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EBS/84/46

CONFIDENTIAL

March 9, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Overdue Payments to the Fund - Experience and Procedures

Attached for consideration by the Executive Directors is a paper dealing with experience and procedures on overdue payments to the Fund.

In the Tentative Schedule of Executive Board Meetings dated March 9, 1984, this subject is scheduled for consideration on April 6. However, it has been suggested that Board consideration be moved to another date, and the Secretary will communicate with Executive Directors on this matter.

Att: (1)

INTERNATIONAL MONETARY FUND

Overdue Payments to the Fund: Experience and Procedures

Prepared by the Treasurer's Department

(In consultation with the Legal and other Departments)

Approved by David Williams

March 9, 1984

I. Introduction

The timely discharge of obligations to the Fund in the past has not presented an issue of major consequences. Most members meet their financial obligations to the Fund on time. Payments delayed beyond the intended value dates remain a small proportion both of the total payments that fall due every year and of total Fund credit outstanding. Nevertheless, in the last few years the incidence of failures by members to discharge their obligations to the Fund when they fall due has begun to increase. While most delays are short, and are corrected within a few days, the frequency of more protracted delays has also increased.

These developments give rise to serious concerns in a number of ways: (i) the credibility and efficacy of the Fund's adjustment programs are adversely affected by the doubts payment delays raise regarding members' ability and willingness to pursue policies that enable them to pay their debts to the Fund on time; (ii) the principle of the temporary use of Fund resources and the revolving character of its resources is impaired by delays that are not remedied promptly; (iii) the credit-standing of the Fund as a borrower can be adversely affected; and (iv) continuing efforts are required to secure settlement of overdue payments and to keep outstanding overdues from rising, keeping in mind the large increase in repurchases and charges falling due over the next few years, and these efforts are expensive in terms of management and staff time.

In the light of the growing problem of overdue payments, this paper outlines the procedures that are followed by Management and staff in handling administratively the various types of overdue payments and it also discusses further measures that might need to be considered, including by the Executive Board. Section II describes the Fund's experience with delays over the last five years. Section III summarizes changes in the policy on repurchases, sets out procedures that are followed in an attempt to avoid overdue payments and describes the procedures that are being followed when such delays occur. Section IV discusses the question of rescheduling obligations to the Fund, and Section V considers the

further use of Fund resources by countries overdue in their payments to the Fund. The penultimate section discusses the question of charges on overdue payments to the Fund, as well as certain operational issues. The paper ends with a Summary and Conclusions.

II. Experience with Delays in Payments

Any payment that is delayed beyond the value date of the obligation is an overdue payment. While no member has formally defaulted on its financial obligations to the Fund (repurchases and charges remain outstanding from one member that has not been in communication with the Fund since 1975), ^{1/} the delays in the discharge of payments to the Fund have increased in recent years. Delays are being experienced in effecting repurchases and in settling charges in the General Department and in the SDR Department, and in the payment of principal and interest to the Trust Fund; occasional delays have also occurred in the transfer of proceeds when currencies purchased from the Fund are converted, in delivering or converting currencies when SDRs are used, and in transfers when loan agreements are activated.

The incidence of overdue payments in Fund related transactions since 1977 is summarized in Table 1. Delays fall into one of two distinct categories: those largely of a technical nature, which typically are short; and other, more protracted, delays which usually reflect prolonged and unresolved balance of payments difficulties and severe shortages of foreign exchange for the country concerned. Most of the delays that have occurred fall into the first group and are due to administrative or technical problems, either in the member country or, on occasion, at its correspondent bank, and are solved within a few days by telephone or telex communication.

Delays that exceed a week or two relate primarily to repurchases and the payment of charges in the General and the SDR Accounts, but similar delays have also begun to occur with greater frequency and increasing amounts in Trust Fund repayments and the payment of interest on these loans. Most of these longer delays involve countries with protracted balance of payments problems, reflecting not only difficulties particular to their economies or the recessionary tendencies in the world economy over the last few years, but also the lack of a determined pursuit of appropriate adjustment policies, and many of them have

^{1/} See "Relations with Government of Cambodia--Performance of Obligations under the Articles of Agreement" (EBS/76/501, 12/4/76), "Democratic Kampuchea - Allocation of Special Drawing Rights and Limitation of Right to Use General Resources and Special Drawing Rights" (SM/78/270, Supplement 1, 11/28/78), "Democratic Kampuchea - Complaints in Accordance with Rule K-1 and Rule S-1" (EBD/78/270, 12/6/78), and minutes of Executive Board Meeting No. 78/200 (12/19/78).

Table 1. Late Payments in Fund-Related Transactions 1/

	1977	1978	1979	1980	1981	1982	1983
	<u>SDR millions</u>						
Total payments	3,985.9	6,545.6	6,234.1	5,439.1	5,044.0	7,442.2	7,789.7
Of which:							
up to 2 weeks late	27.9	111.5	269.0	198.9	122.6	192.6	186.7
2-6 weeks late	20.4	9.9	19.4	114.3	75.8	66.6	70.8
over 6 weeks late	--	40.6	1.3	0.4	10.6	99.7	32.3
Payments overdue for more than 2 weeks as percent of total payments	0.5	0.8	0.3	2.1	1.7	2.2	1.3
Of which:							
General Department	0.5	0.9	0.4	3.0	3.1	5.3	2.1
SDR Department	--	0.03	--	--	--	0.2	0.5
Trust Fund	--	--	--	2.0	2.8	4.4	4.4
	<u>Number of Payments</u>						
Total payments	651	968	1,193	1,408	1,452	1,354	1,283
Of which:							
up to 2 weeks late	31	99	157	148	115	127	141
2-6 weeks late	9	11	20	20	52	37	44
over 6 weeks late	--	7	4	3	16	26	30
Payments overdue for more than 2 weeks as percent of total payments	1.4	1.9	2.0	1.6	4.7	4.7	5.8
Of which:							
General Department	2.0	2.2	2.8	1.9	5.6	6.3	5.9
SDR Department	--	0.6	--	--	--	0.7	5.4
Trust Fund	0.9	1.8	--	3.6	7.3	2.5	5.6

