FOR AGENDA

EBS/83/233

CONFIDENTIAL

October 31, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Criteria for the Amount of Access in Individual Cases

Attached for consideration by the Executive Directors is a paper on criteria for the amount of access in individual cases.

This subject has been scheduled for discussion by the Executive Board on Friday, December 2, 1983.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Criteria for the Amount of Access in Individual Cases

Prepared by the Exchange and Trade Relations Department
and the Treasurer's Department

(In collaboration with other departments)

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I. Introduction

At its meeting in Washington, D.C., on September 25, 1983, the Interim Committee considered the subject of the access to the Fund's resources after the quota increases under the Eighth General Review became effective. The Committee requested the Executive Board to take the necessary action as soon as possible in order to implement its conclusions concerning the extension of the enlarged access policy and the criteria for access in individual cases. The Committee also asked the Executive Board to consider the access limits to the special facilities following the effective date of the Eighth General Review.

The Interim Committee concluded that access to the Fund's resources under the enlarged access policy during 1984 should be subject to annual limits of 102 and 125 percent of quota, three-year limits of 306 and 375 percent of quota, and cumulative limits of 408 and 500 percent of quota, depending on the seriousness of the member's balance of payments need and the strength of the adjustment effort. These limits would be examined in conjunction with the reviews of the enlarged access policy itself. As at present, the Executive Board would retain the flexibility to approve stand-by or extended arrangements for amounts above the access limits in exceptional circumstances. Also as at present, the annual and triennial access limits would not be regarded as targets, but within these limits the amount of access in individual cases should vary with the circumstances of the member in accordance with criteria established for this purpose by the Executive Board. This paper proposes such criteria for adoption by the Board. Companion papers deal with the extension of the enlarged access policy itself, the simplification of the administration of enlarged access, and the access limits for special facilities.

II. Considerations Governing Amount of Access

Under the decision on enlarged access, a request for the Fund's resources will be met only if the Fund is satisfied that the payments imbalance that the member faces is large in relation to its quota, that the member's financing need from the Fund exceeds the amount available to it in the credit tranches or under the extended Fund facility, and that its problem requires a relatively long period of adjustment and a period of repurchases longer than three-to-five years. The decision further states that the period of a stand-by arrangement involving enlarged access will normally exceed one year and may extend to three years, and the period of an extended arrangement will be normally three years. In practice the Fund has considered successive one-year stand-by arrangements, formulated within a medium-term strategy of steady progress toward a sustainable balance of payments position to be consistent with this decision, when the amount of the arrangement is greater than that available in the credit tranches.

The considerations that need to be taken into account in determining the amount of access in individual arrangements and current practice on access have been discussed in recent staff papers, in particular in EBS/83/132 (6/27/83), and may be briefly recapitulated here. The first important consideration is the member's actual or potential need for resources from the Fund, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves; in no circumstances can access be greater than this need. The second important consideration stems from the need to preserve the revolving character of the resources that the Fund provides, i.e., the ability of the member to service its indebtedness to the Fund. In determining the case for Fund support and the amount involved, the timing and extent of the expected improvement in the member's balance of payments are relevant factors. It follows that adjustment policies in support of which the Fund's resources are to be used must be designed and implemented in such a manner as to lead to a strengthening of the balance of payments by the time the repurchases begin to fall due and of a sufficient extent to allow the member to make the repurchases without strain. Finally, the amount of the member's outstanding use of Fund credit and its record in using Fund resources in the past must enter into the judgment on the appropriate scale of further use of the Fund.

Under the policy on enlarged access, repurchases of borrowed resources begin three-and-one-half years after the purchase, whether under a stand-by or extended arrangement. Repurchases of ordinary resources under a stand-by arrangement must be made during the regular 3 to 5 year period after the purchase, while repurchases of ordinary resources under an extended arrangement must be made during a 4 to 10 year period after the purchase. For stand-by arrangements, it should therefore be expected that substantially all adjustment measures would be implemented at an early stage and there would be significant progress to balance of payments viability by the end of the three years, in order that repurchases could be made as scheduled.

