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P O L I C Y

PROGRAMME PLANNING

The fourth programming cycle

DETERMINING THE PER CAPITA GNP FOR BULGARIA AND POLAND

Report of the Administrator

Summary

The Administrator is reporting on his determination of the best estimates of per capita GNP for two countries. With regard to Bulgaria, the report includes a description of the manner in which such estimates were made and addresses the problem of exchange rate application for converting national currency to 1983 dollar per capita GNP in view of the multiple exchange rates in use.

Also included is a report on the 1978 per capita GNP used to calculate the third cycle IPF for Poland. The report provides information regarding a recalculated per capita GNP and the effect of that revision on the fourth cycle IPF for Poland. The recommendation of the Administrator is contained in paragraph 14 of this report.

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## I. INTRODUCTION

1. By decision 85/16, adopted at its thirty-second session, the Governing Council established the parameters by which resources would be distributed for the fourth programming cycle. Paragraph 2 of the decision states that in calculating country indicative planning figures (IPFs) "the World Bank data on population and per capita gross national product for 1983 shall be used in the calculations in all cases where they are available; in all other instances where reference is made in the present decision to those criteria, the Administrator shall determine and use the best estimates available, taking into account estimates provided to the Statistical Office of the United Nations Secretariat and from other reliable sources, including estimates given by Governments of recipient countries concerned;"<sup>1/</sup> Similar use of World Bank data was mandated with respect to the second and third programming cycles. This designation emanates from the necessity for uniform measurement of relative GNP and population size as the principal bases for the calculation of IPFs.

2. The GNP data used for IPF calculations must be comparable cross-country. This requires the conversion of such data, expressed in different national currencies, to a common numeraire, conventionally the US dollar. The procedure which the World Bank uses, commonly referred to as the "World Bank Atlas method", is based on a three-year average of the official exchange rate, adjusted for inflation. For several countries, the official exchange rate does not fully reflect the rate(s) effectively applied to actual foreign exchange transactions and, in such cases, the World Bank determines an alternative conversion factor. In some instances, the World Bank has determined a weighted exchange rate based on the proportion of total trade transacted at the effective exchange rate(s) and the official rate. For certain countries, the World Bank has developed measures of dollar GNP using purchasing power parity comparisons which verify conversion on the basis of exchange rates. Purchasing power parities are the product of the United Nations-sponsored International Comparison Project, which involves some 60 countries in a systematic international price statistics programme.

3. In order to maintain the comparability and integrity of the IPF calculations, there has been no deviation from the established methodology that uses only the data on per capita GNP which are published officially by the World Bank. In those cases where World Bank data on per capita GNP are not available, the Administrator has determined and used the best estimates available in calculating country IPFs for the fourth programming cycle, as stipulated in paragraph 2 of decision 85/16. In making such determinations on the quality of the estimates, the practice has been established that within the constraints of data availability, the World Bank Atlas methodology will be duplicated in estimating per capita GNP. This practice entails specific steps for the estimation of GNP in national currency as well as adherence to the Atlas method for conversion to US dollars. The Atlas method requires that the conversion rate for per capita dollar GNP be based on the prevailing official exchange rate unless the official rate is determined to diverge significantly from the rate(s) effectively applied to foreign transactions as reflected in relevant trade statistics.

4. Published World Bank data are not available for 37 countries and, in these cases, estimates for 1983 per capita GNP have been derived on the basis of the standards and procedures outlined in paragraph 3. Wherever possible, such estimates have been verified by secondary sources. In several cases, Governments have expressed reservations as to the per capita GNP used for calculating their IPFs, irrespective of whether the source of data is the World Bank or some other source. For the reasons stipulated in paragraph 3 above, the Administrator could not entertain requests made by some Governments to recalculate their per capita GNP unless such requests were accompanied by new or additional verifiable data, and, in the case of World Bank data, unless the Bank was prepared to revise the respective per capita GNP.

5. In this respect, the Government of Bulgaria, for which official World Bank data for 1983 are not available, and the Government of Poland, with respect to its 1978 per capita GNP, submitted to the Administrator new information which called for a further review. The Government of Bulgaria stated that the 1983 per capita GNP estimates used for fourth cycle IPF calculations for Bulgaria were converted from national currency to US dollars using an inappropriate exchange rate. The Government of Poland questioned the 1978 data used for its third cycle IPF calculations. While the Government of Poland did not request a review of its third cycle IPF, the potential impact of 1978 per capita GNP data on fourth cycle IPF has been presented as an issue.

## II. BULGARIA

6. With regard to Bulgaria, the initial estimate for 1983 per capita GNP in national currency is not in question. It is the conversion into US dollars which is questioned. The national currency was converted into US dollars using a three-year average exchange rate, adjusted for inflation, based on the official exchange rate of .98 leva to the dollar. Subsequent reviews of the exchange rates, prompted by the Government's communications, revealed that a multitude of exchange rates were used for a variety of purposes. The Government of Bulgaria has offered information on a "rate with premium" which is used for some transactions. In addition, there are negotiated rates applied to trade with other members of the Council for Mutual Economic Assistance (CMEA). Following informal consultations with the World Bank, it became evident that none of the exchange rates could be considered as fully representative for dollar GNP conversions. Based on all the above and with the guidance of informal but authoritative expert studies on multiple exchange rate systems prepared for the World Bank, the Administrator has projected an average weighted exchange rate which includes the rate with premium for Bulgaria for 1983. This calculated rate has yielded a per capita GNP of \$2,350. The 1983 per capita GNP previously published in DP/1986/1, using the official rate, is \$3,740.

