financial obligations to the United Nations.**

94. **The Committee noted that no new multi-year payment plans had been submitted. While recognizing that the submission of multi-year payment plans was voluntary and not automatically linked to other measures, the Committee reiterated its recommendation that the General Assembly encourage other Member States in arrears for the purposes of the application of Article 19 of the Charter of the United Nations to consider submitting multi-year payment plans.**

95. **The Committee emphasized that it was important that Member States that had submitted such plans meet the commitments that they had made.**

Chapter V
Application of Article 19 of the Charter

96. The Committee recalled its general mandate, under rule 160 of the rules of procedure of the General Assembly, to advise the Assembly on the action to be taken with regard to the application of Article 19 of the Charter. It also recalled the Assembly's decisions in its resolution 54/237 C concerning procedures for consideration of requests for exemption under Article 19 and the results of its recent review of that subject.

Requests for exemption under Article 19

97. The Committee recalled that the General Assembly, in its resolution 54/237 C, urged all Member States in arrears requesting exemption under Article 19 to provide the fullest possible supporting information, including information on economic aggregates, Government revenues and expenditure, foreign exchange resources, indebtedness, difficulties in meeting domestic or international financial obligations and any other information that might support the claim that failure to make necessary payments had been attributable to conditions beyond the control of the Member States. The Assembly also decided that requests for exemption under Article 19 must be submitted by Member States to the President of the Assembly at least two weeks before the session of the Committee so as to ensure a complete review of the requests. The Committee also noted that those requests for exemption made at the highest level of government showed the seriousness of the commitment by the Member States to settle their arrears. **It therefore encouraged all Member States submitting such requests in future to follow that example.**

98. The Committee noted that seven requests for exemption under Article 19 had been received by the time specified in the resolution. Eight requests had been made in 2007, one of which was later withdrawn. Within the time frame specified, 8 requests had been received in 2006 and 2005, 10 in 2004, 9 in 2003, 7 in 2002, 3 in 2001 and 7 in 2000.

99. The Committee noted the increasingly large accumulations of arrears of some Member States, which were up to more than 40 times their annual assessments. Attempts should be made by those Member States to stop the growth of those arrears prior to submitting a payment plan. In such cases it was critical for annual payments to exceed current assessments in order to avoid further accumulation of debt.

100. In considering the requests, the Committee had before it information provided by the seven Member States concerned and the Secretariat. It also met with representatives of the Member States, representatives of relevant offices of the Secretariat and the United Nations Development Programme.

101. The Committee also carried out a general review of the legislative mandates and basic principles underlying the application of Article 19 provisions. The Committee recalled that proposals to tighten the application of Article 19 had focused on two possible changes: (a) the application of Article 19 on 1 January and 1 July of each year, rather than on 1 January only, as was currently the case; and (b) calculation based on amounts due and payable at the beginning of each period

compared with the total net assessments actually due and payable in the preceding two full years (instead of gross assessments, as was currently the case). The Committee recalled that those proposals had previously been reviewed and reported to the General Assembly in 2001 at its fifty-fifth session (see A/55/789). The Committee reviewed the information provided at that time, as well as updated information on the impact of a change to using net assessments instead of gross assessments in the calculations for application of Article 19. **The Committee noted that the situation reported at the time of the last review had not changed significantly, and did not warrant further review at this stage.**

102. The Committee also reviewed the procedural aspects of its consideration of requests for exemption under Article 19. Those aspects had been reviewed by the Committee at its fifty-ninth session, in 1999, and the Committee had recommended that the General Assembly encourage all Member States intending to request permission to vote under Article 19 to do so early enough, before the regular session of the Committee. Accordingly, by its resolution 54/237 C, the General Assembly decided that requests for exemption under Article 19 must be submitted by Member States at least two weeks before the session of the Committee on Contributions, so as to ensure a complete review of the requests. The General Assembly also urged all Member States in arrears requesting exemption under Article 19 of the Charter to provide the fullest possible supporting information. **The Committee concluded that these arrangements were working well.**

1. Central African Republic

103. The Committee had before it the text of a letter dated 28 May 2008 from the President of the General Assembly to the Chairman of the Committee on Contributions transmitting a letter dated 23 May 2008 from the Permanent Representative of the Central African Republic to the United Nations addressed to the President of the General Assembly. It also heard an oral representation by the Permanent Representative of the Central African Republic.

104. In its written and oral representations, the Central African Republic indicated that the recurring crises of the 1990s continued to take a heavy toll on the country. As a country emerging from conflict, the Central African Republic was still trying to find its way and was struggling to build up its economy, whose fabric had been severely eroded. The humanitarian and security situations remained very worrying, and extreme poverty persisted in cities and rural communities. While the Government had undertaken robust reforms aimed at achieving fiscal consolidation, the situation remained precarious. On the basis of the latest statistics, the Central African Republic estimated its national debt stock at more than 109 billion CFA francs, and its external debt service was estimated at more than 32 per cent of GDP.

105. The Government of the Central African Republic was fully aware of its financial obligations to the United Nations and was reviewing ways and means of developing a multi-year payment plan.