1/ Settlement delays beyond the due date of repurchases and the payment of charges to the General Department, the SDR Department and the Trust Fund. Details are given in Appendix Table 1.

experienced major difficulties in the repayment of debt to other official and private creditors. 1/

Overdue payments have not amounted to a large part of obligations due to the Fund. However, total payments in Fund-related transactions that were made with delays of two weeks or more rose from 0.5 percent of all such payments in 1977 to 2.2 percent in 1982; in 1983 they amounted to 1.3 percent. 2/ The absolute amount of payments overdue for more than two weeks has risen beyond negligible amounts, and the number of countries involved in these non-technical delays represent a considerable proportion of those maintaining stand-by or extended arrangements with the Fund. 3/ The need to deal with late payments has by now also come to absorb a noticeable amount of the time of management and the staff and to cause increasing administrative costs. 4/ The implications of overdue charges and repurchase obligations may also need to be considered in relation to the Fund's financial statements. 5/

III. Recent Evolution of Policies and Procedures

The Fund's policies on the use of its resources are intended to provide the necessary assurances and safeguards as regards the timely settlement of financial obligations to the Fund by the member using the Fund's resources. Experience shows that for a variety of reasons the objective of achieving a viable balance of payments position is not always realized in the framework of a stabilization program. In this connection, some countries have made use of the Fund's resources over a prolonged period of time and under a succession of arrangements, though they may have paid their obligations to the Fund when these obligations fall due. The Fund's policies on the use of its resources are reviewed

1/ Members with payments overdue for two weeks or more are listed in Appendix Table 2.

2/ Including payments to the Trust Fund and SDR transactions. The amount of payments overdue at the end of each month since December 1981 is shown in Appendix Table 3.

3/ During 1983, for example, 17 countries out of 46 which maintained credit arrangements with the Fund were late in settling IMF related payments; 9 countries had payments overdue for more than two weeks.

4/ Dealing with late payments absorbed an estimated two man-years in CY 1983 in the Treasurer's Department. Area Departments and others probably have spent at least as much time on issues related to late payments.

5/ One example of an adjustment of the Fund's accounts necessitated by a failure to settle payments when due was the recording in 1979 of charges owed to the Fund by Democratic Kampuchea as charges receivable, a deferred credit item, and the deduction of an equal amount from the Fund's income. See "Financial Statements for April 1979" (Secretary's Circular No. 79/96, 7/20/79).

regularly, and the experience with timely settlement of obligations to the Fund can be taken into account in these reviews. 1/

The Fund's repurchase policies are also of significance in helping toward the prompt repayment of the Fund's resources. The Second Amendment not only greatly clarified and simplified the repurchase provisions, but the policies subsequently adopted have improved the administration of repurchases. A very important element in the adaptation of repurchase policies was the adoption of fixed schedules of quarterly and semiannual installments under the various credit policies of the Fund, which has facilitated orderly management by member countries of their indebtedness to the Fund. 2/ More recently, certain administrative steps have also been taken which aimed at assisting members in avoiding overdue payments. A schedule of repurchases and other repayment obligations to the Fund will be sent each quarter to members that have been overdue in meeting payments to the Fund; upon request, the staff also provides members with projections of quarterly and semi-annual charges for the next 12-18 months. Moreover, in preparation for the quarterly operational budget, members are requested, on the basis of updated repurchase and repayment schedules, to indicate the means of payment they intend to use in repurchase during the budget period; this communication should also assist members in keeping payment schedules current and in discharging obligations to the Fund on time. The Fund has also provided technical assistance on accounting matters at the request of members that have experienced difficulties in recording their Fund positions and related transactions. In addition, members that have encountered difficulties in the management of external indebtedness may request technical assistance of the Fund, which could also be expected to help a member in avoiding overdue payments to the Fund.

1/ The matter of prolonged use of the Fund's resources is discussed in a separate paper presently under preparation.

2/ The early drawing procedures of the CFF decision could be seen as an element having the opposite effect, as these early purchases can result in a need to make unanticipated early ("expected") repurchases. Purchases based on estimated data are expected to be reversed if actual data show that there has been an overcompensation. In some cases, these repurchase expectations were not anticipated, and the reversal of overcompensation was not as prompt as expected. The Executive Board has discussed these issues in January and April 1982 and has reviewed the experience in connection with the review of the compensatory financing of fluctuations in the cost of cereal imports in July 1983. See "Representation of Intention as to Repurchase" (SM/81/234, 12/2/81), "Compensatory Financing Facility--The Question of Undercompensation" (EBS/82/54, 3/30/82), "Compensatory Financing Facility--Experience with Requirement of Cooperation" (EBS/81/251, 12/30/81), "Compensatory Financing Facility and Buffer Stock Financing Facility--Review" (SM/83/131, 6/16/83 and Corr. 1, 6/20/83) and minutes of Executive Board Meeting Nos. 82/39 (4/2/82), 83/104 and 83/105 (7/18/83).