To ensure that the program allows repurchases to be made, a balance of payments projection well into the repurchase period must show that progress toward a viable balance of payments position is being achieved. This can be indicated by a diminishing need for exceptional finance in general, and that to be provided by the Fund in particular, over the period. The policy measures already in place or being introduced must be commensurate with those needed to continue this progress at the required rate. This subject is discussed in the recent paper reviewing upper credit tranche stand-by arrangements and conditionality (EBS/83/215, 10/4/83).

These basic principles have to be applied in a flexible way because of the great variety of the member's circumstances and the uncertainties that attend economic projections and programming. Access at or close to the annual limit of 102 percent of quota is justified where the member's outstanding use of the Fund's resources is not large, where the member has undertaken a comprehensive adjustment program adequate to bring about a rapid turnaround in the balance of payments, and where the Fund is satisfied that on the basis of the member's past record and its present circumstances, it has the ability and willingness to implement the program. The Fund support might appropriately be given in the form of an extended arrangement in some of these cases. Substantial Fund financing may frequently be a critical element in restoring confidence of the international financial community in the policies of the country and thus reviving capital flows.

In these cases where the member has an especially large need for financing from the Fund, and where, based on all relevant information, the strength of the adjustment effort is such that the balance of payments improvement will be quick, sufficient, and durable, Fund financing could exceed the 102 percent limit and reach up to the 125 percent limit. Moreover, as reaffirmed by the Interim Committee, the Fund should have the flexibility in exceptional cases of going beyond the latter limit.

The Fund has recognized that even full implementation of a program or programs may not necessarily guarantee the achievement of the desired balance of payments outcome; moreover, even if the outcome were to turn out to be fully as planned, new problems could arise before repurchases were completed, calling for a supplementary adjustment effort. The Fund should continue to have the flexibility to provide financial support in these circumstances, even though this might prolong the period of use of its resources by a member. This policy approach is implicit in the fact that the cumulative limit allows additional Fund financing even when a member has obtained the maximum possible amount of support for a period of three years.

There are also circumstances where it is clear at the outset that the adjustment period will have to be stretched beyond three years. In these cases Fund support should normally be in the form of successive shorter term stand-by arrangements, each arrangement being formulated within the framework of a medium-term strategy of balance of payments adjustment. In view of the possible association of the Fund over a number of years, Fund financing in each individual year should be in moderate amounts, that is, well below the limit of 102 percent. Moreover, such support must be associated with the prospect of a significant reduction in balance of payments pressures within a reasonable period so that the member will be in a position to make the repurchases on schedule and in less straitened circumstances than when the corresponding drawings were made.

In a quite different category are situations where the Fund's role is likely to be primarily that of a catalyst. The weakness of a member's balance of payments may be such that it is questionable whether a sustainable position not requiring exceptional finance can be achieved over the medium term. A principal factor causing this weakness is often the existing burden of debt service. In some of these cases the debt service problem may be due in part to the large outstanding use of the Fund by the member and further substantial purchases from the Fund would only aggravate the difficulties. In other cases, a substantial improvement in the balance of payments may call for fundamental economic changes which cannot be achieved within a medium-term time frame. In all these situations Fund financing on a limited scale is justified if the member is taking appropriate steps to deal with its situation and such support will maintain the confidence of other creditors. The great bulk of the external financing must normally be provided on appropriate terms from sources other than the Fund. If sufficient external financing cannot be obtained, the Fund cannot be the residual source of finance, and there would thus be no basis for the Fund to support the adjustment program. The amount of the financing need that can be met from the Fund must be closely related to the expected rate of improvement in the overall balance of payments, and there should be a clear prospect of the member making net repurchases with a view to restoring its credit tranche position, thus preventing the use of Fund resources acquiring a semipermanent character.