106. The Committee was provided with information by the Secretariat concerning the situation in the Central African Republic. The overall political, security and socio-economic situation in the Central African Republic remained fragile. It was characterized by widespread poverty and insecurity, and efforts were being undertaken by the Government to improve respect for human rights. Key priority sectors included health, food security, protection and education. Humanitarian

strategic priorities for 2008 included enhancing the protection of people affected by the conflict in the north of the Central African Republic and ensuring coherence and complementarities between humanitarian assistance, early recovery and development programmes by reinforcing national and communal capacities.

107. While the Committee noted the grave situation facing the Central African Republic, it also recalled that the country had not made a contribution in the previous decade and had not fulfilled its earlier stated intentions to submit a schedule for the payment of its arrears. Given that GDP and GNI data for the Central African Republic reflected continued improvement, the Committee noted that the Government should show its commitment by making some payment so as to reduce, or at least avoid a further increase in, its unpaid assessed contributions.

108. **The Committee concluded that, on balance, the failure of the Central African Republic to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that the Central African Republic be permitted to vote until the end of the sixty-third session of the General Assembly.**

109. **The Committee agreed that future considerations of requests for exemption might not be favourable in the light of the country's lack of commitment to addressing its arrears, in spite of the improving financial situation.**

2. Comoros

110. The Committee had before it the text of a letter dated 6 May 2008 from the Acting President of the General Assembly to the Chairman of the Committee on Contributions transmitting a letter dated 5 May 2008 from the Permanent Representative of the Comoros to the United Nations addressed to the President of the General Assembly. It also heard an oral representation by the Permanent Representative of the Comoros.

111. In its written and oral representations, the Comoros indicated that the country had been undergoing a post-conflict transition following a long separatist and political crisis. Although the Government, with the help of the international community and its own limited resources, had established all the democratic political institutions stipulated by the new Constitution, the scars of the seven years of political turmoil were still vivid. Conflicts between the three autonomous unions and the federal Government had resulted in more difficulties. Natural disasters had caused substantial damage, further undermining already fragile livelihoods and posing grave environmental threats. In addition, the economy was weak because of low prices for vanilla, which was the main export, and lower levels of tourism.

112. Despite those facts, the Government was committed to upgrading education and technical training, privatizing commercial and industrial enterprises, improving health services, diversifying exports, promoting tourism and reducing the high population growth rate. With recent positive developments in the 10-year-old Anjouan island crisis, the Government was working towards making the country stable. In view of those and other urgent needs, it was not currently possible for the country to make any payments. However, the Comoros remained committed to paying its contributions to the United Nations and would keep the issue of

multi-year payment plans under continuous consideration and, as the country's situation normalized, would establish such a plan as a matter of priority.

113. The Committee was provided with information by the Secretariat concerning the situation in the Comoros. In addition to its socio-economic and political fragility, the Comoros remained vulnerable to natural hazards, including tidal waves, tropical storms and cyclones. Such natural disasters represented a serious threat to local communities, infrastructure and economic activities. In addition, the disruptions in the provision of basic social services in Anjouan island preceding the military operation of March 2008 had had an impact on humanitarian conditions, requiring targeted and emergency interventions. Political instability continued to feed economic instability.

114. The Committee noted the information provided concerning the situation of the Comoros. It noted that the payment made by the Comoros in 2005 had been slightly in excess of its total annual contributions for that year and that the country had made smaller payments in 2006 and 2007, which had demonstrated its commitment to reduce its arrears, although the payments were insufficient to cover its annual contributions.

115. **The Committee concluded that the failure of the Comoros to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that the Comoros be permitted to vote until the end of the sixty-third session of the General Assembly.**

3. Guinea-Bissau

116. The Committee had before it the text of a letter dated 15 May 2008 from the President of the General Assembly to the Chairman of the Committee on Contributions transmitting a letter dated 15 May 2008 from the Permanent Representative of Guinea-Bissau to the United Nations addressed to the President of the General Assembly. It also heard an oral representation by the Permanent Representative of Guinea-Bissau.

117. In its written and oral representations, Guinea-Bissau indicated that, while progress had been made in recent months towards restoring political stability and improving the economy, the situation remained fragile owing to continuing political tensions, the perceived involvement of the military in politics, the debilitated capacity of State institutions to deliver basic services, worsening living conditions resulting from the rising cost of basic commodities and extreme poverty. The difficult financial situation of the country had been further exacerbated by the unprecedented increase in the price of food and oil on the international market. The Government of Guinea-Bissau was compelled to allow duty-free imports of food in order to alleviate the difficult situation of the population and in so doing had lost a major source of fiscal revenues without any external compensation. The country was also faced with the emerging threat of terrorism, and political instability had further weakened the criminal justice and law enforcement system. The Government of Guinea-Bissau was dependent on external resources for 80 per cent of its budget, and that assistance had been neither adequate nor sufficiently predictable to allow the Government to ensure the minimum functioning of the State. Guinea-Bissau indicated that it was facing an extremely high debt burden, almost four times its national income (389.9 per cent), amounting to over $1.1 billion. With the

suspension of most interim debt relief after 2001, most external debt had fallen into arrears.