A set of procedures has been developed to deal with obligations to the Fund that are not discharged when due, which is intended not only to assist in prompt settlement of overdue obligations, but also to ensure that member countries in like circumstances are treated uniformly. These procedures, which apply mutatis mutandis in the General Department and the SDR Department, may be summarized as follows:

(i) if completion of a payment or transfer on the intended value date is not confirmed, enquiries are made immediately with the depositories involved and with the fiscal agency of the member making the payment or transfer;

(ii) if the payment remains outstanding longer than a few days, follow-up enquiries urging prompt payment are dispatched, and the Executive Director representing the member is informed;

(iii) as soon as it appears that the delay is for other than administrative or technical reasons, and in any event if the payment is not received within two weeks after the original due date, the Managing Director is notified and is supplied with information the staff may have obtained on the reasons for the delay. The Executive Director concerned is advised of this notification. The Managing Director normally will address a telex to the Governor of the Fund for the member, urging prompt settlement and indicating that he would shortly bring the delay to the attention of the Executive Board;

(iv) if the obligation continues to remain undischarged, a report to the Executive Board is issued by the Managing Director after a short delay. The timing of this report is influenced by the desirability of allowing the member sufficient time to respond to the Managing Director and to arrange for the settlement, 1/ and by the consideration that a notification to the Board should be made when delays have become protracted and which, if not corrected, could lead to a recommendation for action by the Executive Board. 2/ Taking these considerations into account, the Managing Director regularly notifies the Executive Board of an overdue payment about four weeks after the matter has been brought to his attention, that is, about six weeks after the payment was due. The Board is notified of the reasons for the delay and of the steps, if any, the member proposes to take regarding the discharge of the obligation.

1/ On occasion no reply at all is received to the Managing Director's message.

2/ In this context, the period for the reversal of overcompensation in purchases under the compensatory facility is also relevant. Repurchases of overcompensation, though not an obligation in the legal sense, are expected to be discharged "promptly", which for this purpose has been defined by the Executive Board to mean within 30 days from the notification to the member of the overcompensation. See "Representation of Intention as to Repurchase" (SM/81/234, 12/2/81), and the Chairman's Summing-up at Executive Board Meeting 82/1 (1/6/82).

The Managing Director also indicates how he proposes to deal with the matter;

(v) if an obligation remains undischarged, the Managing Director provides a follow-up report to the Executive Board about six weeks later; unless settlement was confidently expected within a reasonably brief period, the Managing Director has on the occasion of such a report advised the member that he might shortly have to issue a complaint in accordance with the Rules of the Fund; 1/

(vi) if these attempts to resolve protracted delays prove unavailing, the matter would be submitted to the Executive Board for consideration of further steps the Fund may consider appropriate to take. In two cases, proposals are being issued to the Executive Board concurrently with this paper which initiate procedures to deal with overdue obligations, which could lead to limitation of the member's right to use Fund resources or to ineligibility. 2/

Reporting procedures have evolved over the last two years as the incidence of late payments has become more pronounced. Since late 1981, there have been 27 individual reports to the Executive Board on delays in settling repurchase obligations by 11 members; in addition, 13 countries were reported late by more than six weeks in settling periodic charges, and nine in settling assessments or net charges due in the SDR Account; eight reports informed the Board of the failure of five members to meet promptly the expectation to repurchase overcompensation in purchases under the compensatory financing facility. 3/ In the case of eight members, repurchases (and for two members, repurchase expectations) continued to remain undischarged for a considerable time after the first report to the Executive Board, and it was necessary to report more than once the continuing failure of these members to meet repurchase obligations or repurchase expectations.

1/ The overdue payments were discharged shortly thereafter. See "Sudan--Overdue Financial Obligations" (EBS/82/147, 8/18/82), and "Sudan--Overdue Financial Obligations" (EBS/82/147 Suppl. 1, 9/2/82).

2/ See "Guyana--Overdue Financial Obligations to the Fund--Report and Complaints under Rule K-1 and Rule S-1" (EBS/84/47, 3/9/84) and "Nicaragua--Overdue Financial Obligations to the Fund--Report and Complaints under Rule K-1 and Rule S-1" (EBS/84/48, 3/9/84).

3/ Before December 1981, reports to the Executive Board of members' failures to meet obligations were rare. They dealt with such cases as purchases remaining outstanding beyond the five-year limit (1962 and 1967), failures to repurchase (1963 and 1976), purchases of gold at prices in excess of the official price (1976), and failures to notify the Fund of exchange arrangements (1978).

This review of the practices of informing the Executive Board of the management and staff's endeavors to induce members to make their payments to the Fund on time raise three issues: namely, the period that would lapse before initiating procedures that could lead to a limitation of the member's right to use Fund resources, or to ineligibility; secondly, whether it would be desirable to adopt a fixed time period after which there would automatically be issued for Executive Board consideration a proposal for initiation of such procedures; and third, whether the Fund should, when such procedures are initiated, publicize the failure of the particular member to meet its obligations.

As regards the first question, it would seem reasonable that the initiation of procedures that could lead to a limitation of a member's right to use Fund resources or to ineligibility, should occur after a relatively short time, say six months, from the due date of the payment.

On the second issue, the setting of a fixed period of time for an automatic initiation of these procedures present an incentive for members to regularize their financial relations with the Fund and would contribute toward uniform treatment of all member countries. It could, however, reduce the Fund's ability to take into account the particular circumstances of the member with overdue payments, which can differ greatly from case to case, including the frequency and amount of payments that are overdue. A fixed time period for automatic initiation of Board procedures could also have the unintended result of becoming to be considered akin to a grace period which could militate against prompt settlement of overdue obligations. If this were in fact to happen, further preventive steps would need to be considered and the Executive Board could be expected to have to take more frequent decisions on measures intended to induce members with overdue payments to discharge them. The need for more frequent decisions of such a sensitive nature, if this became necessary, could in some respects be counterproductive. It is, therefore, for consideration whether procedures should automatically be initiated after a fixed period or if some limited flexibility would be left to the Managing Director, particularly if he is satisfied that the obligation would be discharged shortly.

Thirdly, limitation of a member's access to Fund resources or declaring a member ineligible to use the Fund's resources is likely to be seen by the international community as reflecting a most serious concern about a member's willingness and ability to manage properly its foreign economic relations. Public awareness of the initiation of these procedures is therefore likely to affect appraisals of a member's creditworthiness and influence the availability of foreign financing. Careful attention accordingly will need to be given to the degree of publicity the Fund would wish to give to these proceedings. 1/

1/ In this connection, Article XII, Sections 7 and 8 are relevant.

