FOR AGENDA

EBS/83/232

CONFIDENTIAL

October 31, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Review of Access Limits for Special Facilities

The attached paper reviewing access limits for special facilities has been scheduled for discussion by the Executive Board on Monday, November 28, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Kaibni, ext. (5)7721.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Review of Access Limits for Special Facilities

Prepared by the Research Department

(In consultation with other departments)

Approved by A.D. Crockett

October 26, 1983

At its meeting on September 25, 1983 the Interim Committee discussed, but did not agree on, a recommendation in respect of the quota limits applicable to the compensatory financing facility and the buffer stock financing facility after the new Fund quotas become effective. The Committee asked the Executive Board to deal with this matter as soon as possible. The press communique of the Interim Committee referred to the issue of quota limits under special facilities as follows:

> On the question of access to the Fund's resources under the special facilities after the Eighth General Review becomes effective, some of the members of the Committee would prefer the retention of the present limits. Other members would prefer a lesser amount ranging from 68 to 85 percent. Accordingly, the Committee asked the Executive Board to consider the matter and to reach a conclusion at the earliest possible date. These limits should be reviewed at the time of each review of the enlarged access policy.

The purpose of this paper is to present information and considerations to assist the Executive Directors in reaching a decision on this matter.

1. Summary of previous Board discussions

The Executive Board considered the quota limits of drawings under special facilities on July 18, 1983 on the basis of material contained in SM/83/131 (6/15/83). 1/ The matter was further discussed by the Board on subsequent occasions, in connection with its consideration of policy on access to the Fund's resources.

1/ Entitled "Compensatory Financing Facility and Buffer Stock Financing Facility--Review of Experience with Financing Fluctuations in the Cost of Cereal Imports and Selected Policy Issues."

Discussion at the July 18 Board meeting was tentative in nature, but it nevertheless revealed some differences in approach among Executive Directors on the question of quota limits for drawings under special facilities. These approaches became more clearly defined as Executive Directors later elaborated their positions in the context of their discussion on July 25 of policy on access to the Fund's resources. The positions of Executive Directors on access to the special facilities were summarized in the "Managing Director's Statement on Review of Policy on Access to Fund Resources", 1/ issued August 26, 1983 (Buff 83/228), as follows:

> Special Facilities - Access Limits. In the discussion on July 25, those speakers who supported maintenance of the 150 percent annual limit for enlarged access also favored retention of the present quota limits for the special facilities. Other speakers were in favor of a reduction in the access limits for both conditional and special facilities. Some speakers in the latter group would like to see the access limits on special facilities reduced more than in proportion to any reduction of quota limits under the enlarged access policy. As in the case of the enlarged access limits, it will be important in today's discussion to try to narrow these differences for presentation to the Interim Committee.

The positions of Executive Directors remained basically unchanged when they again considered the access policy on August 31, in connection with the preparation of their report to the Interim Committee. This report echoed the positions expressed in the above quoted paragraph and provided further detail about the various percentages that were proposed by the Executive Directors. Section III, subsection 2 of the report (SM/83/198, Rev. 2, 9/9/83, pages 5-6) reads as follows:

> Access to the special facilities
>
> Executive Directors are continuing their review of current practices regarding the use of the special facilities. One group of Directors, all of whom favored maintaining the current enlarged access limits of 150/450/600 percent, held the view that there should be no reduction in the access limits for special facilities, access under each compensatory financing decision remaining at 100 percent of quota, access under the two combined at 125 percent and access to the buffer stock financing facility at 50 percent. Another group of Directors, including a few who preferred no reduction in the access limits for the special facilities, felt that if the enlarged access limits were reduced to 125/375/500 percent, access to the compensatory financing facility could be set at 85

1/ Prepared for a meeting of the Executive Board on August 31, 1983.

percent. 1/ A third group of Directors preferred to reduce access to the compensatory financing facility to around 68 percent, whatever limits were adopted under the enlarged access policy. A few Directors held the view that the reduction in access limits under the special facilities should be equiproportional to that under the enlarged access policy.

