

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

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Supplement 2

CONFIDENTIAL

September 19, 1983

To: Members of the Executive Board
From: The Acting Secretary
Subject: Requirement of Cooperation Under the Compensatory
Financing Facility

There is attached the Secretary's understanding of the guidelines on cooperation under the compensatory financing facility approved by the Executive Board at Meeting 83/140, September 14, 1983.

Att: (1)

Lower tranche

The criterion--namely, that the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties--implies a willingness to receive Fund missions and to discuss, in good faith, the appropriateness of the member's policies and whether changes in the member's policies are necessary to deal with its balance of payments difficulties. Where the Fund considers that the existing policies of the member in dealing with its balance of payments difficulties are seriously deficient or where the country's record of cooperation in the recent past has been unsatisfactory, the Fund will expect the member to take action that gives, prior to submission of the request for the purchase, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted.

Upper tranche

The additional criterion of the upper tranche--namely, that the Fund is satisfied that a member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties--means that in the light of the action taken by the member and the balance of payments policies being pursued the Fund is satisfied with the member's record of cooperation. The existence of a satisfactory balance of payments position (apart from the effects of the shortfall) or the existence of and broadly satisfactory performance under an arrangement with the Fund, or the adoption of such an arrangement at the time the request for a CFF purchase is made, will be considered to provide evidence of cooperation. However, the existence or the adoption of an arrangement is not a prerequisite. If a member's current and prospective policies were such as would, in the Fund's view, meet the criteria of the use of resources in the credit tranches, the member would be deemed to have been satisfactorily cooperating with the Fund, even though such use was not contemplated at the time of the CFF request.