IV. Policies and Practices on the Postponement of Obligations

Some member countries with overdue obligations have asked whether a particular repurchase obligation could be rescheduled to a later date within the outside limit of the installment schedule established under the policy under which the purchase was made, or even beyond that outside limit. 1/

Under the relevant decisions of the Fund, repurchases are to be made in regular quarterly or semiannual installments unless the Executive Board decides otherwise. 2/ An important reason for introducing a standard schedule of repurchases after the Second Amendment of the Articles in 1978 was the intent to facilitate the reduction in indebtedness to the Fund by distributing repurchases in relatively frequent and equal installments over the specified repurchase period. 3/

Within the period applicable to the policy under which the purchase was made, repurchase obligations can be rescheduled by a decision of the Executive Board requiring a simple majority of votes cast. 4/ However, postponement of an installment means an accumulation of

1/ The question of postponing the payment of charges has also arisen. However, the Fund's Articles provide no authority for the postponement of the payment of charges on the Fund's holdings of a member's currency.

2/ The periods vary according to the facility under which purchases were made. Holdings resulting from purchases in the credit tranches financed from ordinary resources or under the compensatory financing or buffer stock decisions are to be repurchased in eight quarterly installments beginning three years and ending not later than five years after the purchase (Executive Board Decision No. 5703-(78/39) as amended by Decision No. 6862-(81/81)). Purchases financed with borrowed funds under the SFF and EAR decisions are to be repurchased in eight semiannual installments beginning three and one half years after the purchase and ending no later than seven years after the purchase (Executive Board Decision Nos. 5508(77/127) and 6783-(81/40)). Those made under an extended arrangement and financed by ordinary resources are to be repurchased in 12 semiannual installments beginning four years and ending not later than ten years after the purchase (Executive Board Decision No. 4377-(74/114) as amended by Decisions No. 6339-(79/179) and No. 6830-(81/65)).

3/ A small part of holdings of currencies subject to repurchase, amounting to SDR 131.6 million, relate to purchases made before the Second Amendment and remain subject to the then applicable repurchase policies.

4/ Rescheduling of repurchases beyond the appropriate repurchase period is possible only if discharge on the due date would result in exceptional hardship for the member. The longer period must be consistent with the temporary use of the general resources of the Fund; and the decision must be taken by 70 per cent of the total voting power (Article V, Section 7(g)).

repurchases later in the repurchase period, and may therefore lead to even more severe difficulties for the member in discharging the obligations due, unless its balance of payments and reserve position has improved adequately in the interim. Postponement of purchases financed from borrowed resources which the Fund has to repay to its creditors could also lead to a substitution of ordinary for borrowed resources, because the Fund is obliged to repay its lenders whether or not the drawing for which the Fund borrowed is repurchased. These considerations suggest that postponement of repurchases would be rare and only in cases where it is clear that the member would be in a better position to discharge the obligation on the new due date. The three cases for which repurchases have been postponed with respect to purchases made since the Second Amendment came into effect (viz. for Guyana and Nicaragua) did not result in discharged of obligations at the rescheduled due dates. In neither of these cases was the postponement accompanied by policies which resulted in a solution of balance of payments difficulties.

Another consideration arguing against postponement is the evident need for the member to take steps to improve its balance of payments when it experiences difficulties in meeting repurchase obligations as they mature. The postponement of repurchases when they fall due is equivalent, in economic terms, to making additional credit available to the member. Unless accompanied by adjustment policies, a postponement is likely to be no more than a temporary palliative. In these circumstances, Fund assistance would best be associated with further programs of adjustment under new arrangements. 1/ A postponement of repurchase obligations related to purchases made after the Second Amendment of the Articles has therefore not been recommended to the Executive Board except in very rare cases. 2/

1/ This question has been discussed in more detail in "Review of the Policy on Access to the Fund's Resources--General Considerations" (EBS/83/132, 6/27/83), and will be considered further in a forthcoming paper on prolonged use of the Fund's resources.

2/ There have been only three such recommendations, and these have been for brief periods. See "Guyana--Rescheduling of Repurchases" (EBS/82/81, 5/7/82); "Guyana--Postponement of Repurchase" (EBS/82/161, 9/15/82); and "Nicaragua--Postponement of Repurchase" (EBS/82/150, 8/25/82). Overdue obligations to the Fund of these countries have been outstanding longer than those of any other country other than Democratic Kampuchea. See "Guyana--Overdue Financial Obligations to the Fund--Report and Complaints under Rule K-1 and Rule S-1" (EBS/84/47, 3/9/84) and "Nicaragua--Overdue Financial Obligations to the Fund--Report and Complaints under Rule K-1 and Rule S-1" (EBS/84/48, 3/9/84).

The question has also arisen whether rescheduling of foreign debt to official sources should be accompanied by a rescheduling of debt owed to the Fund. In view of the central role of the Fund in the international monetary system and the special character of Fund assistance supporting members' adjustments programs, it is essential that lending by the Fund and the associated repurchase obligations not be included in the multilateral rescheduling of indebtedness to official institutions under the auspices of the Paris Club, and that indebtedness to the Fund continue to be repaid in accordance with the schedules established by the Fund under the policies on the use of its resources. An appropriate contribution by the Fund in connection with Paris Club reschedulings would consist of technical advice and arranging a new stand-by or extended arrangement in support of the adjustment policies adopted by the member concerned, and requires that all the conditions necessary for Fund support are met.