III. Distribution of Amounts of Access and Financial Implications

The recent practice in determining amounts of access broadly reflects the application of the principles described above. In EBS/83/132 (Review of the Policy on Access to the Fund's Resources--General Considerations), p. 9, a table was presented showing the annual rate of access in stand-by and extended arrangements in 1982 and 1983. Table 1 below shows an updated and revised version of that table. The actual rates of access in the course of 1984 will depend of course on the particular countries that request the use of Fund resources, their circumstances, and the quality of their adjustment programs.

Table 1. Annual Rates of Access, 1982-83 1/

Percent of Quota	Corresponding Range Under New Limits	Number of Programs 1982	1983	Total	Total in Percent
135 - 150	92 - 102/125	5	7	12	22
105 - 134	72 - 91	5	8	13	24
90 - 104	62 - 71	2	6	8	15
75 - 89	51 - 61	7	6	13	24
45 - 75	31 - 50	3	4	7	13
Below 45	Below 31	1	0	1	2
		23	31	54	100

1/ Covers all stand-by and extended arrangements approved between January 1, 1982 and October 18, 1983. Arrangements are classified according to the date of approval and with the total amount as a percent of quota prorated over twelve months.

The area departments have provided indications of possible arrangements with countries in 1984, in light of the adjustment measures envisaged and members' willingness to enter into programs with the Fund. The indications by the area departments suggest that the need for financing members' programs in 1984 beyond the annual access limit of 102 percent of new quotas is likely to be limited to a relatively few cases, though this could change in the course of the year in the event there was an unexpected deterioration in some members' balance of payments positions.

The country-by-country estimates on the size of arrangements based on the new access limits, taking account of probability factors, suggest an aggregate commitment to developing members of close to the same amount (SDR 3 billion) for the first four months of 1984 as indicated in the last liquidity review (EBS/83/170, August 12, 1983). The estimates for the rest of 1984 for the same group of members would suggest commitments under arrangements of slightly in excess of SDR 3 billion so that the total indicated by area departments for arrangements concluded in 1984 after the new quotas come into effect is in the order of SDR 6 billion. The bulk of new arrangements with developing members is expected to be in the form of stand-by arrangements rather than extended arrangements, and most of them are likely to be for one year in the first instance.

Some developing countries may also seek augmentation of their existing arrangements on the basis of new quotas, but it is unlikely that the amounts involved would be large. This is partly because there may not be the balance of payments need and partly because the relatively high level of actual or projected holdings for the Fund of some members' currencies leave little room for augmentation under the new limits. 1/ On present indications it is unlikely that augmentation of existing arrangements would amount to more than about SDR 1 billion in 1984. The total of commitments to developing countries under arrangements concluded in 1984, including augmentation of existing arrangements for a few countries, should thus be estimated to be in the order of SDR 7 billion.

Although no commitments are as yet indicated for industrial countries, the external overall financial positions of some of these countries remain weak and some of them may need to supplement other financing with use of the Fund's resources. While no estimate for use by a GAB participant has been made, it may be prudent to continue to provide for use by the smaller non-GAB industrial countries in the order of SDR 2 billion for 1984.

It, therefore, appears that commitments under arrangements to all members in 1984 could be of the order of SDR 7-9 billion, unless there were significant additional commitments to relatively large industrial countries. This compares with SDR 9 billion that was estimated at the 102/408 access level in EBS/83/133 ("Review of the Policy on Access to the Fund's Resources - Financial Considerations") for developing countries in 1984 in addition to SDR 3.5 billion provided for use by smaller industrial countries in 1984 through early 1986. The main reasons for the downward revision of use by developing members in 1984 are (i) augmentation of existing arrangements are now estimated to be less than previously and (ii) several countries that were formerly included are now not expected to use the Fund's resources in 1984 or are included for smaller amounts of use in 1984.