118. The Government of Guinea-Bissau was cognizant of its obligation to meet its financial responsibilities to the Organization. However, despite the best efforts made so far, that had not been possible. Notwithstanding the difficult financial situation, the authorities were seriously looking at the possibility of making a partial payment within the framework of a multi-year payment plan.

119. The Committee was provided with information by the Secretariat concerning the situation in Guinea-Bissau. The overall situation in the country continued to be characterized by high vulnerability. Guinea-Bissau was ranked 175 out of 177 on the UNDP Human Development Index for 2007. The current socio-political situation was characterized by the adoption of the exceptional law extending the mandate of National Assembly deputies until the holding of legislative elections, planned for 16 November 2008. In response, a group of deputies had submitted a request to the Supreme Court of Justice, as they considered the new law unconstitutional. The Supreme Court verdict might eventually lead to another political-institutional crisis.

120. Some members noted the particular situation of Guinea-Bissau, resulting from the political situation as well as the country's economic and social problems, which had worsened owing to the rising cost of basic commodities. Some members noted that Guinea-Bissau had not made any financial contributions to the United Nations since 1997 and urged the submission of a multi-year payment plan. The Committee noted that the Permanent Representative of Guinea-Bissau had stated that consideration was being given to making a payment of about 10 per cent of its outstanding contributions.

121. **The Committee concluded that the failure of Guinea-Bissau to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that Guinea-Bissau be permitted to vote until the end of the sixty-third session of the General Assembly.**

4. Liberia

122. The Committee had before it a letter dated 28 May 2008 from the President of the General Assembly to the Chairman of the Committee on Contributions transmitting a letter dated 15 May 2008 from the Permanent Representative of Liberia to the United Nations addressed to the President of the General Assembly. It also heard an oral representation by the Permanent Representative of Liberia.

123. In its written and oral representations, Liberia indicated that while there were encouraging developments, a number of tasks that were critical to the sustainability of peace and stability had to be fully implemented. Those included addressing significant reconstruction and development challenges, such as pervasive poverty, food insecurity, high unemployment, massive illiteracy, poor health services and education. The Government had focused on the important priorities of ensuring economic recovery, obtaining forgiveness of the country's indebtedness, fighting corruption, implementing its interim poverty reduction strategy, revitalizing the agricultural sector and restoring basic services. Although the human rights situation in the country had continued to improve, deficiencies in the justice system still

posed serious challenges to efforts to promote and protect human rights. The reform of the judicial and corrections system remained constrained.

124. The Government of Liberia was aware that it was under legal obligation to pay its assessed contributions to the United Nations regular budget, peacekeeping operations and international tribunals. The Liberian authorities were committed to paying the country's outstanding financial obligations to the United Nations. The Government of Liberia was concerned about its standing in the community of nations, the direct effect of many years of conflict, and its indebtedness to the United Nations, and it was making every endeavour to resolve the matter in a timely manner. Liberia hoped not only to restore its right to participate in the vote, but also to contribute to the financial vitality of the institution. In April 2008, a payment had been made under its multi-year payment plan.

125. The Committee was provided with information by the Secretariat concerning the situation in Liberia. Since the signing of the Comprehensive Peace Agreement in August 2003, the security situation had steadily improved in Liberia. The advent of the democratically elected government in January 2006 had ended the post-conflict transition, shifting activities to a peace consolidation phase. Despite progress, many Liberians remained vulnerable and faced acute humanitarian needs on a daily basis, especially regarding lack of access to basic services such as health, safe drinking water, shelter and education. The Government of Liberia was currently in its final stage of completing the development of Liberia's first poverty reduction strategy for 2008-2011. Approximately 63.8 per cent of Liberians were living below the poverty line, and net primary school enrolment was 37 per cent. Liberia was facing challenges in terms of security, rule of law, governance and economic revitalization.

126. The Committee noted that Liberia had made regular payments under its payment plan. Payments had been made in 2006, 2007 and 2008, in spite of the serious economic difficulties of Liberia. Each of those annual payments was more than three times the annual assessment of Liberia, thereby contributing to reducing its arrears. **The Committee agreed that an exemption was justified in order to encourage Liberia's continued efforts in that regard.**

127. **The Committee concluded that the failure of Liberia to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that Liberia be permitted to vote until the end of the sixty-third session of the General Assembly.**

5. Sao Tome and Principe

128. The Committee had before it the text of a letter dated 29 April 2008 from the President of the General Assembly to the Chairman of the Committee on Contributions transmitting a letter dated 22 April 2008 from the Minister Counsellor of the Permanent Mission of Sao Tome and Principe to the United Nations addressed to the President of the General Assembly. It also heard an oral representation by a representative of Sao Tome and Principe.