V. Use of Fund Resources by Members with Overdue
Payments to the Fund

On occasion, a member has fallen overdue in payments to the Fund while discussing a stabilization program to be supported by Fund resources; or a stabilization program was in effect and discussions in progress with a member because of a required review of policy targets or because performance criteria have not been observed. Thus, problems of overdue payments to the Fund may occur at the time of discussions on the member's economic policies and financial assistance by the Fund. In such cases two important issues in the relationship between the Fund and the member overdue in meeting payments to the Fund arise:

- (i) whether discussions on the use of Fund resources under new arrangements should continue while payments to the Fund remain overdue, and
- (ii) whether further purchases, for example under a stand-by or extended arrangement, should be permitted in these circumstances.

(i) New arrangements and modification of arrangements

When a stabilization program supported by use of Fund resources under an arrangement is in prospect, the member has been urged to discharge outstanding payments without further delay. When payment delays have persisted for some time, discussions of a Fund-supported program have been held only after settlement of the member's obligations to the Fund; in other cases the continuation or conclusion of negotiations has been made contingent upon discharge of the overdue payments. The authorities have also been advised that requests for use of Fund resources would not be submitted to the Executive Board and recommended for approval while overdue obligations remained undischarged. It has now become firm practice that discussions leading up to the use of Fund resources or to reestablish the right to purchase under an arrangement are not taken up, or are interrupted, when a member falls overdue in its payments to the Fund. Discussions may, of course, continue with the

member on other aspects of relations with the Fund, such as Article IV consultations or the verification of performance criteria, and particularly on the steps the member is taking to settle its obligations to the Fund in a timely fashion.

Practices regarding submission to the Executive Board of requests for further use of Fund resources by members overdue in their payments to the Fund have evolved gradually. In some instances, the staff paper dealing with a request for an arrangement has been submitted to the Executive Board on the understanding that it would not be placed on the agenda until all overdue obligations had been discharged; the existence of overdue payments was fully discussed in these papers. In other cases, a staff paper dealing with the use of Fund resources has not been submitted to the Board while overdue payments to the Fund remained undischarged. In order to ensure consistent and uniform treatment, this latter procedure has now become the common practice. A request for use of Fund resources already issued to the Executive Board would not be put on, or would be taken off, the agenda of the Executive Board if a payment became overdue after the staff paper discussing the request has been issued.

(ii) Existing arrangements which are operational

When a decision of the Executive Board is required before a member is granted or continues to have access to the Fund's resources, the member's record of promptness in payments to the Fund can be taken into account. The 1952 Executive Board Decision on the "Use of Fund Resources and Repurchases" states in part:

"In addition, the Fund should pay attention to a member's general creditworthiness, particularly its record with the Fund. In this respect, a member's record of prudence in drawing, its willingness to offer voluntary repayment when its situation permitted, and its promptness in fulfilling the obligation to transmit monetary reserves data and in discharging repurchase obligations would be important." 1/

However, once a stand-by or extended arrangement has been agreed, no further Fund decision is required for a member to make purchases under it; as long as the performance criteria specified in the arrangement are observed, a member is legally entitled to request, and the Fund obliged to meet, purchases under it whether or not the member is current in its financial obligations to the Fund. A member's right to make purchases under an arrangement can be interrupted only if before a request is received, a decision has been taken to consider limiting the member's eligibility or to declare it ineligible to use

1/ Executive Board Decision No. 102-(52/11), Selected Decisions, Tenth Issue, p. 19.

the Fund's resources. ^{1/} Members with overdue payments to the Fund have thus on some occasions been entitled to use of Fund resources under an arrangement without further review by the Executive Board. In these circumstances, it would technically be possible for a country with overdue obligations to request a purchase from the Fund without first discharging those obligations.

As a practical matter, a member with a poor record of meeting payment obligations to the Fund has been asked to state that it would not request a purchase under a proposed arrangement while financial obligations to the Fund remained overdue. It has been indicated to the Board that requests for arrangements to use Fund resources by other members in similar circumstances would be accompanied by comparable statements. ^{2/}

VI. The Rate of Charge on Overdue Payments and Other Financial Issues

1. Penalty Charges on overdue repurchases

As a result of the Second Amendment of the Articles, the Fund may decide, by a seventy percent majority of the total voting power, to impose on a member that fails to make a repurchase in accordance with its obligations "such charges as the Fund deems appropriate on its holdings of the member's currency that should have been repurchased" (Article V, Section 8(c)). Before imposing such charges, the Fund must consult with the member on the reduction of the Fund's holdings of its currency; the charges that the Fund may decide to impose are not subject to the requirement of uniformity. This provision of the Articles

^{1/} Paragraph 5 of the standard form of stand-by and extended arrangements reads as follows:

"(Member's) right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or limit the eligibility of (member). When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed."

See Selected Decisions, Tenth Issue, p. 51.

^{2/} See minutes of Executive Board Meeting No. 82/19 (2/18/82).

enables the Fund to apply charges that it believes will encourage a member to effect its overdue repurchase. 1/

In the past, the Fund, for reasons that related to each specific case of delay, has not adopted a set of escalating charges for members that had not discharged their repurchase obligations to the Fund when due. 2/ The Fund can consider a penalty charge in present circumstances if it believes it would provide an incentive to members to repurchase on time and to effectively eliminate the increasingly frequent payment delays beyond due dates. To provide a financial inducement to settle payments to the Fund promptly when due, the rate of such a charge may have to be substantial in relation to other rates in use in Fund-related transactions, such as the rate of remuneration or the SDR rate of interest or the rate charged on use of borrowed resources. 3/ However, there is no evidence that the level of charges has played a significant role as regards the failure of members to discharge payments to the Fund on a timely basis, nor is it that a penalty charge would provide an effective incentive to effect repurchases on time. The delays in the discharge of payments due to the Fund would seem to reflect primarily administrative inadequacies and the failure by the member to adopt appropriate adjustment policies to deal with deep-seated balance-of-payments problems. At the same time, while providing a signal to members that the prompt discharge of overdue payments is widely expected, a meaningful penalty may aggravate the member's balance of payments difficulties rather than contribute to a solution. The matter of the adoption of a policy of applying higher charges to holdings that reflect

1/ As regards overdue charges, the Articles of Agreement do not authorize the Fund to levy periodic charges other than on the Fund's holdings of currency. Consequently, it would not be possible, for legal reasons, to levy charges on charges that are due but not paid.