Those Directors who were in favor of maintaining the present access limits under special facilities unchanged, or who could accept if necessary a modest reduction in these limits, stressed the importance of these facilities to a large part of the membership, in particular to countries that depend heavily on commodity exports. Other Directors who were in favor of reducing these limits in line with or in a greater proportion than the reduction in enlarged access limits, stressed the need for at least maintaining the relative importance of Fund assistance provided in connection with adjustment programs, in order to support as fully as possible the adjustment efforts of members.

1/ Under this and the subsequent proposal, limits on access to both compensatory facilities combined and to the buffer stock financing facility would be changed in the same proportion as access to the CFF:

CFF (exports) or CFF (cereal) alone	Both CFF decisions combined	BSF
	(In percent of quota)	
100	125	50
85	106	43
68	85	34

2. Considerations

a. Evolution of access limits

The evolution of quota limits for drawings under special facilities and for those under tranche policies since the early 1960s is illustrated in Table 1. The table recalls that the quota limit under the compensatory financing facility was fixed at 25 percent when this program was introduced in 1963. The limit was raised to 50 percent in September 1966, to 75 percent in December 1975, and to 100 percent in August 1979. With the introduction of the cereal component of the facility in May 1981, the combined limit was fixed at 125 percent. The buffer stock financing facility, introduced in June 1969 with a limit of 50 percent, continues

Table 1. Evolution of Quota Limits for Drawings Under
Special Facilities and Tranche Policies 1/

(In percent of quota)

Date	Special Facilities: CFF	Special Facilities: CFF Including Cereal Imports	Special Facilities: BSFF	Tranche Policies 2/
February 1963	25	--	--	100
September 1966	50	--	--	100
June 1969	50	--	50 3/	100
December 1975	75	--	50	165 (September 1974)
August 1979	100	--	50	305 (February 1979)
May 1981	100	125 4/	50	600 (July 1980)

1/ Excluding access under the two oil facilities, which amounted to 75 percent of quota for the 1974 facility (June 1974-April 1975) and to 125 percent for the 1975 facility (April 1975-March 1976).

2/ Limits in effect at the time of revisions in quota limits of special facilities.

3/ A joint limit of 75 percent of quota on CFF and BSFF drawings was in effect from June 1969 until December 1975 when the joint limit was abrogated.

4/ Refers to joint quota limit for CF drawings in relation to cereal imports and to merchandise exports; a separate limit of 100 percent applies in respect of each component.

to operate with that limit. 1/ The table also shows the cumulative access limit under the tranche policies at the critical dates for the special facilities. This limit, which was 100 percent in February 1963, remained at that level until September 1974 when it went to 165 percent with the introduction of the extended Fund facility. It was raised again to 305 percent in February 1979, with the advent of the supplementary financing facility. 2/ Upon the introduction of the enlarged access policy in July 1980, the cumulative limit was raised to 600 percent.

b. Impact of alternative quota limits on absolute access

Some of the implications of alternative quota limits on the absolute level of access under the new quotas were discussed in SM/83/131 (6/16/83). Table 2 details with greater precision the implications of several quota limits on members' access under the new Fund quotas. 3/

If there were no change in quota limits on compensatory financing facility drawings, the aggregate absolute access for the 132 CF countries 4/ would increase by 43.5 percent; it would increase by 39.3 percent for the 120 "core" countries (see Table 2). 5/ At a quota limit of 85 percent, a figure proposed by a number of Executive Directors, absolute access would increase by 22 percent for the 132 CF countries and by 18.4 percent for the core countries. At both the 100 percent and the 85 percent limits, no country (except Democratic Kampuchea, with the latter limit) would experience a reduction in absolute access after the new quotas take effect.

The lowest limit at which no country (other than Democratic Kampuchea) would experience lower absolute access is 82 percent of quota. For the 120 "core" countries as a whole, absolute access would in the aggregate be maintained at its present level with a limit of 72 percent, but at this limit, 76 of these countries would experience a reduction in their individual absolute access.

1/ A joint limit of 75 percent of quota on drawings under the compensatory and buffer stock financing facilities was in effect from June 1969 to December 1975.