7. On the basis of provisions contained in decision 85/16, the revision to the Bulgaria per capita GNP as outlined above does not affect the "calculated" fourth cycle IPF derived from the basic and supplementary criteria. The effect of the revision on the Bulgaria IPF is in the determination of the "floor" to which it is entitled. Under paragraph 5(d)(iv) of decision 85/16, those countries receiving the benefit of the floor, and whose 1983 per capita GNP is above \$3,000, received an IPF equal to 80 per cent of the third cycle

IPF. As stated in paragraph 6, the Bulgaria 1983 per capita GNP was estimated initially at \$3,740 and, as a "floor" country, its IPF was calculated at 80 per cent of its third cycle IPF (\$3,300,000), or \$2,640,000. However, with a recomputed 1983 per capita GNP of \$2,350, Bulgaria, in accordance with paragraph 5(d) (iii) of decision 85/16 would be entitled to a floor of 100 per cent of its third cycle IPF, or \$3,300,000. This represents an increase of \$660,000 over the previous calculation. In connection with these GNP estimates, it should be noted that even if UNDP were to apply only the rate with premium for estimating the Bulgaria per capita dollar GNP, the result would not have any additional impact on the Bulgaria IPF calculation for the fourth cycle.

8. As indicated in paragraph 6, during the course of this review, UNDP became aware of the existence of more than one exchange rate for Bulgaria. The Government has been advised that UNDP cannot use the official rate for operational transactions while the Government requests that UNDP use a more advantageous rate for GNP calculation. Further, in accordance with the basic agreement signed between the United Nations Development Programme (Special Fund) and the Government of the People's Republic of Bulgaria concerning assistance from the United Nations Development Programme (Special Fund), the Government should grant UNDP the most favourable legal rate of exchange. The Administrator has approached the Government on this matter and explained that IPF recalculation should be contingent on the provisions of the standard basic agreement being observed.

### III. POLAND

9. With regard to Poland, the 1978 per capita GNP reported by the World Bank and used to calculate the third cycle IPF was \$3,660. As a "floor" country Poland's IPF for the third cycle was calculated at 80 per cent of its second cycle IPF of \$4,125,000, or \$3,300,000. For the fourth cycle, Poland, with a 1983 per capita GNP below \$3,000 i.e. \$2,000, is entitled as a "floor" country to 100 per cent to its third cycle IPF, namely \$3.3 million.

10. Subsequent to the calculation of its fourth cycle IPF, the Government of Poland questioned the 1978 per capita GNP published in the 1980 World Bank Atlas which was used to calculate its third cycle IPF. As a non-member of the World Bank and the International Monetary Fund, Poland's national accounts have not been subject to the process of review and estimation normally undertaken by these two organizations. Poland has recently sought membership in these two bodies. However, during informal consultations on this matter, the World Bank has indicated that no operational necessity exists to warrant a review of past data and therefore no official revision of 1978 data is expected.

11. Nevertheless, the World Bank recognizes the difficulties of estimating internationally comparable per capita GNP for centrally planned economies (CPES). In 1982, the Bank undertook a new research effort to assess alternative methods of computing per capita dollar GNP levels and growth rates of CPES. One of the resulting reports, although not formally recognized by the World Bank, suggests alternative methods for calculating 1978 GNP data for

Poland. Based on those studies, and other data provided to the Administrator, including information provided to and accepted by the United Nations Committee on Contributions, as well as studies undertaken by the third phase of the International Comparison Project, it is possible to assume that the Poland 1978 per capita GNP would be in the range of from \$1,720 to \$2,100.

12. As a matter of equity, the Administrator recommends that for the purposes of determining its fourth cycle IPF, the Poland third cycle IPF should be viewed as a special case. The Administrator wishes to clarify that it is not being proposed that any additional IPF entitlement for Poland be authorized for the third cycle itself, but rather that the recalculation is designed to rectify the base upon which the fourth cycle calculation is made.

13. On this premise, the revision to the Poland 1978 per capita GNP would provide an increased floor supplement by giving effect to paragraph 1(g) (i) of decision 80/30 which states that "Countries with per capita GNP of below \$3,000...shall have a supplement wherever necessary to their IPFs for the third cycle so that they receive no less than their country IPFs for the second cycle."<sup>2/</sup> The 100 per cent floor would have provided an additional \$.825 million to the value of Poland's third cycle IPF of \$3,300,000 (thus making a total of \$4,125,000). As the Poland 1983 per capita GNP is estimated at \$2,000, its revised fourth cycle IPF would be 100 per cent of the revised third cycle IPF calculation, or \$4,125,000.

#### IV. RECOMMENDATION OF THE ADMINISTRATOR

14. In light of the above, the Administrator recommends that the Council:

(a) Take note of DP/1986/83 dealing with the 1983 GNP calculations for Bulgaria and the 1978 GNP calculation for Poland;

(b) Take further note of the procedures used by the Administrator in estimating the 1983 per capita GNP for Bulgaria and the 1978 per capita GNP for Poland;

(c) Accept the Administrator's recommendations for calculating the fourth cycle IPF for Bulgaria, as contained in paragraph 7 of DP/1986/83, subject to the conditions stipulated in paragraph 8;

(d) Accept the Administrator's recommendations for calculating the fourth cycle IPF for Poland, as contained in paragraph 13.

#### Notes

1/ Official Records of the Economic and Social Council, 1985, Supplement No. 11 (E/1985/32/), annex I.

2/ Ibid; 1980, Supplement No. 12 (E/1980/42/Rev.1), chap. XI.