2/ It will be recalled that until the Second Amendment of the Articles came into effect the Fund could have applied such charges it deemed appropriate only when, through progression over time, the rates of charge currently in effect had reached certain levels. Under the present Articles the application of a surcharge to encourage a member to repurchase is not tied to any rate of charge but to a failure to repurchase at the due time. See, e.g., "Cuba - Charges on Fund Currency Holdings in Excess of Quota" (EBS/64/19, 1/22/64), "United Arab Republic - Charges" (EBS/67/294, 12/18/67) and "United Arab Republic - Charges" (EBS/68/16, 1/18/68); "Cambodia - Charges on Currency Holdings in Excess of Quota" (EBS/77/128, 4/27/77); "Cambodia - Review of Charges on Currency Holdings in Excess of Quota" (EBS/77/325, 9/1/77); and "Relations with the Government of Cambodia - Failure to Fulfill Obligations under the Articles of Agreement" (EBS/78/211, 4/26/78).

3/ Overdue obligations to the Fund, in addition to causing considerable administrative cost, also reduce the Fund's income, as they leave the Fund's holdings of SDRs (or of usable currencies) lower than they would have been had the payment been made on time. However, the effect is minor in relation to the Fund's total operational income.

overdue repurchases is a delicate one on which the guidance of the Executive Board is needed.

2. Valuation

Delays in payments in Fund-related transactions give rise to a technical question regarding the determination of the SDR equivalent of an amount of currency paid late in discharge of an obligation, or transferred late when SDRs are used. This question relates to the distribution of interest cost or of the foreign exchange risks among the parties concerned or among participants in a transaction when one party does not observe prescribed value dates. The rules and procedures of the Fund presume that operations and transactions will take place on the intended or prescribed value dates, and do not explicitly provide for dealing with cases where payments are not made on time.

Normally, the amount of currency to be paid to the Fund (or another member) to meet an SDR-denominated obligation is determined, in accordance with the Fund's Rules, on the basis of exchange rates of the third business day before the value date of the transaction.

On occasion, however, a payment is completed within a day or a few days of the originally intended value date on the basis of the exchange rate applicable to the original value date. In dealing with these cases, the staff has been guided by two principles: (i) that there should be no adjustment in the amount of currency equivalent of a transaction or operation if the adjustment would be to the advantage of the member responsible for the failure to observe the intended value date; and (ii) when the difference between the amount of currency paid or transferred and the amount that should have been paid or transferred does not exceed SDR 5,000, an adjustment would not be made, unless the party not responsible for the delay requested the adjustment irrespective of amount. However, if the delay is protracted, the member would inform the Fund when it intends to settle the overdue payment, and the Fund would accordingly advise the amount of currency to be paid on the basis of exchange rates three days before the payment date.

The execution of these guidelines have not given rise to difficulties in practice.

VII. Summary and Conclusions

1. The Fund's experience regarding the timeliness of members in meeting their financial obligations until recently has been generally satisfactory. However, the number and volume of late payments has increased in the last few years, and there has been a troublesome rise in the number of longer delays. The number of member countries that are overdue in payments to the Fund has been growing, and the amounts involved are sometimes significant for the member concerned, though

delays are a small part of the total of payments to the Fund and of Fund credit outstanding. However, in terms both of the principle of members meeting their obligations on time and of the number of payments made to the Fund, those payments that are settled after due date cannot be considered negligible and effort must be expended to minimize, if not eliminate, the incidence of overdue payments.

2. In the last five years payments in Fund-related transactions made with delays of two weeks or more amounted up to 2.2 percent of total such payments. The administrative cost reflected by the time spent by staff and Management on this matter has risen markedly. Furthermore, the failure of members to make payments on time results in operational expenses to the Fund which are borne by the membership as a whole.

3. The Fund has adapted its procedures in a number of ways in order to facilitate timely payments to the Fund. These include the systematization of repurchase schedules; a system of advance notification of impending payments; the provision of estimates of future payments of charges; and technical assistance in accounting for financial relations with the Fund. The recent extension of technical assistance into the area of external debt management could also help members avoid arrears in payments to the Fund.

4. The increasing incidence of arrears has made it necessary to develop practices to help deal with them in a uniform manner: a more structured system of follow-up communications with member countries, of reports by the Managing Director, of consultations with the Executive Directors concerned, and of formal notification to the Executive Board has been developed. Further procedures might need to be instituted over time, and some of these are considered below.

5. The question has arisen whether the Fund should reschedule repurchase obligations if a member represents difficulty in meeting financial obligations to the Fund within the normal repayment periods, or even stretching repurchases beyond these periods. Such postponements are unlikely materially to facilitate repayments to the Fund, or to contribute to the adoption of adjustment policies required to solve underlying balance of payments problems. In fact, postponement could result in a ballooning of repurchase obligations at the end of the normal repayment periods and, in the absence of adjustment, exacerbate difficulties at a later stage.

6. Repurchase obligations to the Fund have not been postponed when a member sought rescheduling of indebtedness to official institutions under the aegis of the Paris Club. The Fund's contribution in this connection is best rendered in the form of technical advice and by way of new stand-by or extended arrangements in support of adjustment policies that normally are a precondition for multilateral rescheduling of indebtedness to official creditors.

