

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**IMMEDIATE
ATTENTION**

EBS/84/150

CONFIDENTIAL

July 11, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: SFF Subsidy Account - Proposed Subsidy Payments for the Period
July 1, 1983 through June 30, 1984

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Monday, July 16, 1984. In the absence of such a request, the draft decision that appears on page 6 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

If Executive Directors have technical or factual questions relating to this paper prior to noon on Monday, July 16, 1984, they should contact Mr. Coats, ext. (5)8249.

Att: (1)

INTERNATIONAL MONETARY FUND

Supplementary Financing Facility Subsidy Account --
Proposed Subsidy Payments for the Period
July 1, 1983 through June 30, 1984

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by Günter Wittich

July 11, 1984

I. Introduction

The Supplementary Financing Facility Subsidy Account was established in December 1980 to reduce the cost to eligible low-income developing members of using the Fund's resources under the Supplementary Financing Facility (SFF) and the policy on exceptional use of the Fund's resources. ^{1/} The determination of the amount of subsidy is to be made annually after the close of each financial year, in the light of the resources available to the Subsidy Account. To date, payments of subsidies amounting to SDR 135.7 million have been made in respect of charges paid on holdings under the two policies through June 30, 1983. ^{2/}

This paper reviews the available resources of the Subsidy Account and proposes that eligible members with purchases outstanding under the SFF and the policy on exceptional use should receive the maximum permissible subsidies in respect of periodic charges paid by them to the General Resources Account during the period July 1, 1983 through June 30, 1984. It also proposes that subsidy payments be made in U.S. dollars as in the past.

II. Available Resources of the SFF Subsidy Account

Resources available to the SFF Subsidy Account are derived from contributions in the form of donations and loans, transfers of repayments of Trust Fund loans and interest payments on these loans, and investment

^{1/} Executive Board Decision No. 6683-(80/185)G/TR, adopted December 17, 1980.

^{2/} See "SFF Subsidy Account - Proposed Subsidy Payments for the period July 1, 1982 through June 30, 1983" (EBS/83/205, September 16, 1983, and correction 1). An amount of subsidy for Guyana of SDR 909,038 continues to be held by the Subsidy Account pending completion by this member of the payment of charges for the year ended June 30, 1983 to which the subsidy pertains.

income earned on these resources pending disbursement of subsidies. Available funds are invested in SDR-denominated deposits with the Bank for International Settlements (BIS), except for a cash balance of less than SDR 25,000, since this is the minimum amount required by the BIS for an SDR-denominated investment. The contributors to the Subsidy Account, the amounts of resources received and of subsidies paid since the account became operative in May 1981 are shown in Table 1. Most of the Subsidy Account's existing investments with the BIS will mature on July 19, 1984, by which date the Subsidy Account's resources are estimated to be SDR 108.9 million. These resources could be larger to the extent that additional installments of donors' contributions are received by that date.

III. Calculation and Payment of Subsidy

The subsidy paid to any member is not to exceed 3 percent per annum of the Fund's holdings of that member's currency outstanding under the SFF or the policy on exceptional use and eligible for subsidy. ^{1/} The Fund shall, as far as practicable, seek to ensure that the percentage at which the subsidy is determined shall be the same over the entire period during which a subsidy is provided from the Subsidy Account. On the occasion of the first three disbursements made in December 1981, August 1982, and September 1983, subsidies were paid at the maximum rate of three percent to those beneficiaries eligible to receive subsidies at the full rate, and at the rate of one and one half percent to those beneficiaries eligible to receive subsidies at half the full rate. Subsidies at the maximum rate with respect to the period July 1, 1983 through June 30, 1984 would require payments of SDR 89 million, an amount now exceeded by the Subsidy Account's current resources. The staff estimates that total subsidy payments over the remaining life of the Subsidy Account at the maximum rate, including the proposed payments in 1984, will be about SDR 400 million, which is less than the total net resources (after repayment of loans) that will be available to the account for paying subsidies. In the staff's view, therefore, the payment of the maximum rate of subsidy on holdings in the period July 1, 1983 through June 30, 1984 would be within the Subsidy Account's ability to continue payments at the maximum rate in later years.