129. In its written and oral representations, Sao Tome and Principe indicated that the non-payment of its contribution was due to conditions beyond its control. Despite the efforts made, payment had been impossible owing to the negative effect on the country's capacity to pay due to permanent economic constraints; and the situation had recently become more unsustainable owing to food crises and the price

of crude oil. Sao Tome and Principe was not to date a petrol-producing country, although oil had been discovered in the country. Although there was potential, it had not yet been proven to be economically viable. The situation was fragile both economically and politically. A number of economic indicators were provided, including the average monthly salary of $76. The country remained heavily indebted and participated in World Bank and IMF programmes through the Heavily Indebted Poor Countries Initiative to alleviate poverty. The Government would make all necessary payments as soon as possible to preserve its right to vote.

130. The Committee was provided with information by the Secretariat concerning the situation in Sao Tome and Principe. The political situation was still extremely fragile and unstable. The country had a history of instability and political coups that were resolved only with intervention by neighbouring countries. Poverty remained the overarching problem. Both the health-care and educational systems were in need of rehabilitation to curb any further deterioration. The agricultural sector needed support through food aid to encourage privatization and the redistribution of land to new settlers. Mother and child health-care activities required development. Malaria remained one of the biggest health problems, although initiatives begun in 2000 had helped reduce the number of cases by 50 per cent. The country spent 8.6 per cent of its gross domestic product on health care, and safe water was available to 79 per cent of the population. The HIV rate among pregnant women had tripled, from 0.5 per cent to 1.5 per cent between 2001 and 2005. Most food needed to be imported, although the majority of the population was engaged in subsistence farming and fishing. The World Food Programme was aiding the Government in diversifying crops and redistributing land to smallholder farmers.

131. The Committee noted the grave situation of Sao Tome and Principe, and recognized the commitment it had made in submitting a multi-year payment plan in 2002. While the first payment under the plan had been made in 2002, no subsequent payments had been made. **The Committee also noted that unless some minimum payments were made, the debt burden would continue to increase, and urged the Government to at least pay amounts equivalent to current annual assessments, bearing in mind that such payments would demonstrate its commitment to addressing its arrears and would be taken into account by the Committee as a factor in its future considerations of requests for exemption.**

132. **The Committee concluded that, on balance, the failure of Sao Tome and Principe to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that Sao Tome and Principe be permitted to vote until the end of the sixty-third session of the General Assembly.**

6. Somalia

133. The Committee had before it the text of a letter dated 15 May 2008 from the President of the General Assembly to the Chairman of the Committee on Contributions transmitting a letter dated 8 May 2008 from the Permanent Representative of Somalia to the United Nations addressed to the President of the General Assembly. It also heard an oral representation by a representative of Somalia.

134. In both written and oral representations, Somalia indicated that, since 1990, Somalia had endured a serious internal conflict. The conflict created a financial

crisis and grave economic difficulties, which further created a negative effect on its capacity to pay its contributions. Despite the free and fair election in 2004, which culminated in the formation of the Transitional Federal Government in Somalia, the new Government was faced with lack of internal revenue and lack of development funding from donor countries, which had led to a lack of monies for the payment of salaries for civil servants and reconstruction programmes in Somalia. Furthermore, Somalia was one of the least developed countries and was currently going through its worst humanitarian crisis. Millions of people were facing famine, severe malnutrition and drought.

135. The Government of Somalia was aware of its obligation to meet its financial responsibilities to the Organization, and was confident that all necessary payments would be made as soon as the situation of the country had changed for the better.

136. The Committee was provided with information by the Secretariat concerning the situation in Somalia. Somalia consistently ranked among the lowest in the world on key human development indicators. One in every four children died before the age of 5. The year 2007 was characterized by a steady deterioration of the security situation in Mogadishu, as fierce fighting resulted in the displacement of over 700,000 people, thus bringing the overall number of internally displaced persons to 1 million. Humanitarian efforts to assist the new wave of displacement were severely hampered by prevailing insecurity, the presence of illegal checkpoints, and harassment of humanitarian staff. The violence was restricting livelihood and business activities as entire sections of the city were blocked off and a curfew was severely restricting movement of people. The humanitarian situation in Somalia was deteriorating at an accelerated pace owing to soaring food prices, deepening drought and a delayed and poor start to the season rains (April to June). The number of people in need of assistance in Somalia had increased to 2.6 million people (35 per cent of the total population), an increase of more than 40 per cent since January 2008.

137. **The Committee concluded that the failure of Somalia to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that Somalia be permitted to vote until the end of the sixty-third session of the General Assembly.**

7. Tajikistan

138. The Committee had before it the text of a letter dated 16 April 2008 from the President of the General Assembly to the Chairman of the Committee on Contributions transmitting a note verbale dated 10 April 2008 from the Permanent Mission of Tajikistan to the United Nations transmitting a letter dated 7 April 2008 from the Prime Minister of Tajikistan addressed to the President of the General Assembly. It also heard an oral representation by the Permanent Representative of Tajikistan.