2/ During some intervals between the changes in the quota limit for drawings under the compensatory financing facility, there were other changes in the cumulative limit for drawings under tranche policies which are not reported in Table 1. These were a limit of 175.25 percent for the period January 1976 to March 1978, and of 465 percent for the period September 1979 to July 1980.

3/ References to quota limits in this section pertain to drawings in relation to shortfalls in merchandise exports, currently at 100 percent of quota.

4/ Excluding 14 countries classified by the IFS in 1975 as industrial countries.

5/ Excluding 14 industrial and 12 oil exporting countries.

Table 2. Impact of Quota Limits on Absolute Access

(Percentage change in absolute access)

Quota Limits	All Fund Members (146)	All Members Excluding 14 Industrial Countries (132)	All Members Excluding 14 Industrial and 12 Oil Countries (120)	Number of Countries With Lower Access
1. 100	+ 47.5	+ 43.5	+ 39.3	--
2. 85	+ 25.3	+ 22.0	+ 18.4	1
3. 83 1/	+ 22.4	+ 19.1	+ 15.6	1
4. 82 2/	+ 20.9	+ 17.7	+ 14.2	1
5. 72 3/	+ 6.2	+ 3.3	0	76
6. 68 4/	0	- 2.4	- 5.3	107

1/ Corresponds to the reduction to 125 percent in the annual limit under enlarged access policy.
2/ Level at which the absolute access is maintained for the member (the Lao People's Democratic Republic) which received the smallest percentage quota increase.
3/ Absolute access under new quotas maintained at its present aggregate level for 120 "core" countries.
4/ Corresponds to the reduction to 102 percent in the annual limit under enlarged access policy.

Reductions in the quota limits under the compensatory financing facility that are proportional to the agreed reductions for enlarged access imply quota limits of 83 percent (corresponding to the 125 percent annual limit on enlarged access) or of 68 percent (corresponding to the 102 percent annual limit). With the latter limit, 107 countries would individually experience a reduction in absolute access.

c. Clarification of cooperation

A further matter to be taken into consideration in deciding future access to the compensatory financing facility is the fact that the Board has now clarified the test of cooperation in a way that makes manifest the close relationship of the conditions for the use of resources under the CFF to the conditions for use of resources under the tranche policies. In particular, in relation to upper tranche CF drawings, for example, if a member has a "fundamental" balance of payments problem, that is, one that cannot be accounted for solely by a reversible shortfall of exports arising from factors largely beyond its control, then, in the language of the guidelines recently adopted by the Board: 1/

> 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,

and the member would accordingly be entitled to draw under the CFF.

d. Threshold for lower and upper CF tranches

In addition to considering what outside limits should apply to drawings under the CF and cereal facilities, Executive Directors need to decide upon the specific percentage of quota that separates the lower CF tranche (to which the "will cooperate" requirement applies), from the upper CF tranche (which, additionally, requires satisfaction by the Fund that the member "has been cooperating"). The most straightforward solution would seem to be to continue to use the midpoint of the ceiling as the threshold between the tranches, since this would preserve equality of access under the two tranches. It would also be possible, however, to retain the present 50 percent of quota as the limit for access under the lower tranche.

e. Quota limits for drawings under the BSFF

As noted in the earlier paper (SM/83/131), drawings under the BSFF have been modest and are likely to remain so in future. Consequently, the present limit of 50 percent of quota has not been a constraint on members' drawings under the BSFF. With the prospect of such drawings remaining rather modest, a reduction in the quota limit on BSFF drawings that is in

1/ EBS/83/171, Sup. 2 (9/19/83).

proportion to any reduction in the limit on CF drawings discussed above is unlikely to be a constraint on future drawings under the BSFF. Should the UNCTAD Common Fund come into force, however, it would be necessary for the Executive Board to conduct a general review of the BSFF with a view to possibly adapting Fund policy in this regard.

