

DOCUMENT OF INTERNATIONAL MONETARY FUND  
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**IMMEDIATE  
ATTENTION**

EBS/83/205

CONFIDENTIAL

September 16, 1983

To: Members of the Executive Board

From: The Secretary

Subject: SFF Subsidy Account - Proposed Subsidy Payments  
for the Period July 1, 1982 through June 30, 1983

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 the close of business on Friday, September 23, 1983. In the absence of such a request, the draft decision will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Att: (1)

INTERNATIONAL MONETARY FUND

Supplementary Financing Facility Subsidy Account

Proposed Subsidy Payments for the Period  
July 1, 1982 through June 30, 1983

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by D. Williams

September 16, 1983

1. Introduction

The Supplementary Financing Facility Subsidy Account (the 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. <sup>1/</sup> 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 Account. To date, payments of subsidies amounting to SDR 67.2 million have been made in respect of charges paid on holdings under the two policies through June 30, 1982. <sup>2/</sup>

This paper reviews the available resources of the 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, 1982 through June 30, 1983.

2. Financial Status of the Account

The contributors to the Account, and the amounts received, are given in Table 1. When transfers from the Trust Fund and investment income are added, and subsidies already paid from the Account are subtracted, the resources in the Account are expected to be SDR 77.1 million by late September 1983, taking into account a third installment from Saudi Arabia of U.S. \$5 million which is expected to be received by that date. Except for small cash balances, currently available funds are invested in SDR-denominated deposits with the Bank for International Settlements.

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<sup>1/</sup> Executive Board Decision No. 6683(80/185)G/TR, adopted December 17, 1980.

<sup>2/</sup> Executive Board Decision No. 7009-(81/156)SBS, adopted December 14, 1981 (see EBS/81/229, November 25, 1981) and Executive Board Decision No. 7179(82/101) SBS, adopted August 4, 1982 (see EBS/82/135, July 28, 1982)

Table 1. Resources of the SFF Subsidy Account Expected as of  
September 28, 1983  
(In SDR million) 1/

<u>Donations and Loans</u>	<u>Pledges</u>	<u>Received</u>
Australia	2.4	2.0
Austria	1.2	1.2
Belgium	4.4	4.4
Denmark	1.5	1.5
Finland	1.2	0.8
France	9.3	9.3
Luxemburg	0.2	0.2
Netherlands	4.1	4.1
Norway	1.4	1.4
Saudi Arabia	49.0	22.2 *
Sweden	1.1	2.2
Switzerland	<u>2.4</u>	<u>2.4</u>
Sub total	77.8	51.7
Trust Fund Reflows	750.0	85.7
Investment Income	—	6.7
Exchange Valuation Gain	<u>—</u>	<u>0.2</u>
Total	827.8	144.3
Less: Subsidies paid December, 1981 and August, 1982		<u>67.2</u>
Total resources <u>2/</u>		77.1

\*Includes estimated SDR value of U.S. \$5 million contributed from Saudi Arabia, expected by September 28, 1983.

1/ No payments were made from the Account to the General Resources Account at the end of Financial Year 1982 and 1983. These non payments were provided for in the Administrative Budgets for FY 1982 (EBAP/82/105, March 31, 1982, p. 10, approved April 14, 1982) and for FY 1983 (EBAP/83/96, March 31, 1983, p. 11, adopted April 15, 1983).

2/ Includes borrowing of SDR 4,600,000.

### 3. 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. <sup>1/</sup> The Fund shall, as far as practicable, seek to ensure that the percentage at which the subsidy is determined shall be equal over the entire period during which a subsidy is provided from the Account. Subsidies were paid at the maximum rates on the occasion of the first and second disbursements in December 1981 and August 1982. Subsidies at the maximum rates with respect to the period July 1, 1982 through June 30, 1983 would require payments of SDR 69.4 million, an amount now exceeded by the Account's current resources. The staff estimates that total subsidy payments over the life of the Account at the maximum rates of three percent and one and one-half percent will be about SDR 600 million, which is less than the total of resources expected to be available in 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, 1982 through June 30, 1983 would be within the Account's ability to continue payments at the maximum rates in later years.

The Instrument establishing this 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 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"). Rates of charges resulting from the use of ordinary resources from July 1, 1981 were 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%

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<sup>1/</sup> Only outstanding currency holdings that are consistent with 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" or "balances eligible for subsidy".

Accordingly, subsidy payments at the maximum rate of 3 percent would not reduce effective charges to a level below charges that would have resulted from the use of the Fund's ordinary resources.

Among the 88 eligible members listed in EBS/82/135, 1/ 24 have paid charges on purchases outstanding during the period under the SFF or the policy on exceptional use. It is proposed to pay subsidies at the maximum rate of three percent per annum to those members, of which there are nineteen, eligible to receive a subsidy at the full rate, and, at the rate of one and one-half percent to the five members eligible to receive a subsidy at half the full rate.

Details of the recipients of subsidy and the amount it is proposed to disburse are shown in Table 2. The total of the proposed subsidy payments amounts to SDR 69.4 million. Section 7 of the Instrument authorizes the use of the resources of the Subsidy Account for subsidy payments with respect to specific periodic charges that have been paid by eligible members. The subsidy payments to be made in accordance with the recommended decision would be made only after a member listed in Table 2 had paid or given the instruction to assure the payment of the charges with respect to which the subsidy payment is to be made. At present, of the 24 members listed in Table 2, one member (Guyana) has not paid the charges on the balances to which the subsidy is to be applied.

#### 5. 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, 1982 through June 30, 1983 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/83/205.
2. These subsidy payments shall be made in U.S. dollars on September 29, 1983 on the basis of the SDR/U.S. dollar exchange rate in effect on September 26, 1983 or as soon thereafter as any overdue charges on balances eligible for subsidy are paid.

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1/ The list of eligible beneficiaries which was set forth in EBS/82/135, was finalized on the occasion of the last review under the provisions of Section 8(b) of the Instrument.

Table 2. Amount of Subsidy Payments,  
July 1, 1982 - June 30, 1983

	July - December 1982	January - June 1983	Total
(a) <u>At three per cent:</u>			
Bangladesh	1,663,562	1,636,438	3,300,000
Bolivia	386,159	379,863	766,022
Dominica	35,459	47,728	83,187
Gambia, The	12,596	71,246	83,842
Guyana	466,299	442,739	909,038
India	4,931,507	10,393,151	15,324,658
Kenya	1,434,063	1,410,681	2,844,744
Liberia	648,757	638,179	1,286,936
Madagascar	336,176	330,695	666,871
Malawi	425,343	418,408	843,751
Mauritania	241,368	237,432	478,800
Pakistan	5,967,054	7,122,984	13,090,038
Philippines	5,036,055	4,953,945	9,990,000
Senegal	752,764	805,087	1,557,851
Sierra Leone	260,226	255,984	516,210
Sri Lanka	157,282	154,718	312,000
Sudan	2,589,040	2,525,898	5,114,938
Tanzania	246,264	242,249	488,513
Togo	109,644	107,856	217,500
Subtotal	25,699,618	32,175,281	57,874,899
(b) <u>At 1 and 1/2 per cent:</u>			
Ivory Coast	1,011,974	1,283,935	2,295,909
Jamaica	1,702,314	1,626,792	3,329,106
Mauritius	444,512	513,858	958,370
Morocco	1,039,537	1,022,588	2,062,125
Peru	1,475,208	1,376,774	2,851,982
Subtotal	5,673,545	5,823,947	11,497,492
Total	31,373,163	37,999,228	69,372,391