139. In its written and oral representations, Tajikistan indicated that the early payment of its arrears was proving impossible, because of the difficulties caused by the transitional period and the recent adverse events of nature in the country, which had required Tajikistan to turn to the international community for emergency assistance. Many years of civil conflict had caused enormous material damage to the economy. Another serious problem for Tajikistan was the burden of external debt. The costs of servicing such debt severely restricted the ability of the State to

implement poverty reduction programmes and to achieve the Millennium Development Goals. Climate change and the rise in the price of food and energy resources had seriously disrupted a number of goals, including the reduction of poverty and the provision of quality education and health care. As a result of the unexpectedly severe winter of 2008, the country spent three months in a state of energy crisis. In addition, an infestation of locusts in the south of the country had destroyed a significant portion of crops. While coping with those problems, the Government of Tajikistan was making comprehensive efforts to deal with global contemporary threats and challenges, particularly the fight against terrorism and illicit drug trafficking.

140. The Government of Tajikistan shared the concern of the United Nations regarding contributions to the United Nations budget, and acknowledged its obligations to pay its national contributions in full, including arrears from previous years. Accordingly, Tajikistan had consistently fulfilled its obligations regarding the reduction of its arrears. Since 2000, Tajikistan had taken every opportunity to exceed the schedule of payments set out in the plan.

141. The Committee was provided with information by the Secretariat concerning the situation in Tajikistan, a landlocked country of mountainous terrain, only 10 per cent of which was arable, and prone to natural disasters. The most recent humanitarian crisis was initially triggered by an extraordinarily long and cold winter. Tajikistan experienced a critical energy shortage, frozen crops, loss of seed stocks and livestock, the sudden rise in temperatures in March, cyclical floods, landslides, mudslides and droughts, locust infestation, failed harvests and rapidly rising food prices. Tajikistan also had high external debt, and the country's landlocked isolation and distance from major international trade routes seriously hindered economic development.

142. **The Committee noted with appreciation that the continuing payments made by Tajikistan under its multi-year payment plan had significantly exceeded the total payments foreseen in its schedule for the period 2000-2008.**

143. **The Committee concluded that the failure by Tajikistan to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. The Committee therefore recommended that Tajikistan be permitted to vote until the end of the sixty-third session of the General Assembly.**

Chapter VI
Other matters

A. Collection of contributions

144. The Committee noted that, at the conclusion of the current session on 27 June 2008, the following seven Member States were in arrears in the payment of their assessed contributions to the expenses of the United Nations under the terms of Article 19 of the Charter but had been permitted to vote in the Assembly until the end of the sixty-second session, pursuant to General Assembly resolution 62/1: the Central African Republic, the Comoros, Guinea-Bissau, Liberia, Sao Tome and Principe, Somalia and Tajikistan. **The Committee decided to authorize its Chairman to issue an addendum to the present report, as necessary.**

145. The Committee also noted that, as at 31 May 2008, a total of over $3.2 billion was owed to the Organization for the regular budget, peacekeeping operations, the international tribunals and the capital master plan.

146. Some members noted with concern that a significant percentage of the amount in arrears was owed to the Organization by a relatively small number of Member States.

B. Payment of contributions in currencies other than the United States dollar

147. Under the provisions of paragraph 8 (a) of its resolution 61/237, the General Assembly authorized the Secretary-General to accept, at his discretion and after consultation with the Chairman of the Committee on Contributions, a portion of the contributions of Member States for the calendar years 2007, 2008 and 2009 in currencies other than the United States dollar.

148. The Committee noted that the Secretary-General had accepted in 2007 the equivalent of $60,099 from Ethiopia and $1,200,394 from Pakistan in non-United States dollar currencies acceptable to the Organization. The Committee encouraged the acceptance of currencies other than the United States dollar where possible in accordance with financial regulations and rules, in particular with respect to countries under Article 19.

C. Organization of the Committee's work

149. The Committee wished to record its appreciation for the substantive support for its work performed by the Secretariat of the Committee and the Statistics Division. The Committee emphasized the importance of adequate Secretariat support during its forthcoming detailed review of the methodology for the scale of assessments for the period 2010-2012 at its next session.

150. The Committee also expressed its appreciation for the substantive support of the Department of Political Affairs, the Department of Peacekeeping Operations, the Office for the Coordination of Humanitarian Affairs and the United Nations Development Programme in its consideration of requests for exemptions under Article 19.

D. Working methods of the Committee

151. The Committee reviewed its working methods. The Committee recalled that at its sixty-seventh session it had agreed on the merits of setting up a website, both to assist its intersessional work and to facilitate the dissemination of its reports and other publicly available documents.

152. The Committee welcomed the launching of a public website for the Committee at the start of June 2008. With regard to intersessional work, the Committee was informed that discussions were ongoing with the Office of Central Support Services for the establishment of a restricted website, to be made accessible to the members of the Committee. The Committee emphasized the importance of a secure restricted website being established by September 2008. The Committee expressed its appreciation for the assistance of the Department of Public Information in establishing the public website and to the Office of Central Support Services for the ongoing work on the restricted website.