7. Members may seek access to Fund resources while financial obligations to the Fund are overdue. In that event, it becomes unavoidable that negotiations involving potential use of the Fund's resources are made contingent upon the prompt settlement of overdue obligations, lest they be interpreted as justifying in any way the nonfulfillment of a payment obligation to the Fund. Discussions with the member in arrears to the Fund would, of course, take place on the steps, including the policies, a member may need to take so as to be able to settle its financial obligations to the Fund promptly without the use of the Fund's resources. The Managing Director does not, as a rule, submit a recommendation to the Executive Board that allows access to Fund resources if the member country has overdue payments to the Fund; the relevant staff papers are withdrawn from the Board agenda if overdue obligations had arisen since their issue.

8. Since the absence of overdue charges or repurchases is not part of the performance criteria under a stand-by or extended arrangement, the practice is to ask members that have incurred repeated overdue payments to the Fund to state that they will not request a purchase while payments to the Fund are overdue.

9. Fund holdings of a member's currency that have not been repurchased when due are subject to the Fund's normal rate of charge. It does not appear that the level of charges has been an important factor in the increase in late payments. Consideration could be given to impose a penalty charge on holdings which represent overdue repurchases. Such a charge could act as a further signal to members of the need to make timely payments to the Fund; to provide an effective financial incentive for the timely settlement of repurchases due to the Fund, it would have to be of significant size. However, a charge of sufficient magnitude to provide a financial inducement for timely payment might also further aggravate a member's balance of payments difficulties.

10. When payments or transfers are made later than the due date for which the currency counterpart of the obligation denominated in SDRs has been calculated in accordance with the Fund's Rules, adjustment payments are called for, unless they would be to the advantage of the member that is late settling its obligation. However, adjustment payments are not requested if they are for SDR 5,000 or less, unless the party not responsible for the delay nevertheless requests the adjustment to be made.

11. This review of experience and present procedures regarding overdue payments suggest that consideration could be given to the following: (i) establishment of a relatively short (say six months) and possibly fixed period after which the Managing Director would normally submit a complaint under Rule K-1 or Rule S-1 indicating that a member appeared not to be meeting its obligations under the Articles with respect to the General Department or with respect to the SDR Department; (ii) establishment of a policy for the imposition of a penalty charge on

holdings of members' currency that have not been repurchased in accordance with scheduled repurchase dates; and (iii) the degree of publicity the Fund would wish to give to actions taken by the Executive Board with respect to members with overdue payments.

Table 1. Payments due to the Fund and Late Payments, by Type of Payment 1/ 1977-1983

	1977		1978		1979		1980		1981		1982		1983	
	Number of payments	Amount (SDR mn)												
Repurchases														
Total payments	117	2,936.5	399	4,845.2	556	4,215.3	685	3,344.8	703	2,109.8	552	1,752.1	443	2,032.8
Late payments	11	30.5	71	144.6	115	215.7	127	294.7	128	129.9	100	179.0	82	158.5
Of which:														
0-2 weeks late	9	11.5	56	94.4	92	196.5	108	180.2	81	69.0	66	96.0	59	120.7
2-4 weeks late	1	18.7	6	4.2	12	13.2	9	79.4	24	47.3	7	14.0	8	18.8
4-6 weeks late	1	0.3	3	5.7	7	4.6	8	34.7	11	9.1	11	19.4	5	8.2
6-13 weeks late	--	--	6	40.3	4	1.3	2	0.4	12	4.5	14	49.1	6	5.4
over 13 weeks late	--	--	--	--	--	--	--	--	--	--	2	0.5	4	5.3
Periodic Charges														
Total payments	286	781.7	290	748.7	294	572.2	315	495.6	365	681.5	394	1,233.6	438	1,776.6
Late payments	18	9.3	12	1.6	15	29.4	1	0.0	19	42.9	47	146.7	49	73.9
Of which:														
0-2 weeks late	12	7.9	12	1.6	14	27.8	1	0.0	6	17.8	21	71.2	20	30.4
2-4 weeks late	5	1.3	--	--	1	1.6	--	--	4	1.5	8	9.5	8	12.6
4-6 weeks late	1	0.1	--	--	--	--	--	--	6	17.6	7	22.1	7	12.9
6-13 weeks late	--	--	--	--	--	--	--	--	2	1.4	9	42.2	10	15.3
over 13 weeks late	--	--	--	--	--	--	--	--	1	4.6	2	1.7	4	2.7
Trust Fund Repayments														
Total payments	--	--	--	--	--	--	--	--	--	--	12	3.4	106	45.3
Late payments	--	--	--	--	--	--	--	--	--	--	3	0.9	36	8.0
Of which:														
0-2 weeks late	--	--	--	--	--	--	--	--	--	--	2	0.3	28	5.7
2-4 weeks late	--	--	--	--	--	--	--	--	--	--	--	--	8	2.3
4-6 weeks late	--	--	--	--	--	--	--	--	--	--	1	0.6	--	--
6-13 weeks late	--	--	--	--	--	--	--	--	--	--	--	--	--	--
over 13 weeks late	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Trust Fund Interest														
Total payments	110	0.4	110	2.6	110	5.4	110	10.2	110	14.5	110	14.8	55	7.4
Late payments	7	0.1	27	0.7	33	1.2	34	2.0	30	1.4	33	2.6	18	1.1
Of which:														
0-2 weeks late	6	0.1	25	0.7	33	1.2	30	1.8	22	1.0	31	2.4	17	1.1
2-4 weeks late	--	--	2	--	--	--	2	0.1	5	0.2	2	0.2	1	--
4-6 weeks late	1	--	--	--	--	--	1	0.1	2	0.1	--	--	--	--
6-13 weeks late	--	--	--	--	--	--	1	--	1	0.1	--	--	--	--
over 13 weeks late	--	--	--	--	--	--	--	--	--	--	--	--	--	--
SDR Transaction with Designation														
Total payments	26	267.3	57	851.7	96	1,311.3	159	1,316.0	133	1,747.5	145	3,533.6	100	2,067.5
Late payments	4	8.4	6	14.8	18	43.5	9	16.9	6	34.8	4	14.3	4	17.7
Of which:														
0-2 weeks late	4	8.4	6	14.8	18	43.5	9	16.9	6	34.8	4	14.3	4	17.7
2-4 weeks late	--	--	--	--	--	--	--	--	--	--	--	--	--	--
4-6 weeks late	--	--	--	--	--	--	--	--	--	--	--	--	--	--
6-13 weeks late	--	--	--	--	--	--	--	--	--	--	--	--	--	--
over 13 weeks late	--	--	--	--	--	--	--	--	--	--	--	--	--	--
SDR Charges and Assessment														
Total payments	112	102.2	112	97.4	137	129.9	139	272.5	141	490.7	141	904.7	141	1,860.1
Late payments	--	--	1	0.3	--	--	--	--	--	--	5	15.4	26	30.7
Of which:														
0-2 weeks late	--	--	--	--	--	--	--	--	--	--	3	8.4	13	11.1
2-4 weeks late	--	--	--	--	--	--	--	--	--	--	1	0.8	4	10.0
4-6 weeks late	--	--	--	--	--	--	--	--	--	--	--	--	3	6.0
6-13 weeks late	--	--	--	--	--	--	--	--	--	--	--	--	3	2.5
over 13 weeks late	--	--	1	0.3	--	--	--	--	--	--	1	6.2	3	1.1