The Instrument establishing this Subsidy Account also requires that the subsidy paid to any member shall not reduce the effective charge below the level of charge that would have been applicable if the

^{1/} Only outstanding currency holdings that are subject to the repurchase provisions of the SFF and the policy on exceptional use are taken into account in making the calculation that determines the amount of the subsidy payment. These balances are referred to as "eligible holdings." No subsidy is paid on charges resulting from late repurchases.

Table 1. Resources of the SFF Subsidy Account
(In SDR millions)

	Financial Years Ended			May 1-	Cumu-
	April 30			July 19, 1984	lative
	1982	1983	1984	(estimated)	Total
Resources at Beginning of Period	--	32.4	32.7	100.6	
Donations					
Australia	2.0	--	--	--	2.0
Austria	1.2	--	--	--	1.2
Denmark	--	0.8	0.8	--	1.5
Finland	--	0.4	0.4	--	0.8
France	9.3	--	--	--	9.3
The Netherlands	4.1	--	--	--	4.1
Norway	1.4	--	--	--	1.4
Saudi Arabia	12.8	4.6	4.8	--	22.2
Sweden	1.1	1.1	--	--	2.2
Switzerland	2.4	--	--	--	2.4
Subtotal	34.3	6.9	5.9	--	47.1
Loans ^{1/}					
Belgium	3.1	1.3	--	--	4.4
Luxembourg	0.2	--	--	--	0.2
Sub Total	3.3	1.3	--	--	4.6
Trust Fund Reflows ^{2/}	15.0	33.8	126.1	6.8	181.7
Investment Income	2.8	2.5	4.3	1.5	11.1
Total Resources ^{3/}	55.4	76.9	169.1	108.9	
Payments of Subsidies	22.9	44.3	68.5	89.0	224.7
				(proposed)	
Resources at End of Period	32.4	32.7	100.6 ^{4/}	19.9 ^{4/}	

Note: In the last three financial years, the Fund has decided in the Administrative Budgets not to charge the Subsidy Account for the expenses of carrying out the business of the account.

^{1/} These loans are without interest and are to be repaid on December 31, 1984.

^{2/} Trust Fund reflows consist of repayments of loans and payments of interest on loans made by the Trust Fund. In accordance with Section 4(a) of the Instrument establishing the SFF Subsidy Account, total reflows are not to exceed SDR 750 million.

^{3/} Components may not add up to total resources due to rounding and minor valuation gains or losses which arise because investments in SDR-denominated assets are initiated only when receipts of funds in currencies are confirmed; so far the cumulative net valuation gain is SDR 0.1 million.

^{4/} Including SDR 0.9 million representing a subsidy for Guyana held by the Subsidy Account pending completion by that member of payment of its SFF charges for the year ended June 30, 1983.

holdings had been acquired under the Fund's policies on the regular use of its resources in the credit tranches or under the Extended Fund Facility ("ordinary resources"). The relevant rates of charges since July 1, 1981 have been as follows:

	<u>Ordinary Resources</u>	<u>SFF</u>	<u>Exceptional Use</u>
July 1, 1981 - December 31, 1981	6.25%	15.075%	15.25%
January 1, 1982 - April 30, 1982	6.25%	14.45%	14.50%
May 1, 1982 - June 30, 1982	6.60%	14.45%	14.50%
July 1, 1982 - December 31, 1982	6.60%	12.075%	12.25%
January 1, 1983 - June 30, 1983	6.60%	10.45%	10.50%
July 1, 1983 - December 31, 1983	6.60%	11.70%	11.75%
January 1, 1984 - April 30, 1984	6.60%	12.575%	12.75%
May 1, 1984 - June 30, 1984	7.00%	12.575%	12.75%

Accordingly, subsidy payments at the maximum rate of three percent would not reduce effective charges to a level below the charges that would have resulted from the use of the Fund's ordinary resources.