E. Date of the next session

153. **The Committee decided to hold its sixty-ninth session in New York from 1 to 26 June 2009.**

Annex I

Outline of the methodology used for the preparation of the United Nations scale of assessments for the period 2007-2009

1. The current scale of assessments was based on the arithmetic average of results obtained using national income data for base periods of three and six years for the periods 2002-2004 and 1999-2004. The methodology used in the preparation of each set of results took as its starting point the gross national income (GNI) of the States Members of the Organization during the respective base periods. This information was provided by the United Nations Statistics Division and was based on data provided by Member States in response to the annual national accounts questionnaire. Since figures had to be provided for all Member States for all years of the possible statistical periods, when data were not available from the questionnaire the Statistics Division prepared estimates using other available sources, including the regional commissions, other regional organizations, the World Bank, the International Monetary Fund (IMF) and private sources.

2. The GNI data for each year of the base periods were then converted to a common currency, the United States dollar, in most cases using market exchange rates (MERs). For this purpose, market exchange rates were taken to be the annual average exchange rates between the national currencies and the United States dollar as published in the IMF *International Financial Statistics* or its Economic Information System. Those sources included three types of rates, which, for the purposes of preparing the scale of assessments, were referred to as MERs:

(a) Market rates, determined largely by market forces;

(b) Official rates, determined by Government authorities;

(c) Principal rates, for countries maintaining multiple exchange-rate arrangements.

For IMF non-members, where MERs were not available United Nations operational rates of exchange were also used.

3. As part of its review process, the Committee on Contributions considered whether these exchange rates resulted in excessive fluctuations or distortions in the income of particular Member States, and in a small number of cases decided to use alternative rates. These included price-adjusted rates of exchange (PAREs) supplied by the United Nations Statistics Division. The PARE methodology was developed by the Statistics Division as a means of adjusting the conversion rates into United States dollars for countries suffering from severe inflation and changes in domestic prices, which cause significant divergence in local currency movements. It is designed to eliminate the distorting effects of uneven price changes that are not well reflected in exchange rates and that yield unreasonable levels of income expressed in United States dollars. PARE rates are derived by extrapolating an average exchange rate for a base period with price changes in the form of implicit price deflators of gross domestic product. In considering the methodology for preparing future scales of assessments at its sixty-fourth and sixty-fifth sessions, the Committee considered a proposed relative PARE methodology, based on inflation rates relative to those of the United States in whose currency assessments are

calculated. The Committee concluded that relative PARE was in general the most technically sound method of adjusting MERs.

4. An average of the annual GNI figures in United States dollars for the base periods was then aggregated with the corresponding figures for other Member States as the first step in the machine scales used for the scale of assessments for 2007-2009.

Summary of step 1

Annual GNI figures in national currency were converted to United States dollars using the annual average conversion rate (MER or other rate selected by the Committee). The average of these figures was calculated for the base period (three or six years). Thus:

$$[(GNI_{year\ 1}/\text{conversion rate}_{year\ 1}) + ... + (GNI_{year\ 6}/\text{conversion rate}_{year\ 6})]/6 = \text{average GNI, where 6 is the length of the base period}$$

These average GNI figures were summed and used to calculate shares of GNI. A similar exercise was carried out for the three-year base period.

5. The next step in the scale methodology was the application of the debt-burden adjustment in each machine scale. In its resolution 55/5 B, the General Assembly decided to base this adjustment on the approach employed in the scale of assessments for the period 1995-1997. Under this approach, the debt-burden adjustment is the average of 12.5 per cent of total external debt for each year of the period (what has become known as the debt-stock method), based on an assumed repayment of external debt within eight years. Data for this adjustment came from the World Bank database on external debt, which included countries with a per capita income of up to $10,725 (using the World Bank Atlas conversion rates). The amount of the debt-burden adjustment was deducted from the GNI of those countries affected. The adjustment therefore increased not the absolute but rather the proportionate GNI of the Member States that either did not benefit from it or whose relative adjustment was lower than the amount of the total adjustment as a percentage of total GNI.

Summary of step 2

The debt-burden adjustment (DBA) for each base period was deducted to derive debt-adjusted GNI (GNI_{da}). This involved deducting an average of 12.5 per cent of the total debt stock for each year of the base period. Thus:

$$\text{Average GNI-DBA} = GNI_{da}$$
$$\text{Total } GNI_{da} = \text{total GNI - total DBA}$$

6. The next step was the application of the low per capita income adjustment in each machine scale. This involved the calculation of the average per capita GNI during each of the base periods for the membership as a whole and the average debt-adjusted per capita GNI for each Member State for each base period. The overall average figures for the current scale were $5,849 for the three-year base period and $5,518 for the six-year base period, and these were fixed as the starting points, or thresholds, for the respective adjustments. The GNI of each country whose average debt-adjusted per capita GNI was below the threshold was reduced by 80 per cent of

the percentage by which its average debt-adjusted per capita GNI was below the threshold.

7. For each machine scale, the total amount of the low per capita income adjustment was reallocated to those countries above the threshold, other than the Member State affected by the maximum assessment rate or ceiling, in proportion to their relative shares of the total debt-adjusted GNI of that group. For illustrative purposes, a track 2 calculation was undertaken in which the ceiling country was not excluded from the allocation of the adjustment. This permitted the machine scales considered by the Committee to indicate what the relative assessment rates of Member States would be if the ceiling were not applied.