3. Financial implications

a. SM/83/131 (6/16/83) provided certain projections of CF drawings over a medium-term period (1984-88). 1/ Interpolations based on these projections indicate an annual level of drawings ranging from SDR 2 billion with a quota limit of 68 percent, 2/ the smallest quota limit proposed, to SDR 2.5 billion with a limit of 85 percent: the interpolation being roughly a change of SDR 30 million in drawings for a change of 1 percentage point in the quota limit. In the range between these limits, drawings would increase by some SDR 300 million as the quota limit is raised from 72 percent, which preserves absolute access to the 120 "core" countries in the aggregate, to 82 percent, which maintains absolute access to all the countries individually.

b. The following features of the 1984-88 projections contained in SM/83/131 are worth noting:

(1) At least two thirds of the aggregate projections are accounted for by "core" drawings, about one fourth by the oil exporting countries, and the rest (about 8 percent of aggregate drawings) represents additional drawings in respect of the cereal decision.

(2) The proportion of the "core" drawings in the aggregate projections is significantly smaller than in the past, when the "core" drawings accounted for virtually all the drawings made under the compensatory financing facility. 3/ Thus, the projected drawings under the cereal decision and those by the oil exporting countries were made without the benefit of an extensive historical experience that matches that of the "core" drawings. For this reason, a larger degree of uncertainty attaches to the projection of noncore drawings.

c. The medium-term projections discussed above represent annual averages for a period of years; they do not imply a uniform level of annual drawings. Indeed, based on past experience, members' use of the

1/ The staff paper actually discussed the financial implications of the following set of quota limits (in percent of quota): 50, 65, 75, 85, 100, and 125.

2/ Refers to separate limits of 68 percent each for export shortfalls, and for cereal import excesses, and to 85 percent as the combined limit.

3/ In the two and one half years since the cereal decision was adopted additional drawings under it amounted to only SDR 280 million. There has been only one drawing by an oil exporting country (SDR 360 million by Indonesia in July 1983).

Fund's resources under the special facilities is subject to a wide margin of uncertainty and varies substantially from year to year. A country-by-country survey regarding CF drawings expected by the area departments in 1984 indicates a volume of CF drawings in 1984 that is considerably below the annual averages discussed above. 1/ These country-by-country estimates show that the volume of CF drawings may be SDR 1.2 billion for 1984. This relatively low figure can be attributed in part to the fact that the number of countries experiencing balance of payments need arising from export shortfalls is diminishing as the pace of the world economic recovery gathers momentum. 2/ Moreover, for almost all the CF drawings that are now projected in 1984, very few would cause outstanding CF drawings to exceed 68 percent and none would appear to cause outstanding CF drawings to exceed 85 percent of new quotas of the countries concerned. In other words, the projections for actual use of the facility in 1984 are not greatly sensitive to which access limit is selected.

d. Over a longer period, and as indicated above, with access limits ranging between 68 percent and 85 percent of new quotas annual average drawings under the special facilities are projected to be between SDR 2-2.5 billion for the period 1984-88--a total of SDR 10-12.5 billion for the five years. Outstanding drawings under the special facilities presently total almost SDR 8 billion and the bulk of repurchases in respect of these drawings is not due until 1986-88. The net increase in use of Fund resources stemming from the projected drawings under the CFF of SDR 2.2-5 billion per year would, therefore, amount to some SDR 2-4.5 billion by 1988, although a larger figure could be reached earlier, if large drawings occur before net repurchases build up.

e. These consequences, obviously, hinge crucially on the validity of the projections made, which, as noted above, are highly uncertain. Furthermore, their implications for the liquidity position of the Fund will, of course, depend on the availability of resources under the quota increase and borrowing arrangements, on the one hand, and the demands for the Fund's resources under tranche policies (and reserve tranche drawings) on the other. In this regard, the setting of new access limits would clearly entail an understanding within the membership that the Fund would be able to secure the borrowed resources it would need to meet projected demands in 1984. It should be noted that whatever limits are adopted for 1984, it is envisaged that, in conformity with the recommendation of the Interim Committee, the quota limits on special facilities would be reviewed annually together with the review of access limits under enlarged access policy. However, the access limits under special facilities that are applied when new quotas come into effect will remain in force until a specific decision to change them is made.

1/ Purchases under the buffer stock financing facility are likely to be minor in amounts.

2/ The beginning of a recovery in commodity prices--excluding oil--is evidenced by a 15 percent increase from the trough reached in the final quarter of 1982.