1/ Does not include payments representing members' contributions under the technical assistance program.

Table 2. Members Late for Payments to the Fund by more than Two Weeks, 1981-83 1/

1981	1982	1983
<u>2-6 Weeks Late</u>		
CAR (2)	Bolivia (5)	Comoros
Chad	Equatorial Guinea (2)	Equatorial Guinea
Costa Rica (4)	Gambia (2)	Gambia
Equatorial Guinea (2)	Ghana (2)	Ghana
Guinea (7)	Grenada	Grenada (2)
Guinea-Bissau	Guinea (3)	Guinea Bissau (2)
Jamaica	Guinea Bissau	Jamaica (4)
Liberia	Guyana (2)	Liberia
Mali (3)	Madagascar	Madagascar
Mauritania	Mali	Mali
Morocco	Nicaragua	Rwanda
Romania	Sierra Leone	St. Lucia
Rwanda	Sudan (7)	Sierra Leone
Sierra Leone (9)	Tanzania	Sudan (6)
Sudan	Viet Nam	Tanzania (3)
Uganda	Zaire (5)	Viet Nam (4)
Viet Nam (4)	Zambia	Zaire (5)
Western Samoa (4)		
Zaire (7)		
<u>6-13 Weeks Late</u>		
Costa Rica (6)	Equatorial Guinea	Equatorial Guinea (2)
Equatorial Guinea	Gambia	Guinea (2)
Guinea (3)	Guinea Bissau	Guinea Bissau (2)
Sierra Lone	Guyana	Guyana (3)
Sudan	Sierra Leone (3)	Jamaica (4)
Western Samoa (3)	Sudan (5)	St. Lucia
	Viet Nam	Sudan
	Zambia (7)	Viet Nam
	Zaire (3)	Zaire (3)
<u>13-26 Weeks Late</u>		
Sudan	Equatorial Guinea	Equatorial Guinea (2)
	Sierra Leone	Guinea Bissau
	Sudan	Guyana (4)
	Viet Nam (2)	Nicaragua (1)
<u>Over 26 weeks late</u>		
		Guyana (2)
		Nicaragua (1)

1/ Number in parentheses indicates number of payments overdue for specified period.

Table 3. Overdue Payments by Duration and Number of Countries

(In SDR millions)

Date	Total		Of which:			
	Amount	Number of	Amount	Two - Six Weeks	Amount	Six Weeks or More
		Countries		Number of		Number of
<u>1981</u>						
December 31	10.2	3	2.7	2	4.8	2
<u>1982</u>						
January 27	43.0	7	36.9	7	6.1	3
February 25	6.4	4	2.8	1	3.3	2
March 30	14.0	4	7.9	2	0.7	1
April 27	9.2	4	8.5	3	0.7	1
May 25	7.4	2	6.7	1	0.7	1
June 29	14.5	5	1.5	1	7.6	2
July 28	45.8	11	37.2	7	4.2	2
August 26	79.2	11	38.8	10	33.9	6
September 29	67.4	8	11.2	4	37.5	7
October 28	25.1	5	16.0	2	9.0	3
November 26	29.6	8	9.5	4	15.9	1
December 31	17.7	3	1.1	1	13.9	1
<u>1983</u>						
January 31	26.9	6	6.8	1	13.9	1
February 28	26.6	4	10.0	2	13.9	1
March 31	21.4	6	2.1	1	18.1	3
April 29	32.7	8	1.2	2	18.2	2
May 31	36.9	11	19.0	8	15.2	4
June 30	22.8	25	2.2	1	6.3	5
July 29	17.4	12	5.7	2	6.4	4
August 31	21.2	6	9.1	5	8.8	3
September 30	17.1	6	--	--	12.3	2
October 31	19.2	8	1.7	3	12.3	2
November 30	33.9	11	13.8	6	13.2	3
December 30	35.6	13	0.5	1	17.0	4
<u>1984</u>						
January 6	30.5	17	4.6	3	17.0	4
January 13	70.7	13	7.3	6	17.0	4
January 20	87.3	14	3.4	6	17.6	4
January 27	72.6	11	45.5	7	16.8	4
February 3	90.1	22	44.3	7	16.6	3
February 10	108.0	17	49.0	11	17.7	3
February 17	115.7	16	70.8	15	18.0	5
February 24	89.1	13	32.8	13	46.5	7
March 1	75.3	14	24.6	11	42.0	5