Summary of step 3

The average per capita GNI for each base period was calculated. This was used as the threshold for application of the low per capita income adjustment. Thus:

$$[(\text{Total GNI}_{\text{year 1}}/\text{total population}_{\text{year 1}})+......+(\text{total GNI}_{\text{year 6}}/\text{total population}_{\text{year 6}})]/6 = \text{average per capita GNI for the six-year base period}$$

A similar exercise was carried out for the three-year base period.

Summary of step 4

The average debt-adjusted per capita GNI for each Member State for each base period was calculated in the same manner as in step 3, using debt-adjusted GNI.

Summary of step 5

In each machine scale, the low per capita income adjustment was applied to those Member States whose average debt-adjusted per capita GNI was lower than the average per capita GNI (threshold). This adjustment reduced the affected Member State's average debt-adjusted GNI by the percentage that its average debt-adjusted per capita GNI was below the threshold multiplied by the gradient (80 per cent).

> Example: If the average per capita GNI is $5,000 and a Member State's per capita debt-adjusted GNI is $2,000, then the low per capita income adjustment will be [1-(2000/5000)] x 0.80 = 48 per cent, that is, 80 per cent (the gradient) of 60 per cent [1-(2000/5000)], which is the percentage by which the Member State's debt-adjusted per capita GNI is below the threshold.

Summary of step 6

In each machine scale, the total dollar amount of the low per capita income adjustments was reallocated pro rata to Member States whose average debt-adjusted per capita GNI was above the threshold. In order to illustrate the outcomes with and without a ceiling scale rate, the following two alternative tracks were applied to this and subsequent steps:

Track 1

The total of the low per capita income adjustments was proportionately reallocated to all Member States whose average debt-adjusted per capita GNI was above the threshold, except the ceiling country. Since the ceiling country would not ultimately share in the reallocation of points arising from the low per capita income adjustment, including it in the reallocation would have the effect of having the beneficiaries of the adjustment share a part of its cost. This would occur when the points added for the ceiling country were reallocated pro rata to all other Member States as part of the reallocation of points arising from application of the ceiling. In machine scales, the results of track 1 calculations appear in the "ceiling" column and subsequent columns, if any.

Track 2

The total of the low per capita income adjustments was proportionately reallocated to all Member States whose average debt-adjusted per capita GNI was above the threshold, including the ceiling country. This yielded, for illustrative purposes, scale figures that would have applied if there had not been a ceiling rate of assessment. In machine scales, the results of track 2 calculations appear in the "low per capita income", "floor" and "least developed countries adjustment" columns.

8. Following these adjustments, three sets of limits were applied to each machine scale. Those Member States whose adjusted share was less than the minimum level, or floor, of 0.001 per cent were brought up to that level. Corresponding reductions were applied pro rata to the shares of other Member States, except, under track 1, the ceiling country.

Summary of step 7

The minimum assessment rate, or floor (currently 0.001 per cent), was applied to those Member States whose rate at this stage is lower. Corresponding reductions were then applied pro rata to other Member States, except, under track 1, the ceiling country.

9. A maximum assessment rate of 0.01 per cent was then applied for each machine scale to those Member States on the list of least developed countries. Increases corresponding to this least developed countries ceiling were then applied pro rata to other Member States, except, under track 1, the ceiling country.

Summary of step 8

Those least developed countries whose rate at this point exceeded the least developed countries ceiling (0.01 per cent) had their rate reduced to 0.01 per cent. Corresponding increases were applied pro rata to other Member States, except, under track 1, the ceiling country.

10. A maximum assessment rate, or ceiling, of 22 per cent was then applied to each machine scale. Increases corresponding to the resulting reduction for the ceiling country were then applied pro rata to other Member States. As indicated above, those increases were calculated in accordance with track 1, i.e., they reflected a distribution of points from the ceiling country that did not include any points arising from the application of the low per capita income adjustment.

Summary of step 9

The maximum assessment rate, or ceiling, of 22 per cent was then applied. Corresponding increases were then applied pro rata to other Member States, except for those affected by the floor and the least developed countries ceiling, using the track 1 approach from step 6 above.

11. An arithmetic average of the final scale figures was then calculated for each Member State, using base periods of three and six years.