Subsidy payments are made to reduce the cost to eligible members of the periodic charges paid on holdings of their currency acquired by the Fund under the SFF and the policy on exceptional use. During the year ended June 30, 1984, 23 eligible members had outstanding balances under the SFF, and one member (Sri Lanka) had an outstanding balance under the policy on exceptional use, which it eliminated by repurchase in December 1983. Nineteen of these members are eligible to receive a subsidy at the maximum rate of three percent per annum, and it is proposed to pay the subsidy to these members at this maximum rate. It is proposed to pay a subsidy at the rate of one and one half percent per annum to the remaining five members, who are eligible to receive a subsidy at half the full rate.

Subsidies are payable only after the member has paid the relevant charges. One member has not yet paid any of these charges for the year covered by the proposed payment. The other members have paid the charges for the first six months of the year, and charges for the second six months will be due in early July. It is proposed to pay the subsidy on July 20, 1984 to each eligible member that by that date has paid the amount of charges accruing during the period July 1, 1983 through June 30, 1984. A member that has not paid the charges by that date will receive the subsidy payment as soon as it pays the amount due.

Details of the recipients of subsidies and the amounts it is proposed to disburse in respect of the year ended June 30, 1984 are shown in Table 2.

Table 2. Subsidy Payments -- Disbursed and Proposed Amounts
(In SDRs)

	Cumulative Disbursed Subsidies in Period 1981 - 1983	Proposed Amounts for Disbursement 1/ July - January - December June 1983 1984 Total		
(a) <u>At 3%:</u>				
Bangladesh	7,868,094	1,663,562	1,633,391	3,296,953
Bolivia	2,397,322	370,498	320,379	690,877
Dominica	127,489	57,163	66,425	123,588
Gambia, The	83,842	72,427	71,444	143,871
Guyana	1,767,037 <u>2/</u>	433,690	398,883	832,573
India	15,324,658	14,120,548	17,393,443	31,513,991
Kenya	5,522,866	1,434,063	1,401,100	2,835,163
Liberia	2,468,318	648,757	631,940	1,280,697
Madagascar	1,560,406	336,176	322,022	658,198
Malawi	2,049,126	420,804	401,185	821,989
Mauritania	912,962	241,368	233,907	475,275
Pakistan	22,057,868	8,122,122	7,999,716	16,121,838
Philippines	22,699,358	5,021,877	4,813,541	9,835,418
Senegal	2,734,100	818,431	797,121	1,615,552
Sierra Leone	1,135,415	260,226	256,695	516,921
Sri Lanka	469,283	122,422	-	122,422
Sudan	11,867,850	2,520,821	2,399,485	4,920,306
Tanzania	1,340,736	246,264	227,739	474,003
Togo	501,740	109,644	108,156	217,800
Zambia	3,519,901	--	--	--
Subtotal	<u>106,408,371</u>	<u>37,020,863</u>	<u>39,476,572</u>	<u>76,497,435</u>
(b) <u>At 1.5%:</u>				
Ivory Coast	3,489,601	1,936,575	2,136,449	4,073,024
Jamaica	8,001,622	1,580,251	1,486,406	3,066,657
Mauritius	2,477,148	507,859	472,457	980,316
Morocco	5,020,045	1,039,537	1,005,472	2,045,009
Peru	10,278,096	1,267,436	1,076,342	2,343,778
Subtotal	<u>29,266,512</u>	<u>6,331,658</u>	<u>6,177,126</u>	<u>12,508,784</u>
Total	<u>135,674,883</u>	<u>43,352,521</u>	<u>45,653,698</u>	<u>89,006,219</u>

1/ Subject to the full payment by members of their charges.

2/ Excluding SDR 909,038 which Guyana would be entitled to receive upon completion of payment of the SFF charges for the year ended June 30, 1983.

VI. Recommended Decision

In the light of the above, the following draft decision is recommended for adoption by the Executive Board, acting in its capacity as Trustee of the SFF Subsidy Account:

1. Subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period July 1, 1983 through June 30, 1984 in the amounts indicated, which are the maximum rates permitted under Sections 9 and 10 of the Instrument, to each of the beneficiaries as listed in Table 2 of EBS/84/150.
2. These subsidy payments shall be made in U.S. dollars on July 20, 1984 or as soon thereafter as any overdue charges on balances eligible for subsidy are paid, on the basis of the SDR/U.S. dollar exchange rate in effect three business days before the payment date.