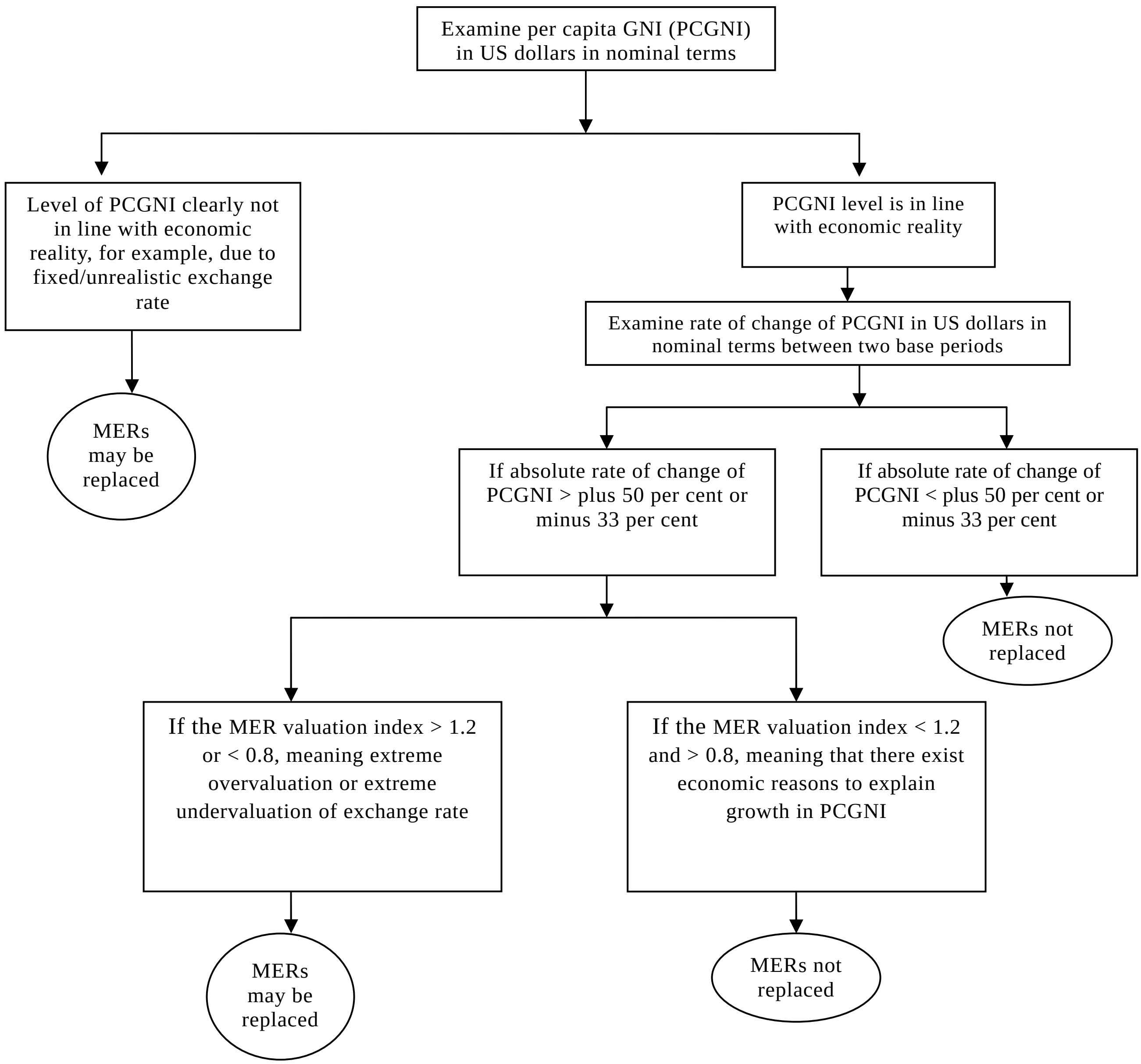
Summary of step 10

The results of the two machine scales, using base periods of three and six years (2002-2004 and 1999-2004), were added and divided by two.

Annex II

Replacement of market exchange rates (MERs) with price-adjusted rates of exchange (PAREs) or other conversion rates

A. Steps to identify which MERs should be replaced



B. Calculation of the MER-valuation index

The MER-valuation index is designed to assist in evaluating whether GNI in United States dollars using MERs increases or decreases excessively due to inappropriate MERs, thus helping to distinguish between changes in GNI that are explained by economic growth and those that are not. Implicitly, the latter can be seen as due to MERs not adjusting adequately to changes in the relative prices of the country in question vis-à-vis those of the United States of America. The following steps are taken in the calculation:

(a) Assume that there is no inflation in either country X or the United States. In that case, GNI in United States dollars of country X in the second period ($EY_{2,\ constant}$) should be equal to its GNI in the first period (Y_1) multiplied by its real rate of economic growth (r) between the two periods:

$EY_{2,\ constant} = Y_1 * r$;

(b) $EY_{2,\ constant}$ is GNI of the second period at the price in United States dollars of the first period. To bring it to the United States dollars of the second period (that is, in current prices), it has to be multiplied by the price index of the United States (P_{us}) so that $EY_{2,\ current}$ is estimated GNI at the price in United States dollars of the second period:

$EY_{2,\ current} = Y_1 * r * P_{us}$;

(c) The difference between GNI in United States dollars based on MERs and the estimated GNI in United States dollars based on the calculation in the steps above is the change in GNI not explainable by economic growth. This difference can be better represented as a ratio, the MER-valuation index, where Y_2 is the actual value of GNI in United States dollars obtained by using the MERs. If the index is greater than 1, it reflects an overvaluation; if it is smaller than 1, it reflects an undervaluation. Thus,

MER-valuation index = $Y_2/EY_{2,\ current}$.

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