As regards the financing of this estimated range of SDR 7-9 billion for new commitments in 1984, a relatively large use of ordinary resources is estimated, particularly at the lower end of the range. This arises mainly because access to ordinary resources will be increased with the coming into effect of new quotas and because many new arrangements in 1984 are expected to amount to considerably less than 102 percent of new quota. As a consequence, the Fund's holdings will not exceed the equivalent of quota in the credit tranches or 140 percent of quota for some countries; it is after that point that only borrowed resources are involved in financing arrangements. In several instances successor arrangements will probably be concluded in 1985 and 1986 and at that time the proportion of borrowed resources will be larger thereby increasing the amount of borrowing needed by the Fund. In the light of the above considerations, the need for new borrowing to cover commitments in 1984 are estimated to amount to the order of SDR 2.5-4 billion.

1/ Any augmentation based on new quotas that might be proposed would be on a case-by-case basis and would be justified using the same criteria as apply to any other use of Fund resources; it would not solely be for the purpose of changing the mix of ordinary and borrowed resources.

This includes at the higher end a provision for commitments of borrowed resources in augmentations and in arrangements with smaller industrial countries. This estimate of the borrowing needs for 1984 is as usual subject to uncertainties as regards the timing and amounts of arrangements.

IV. Small-Quota, Low-Income Countries

Paragraph 5 (f) of the Interim Committee communiqué stated that:

> In implementing its policies on access to its resources, the Fund should be particularly mindful of the very difficult circumstances of the small-quota, low-income member countries.

In the paper reviewing the Fund policies on minimum quotas (EB/CQuota/82/12, 12/13/82), quotas of SDR 25 million or less were considered to be small. After the new quotas become effective, the 22 members shown in Table 2 will fall into this group. 1/ All except four of these had per capita GNP of less than US$1,000 in 1981. The members listed account for about a quarter of the Fund members with per capita GNP below this threshhold. Twelve of the listed countries are classified by the United Nations as "least developed." Many of the countries are small tropical islands, which are the subject of a paper now under preparation.

The listed countries have on average made less use of the Fund's resources than other non-oil developing countries. At the end of August 1983, the outstanding use of Fund credit by these members was 64 percent of quota, compared with 154 percent for all non-oil developing countries. About half of the use of Fund resources by these countries has been in the form of compensatory financing purchases, while for all non-oil developing countries the share is about a quarter. The list includes 9 of the 27 non-oil developing member countries for which the Fund's holdings of currency are below quota. Nevertheless, the group includes one member, Dominica, which is among the 10 largest users of Fund resources as a percent of quota.

The difficult economic situation of many of these countries is beyond dispute. Their small size, the dependence in many cases on single export commodities, the difficulties of transport, and frequently the limited range of policy instruments available tend to make these economies less flexible and adjustment more difficult. Many of these countries are particularly vulnerable to shifts in the terms of trade and to natural disasters; these factors account for the high share of Fund assistance in the forms of compensatory financing drawings and emergency assistance.

1/ Excluding Democratic Kampuchea, whose quota remains SDR 25 million.

Table 2. Small-Quota Members

	Current Quota	New Quota	Per Capita GNP, 1981	Least Developed Country
	(In millions of SDRs)		(In millions of U.S. dollars)	
Maldives	1.4	2.0	n.a.	Yes
Bhutan	1.7	2.5	80	Yes
Seychelles	2.0	3.0	1,800	No
St. Vincent	2.6	4.0	630	No
Dominica	2.9	4.0	750	No
Sao Tome & Principe	3.0	4.0	370	Yes
Cape Verde	3.0	4.5	340	Yes
Solomon Islands	3.2	5.0	640	No
Comoros	3.5	4.5	320	Yes
Antigua & Barbuda	3.6	5.0	1,550	No
Grenada	4.5	6.0	850	No
Western Samoa	4.5	6.0	n.a.	Yes
St. Lucia	5.4	7.5	970	No
Djibouti	5.7	8.0	480	Yes
Guinea-Bissau	5.9	7.5	190	Yes
Vanuatu	6.9	9.0	350	No
Belize	7.2	9.5	1,080	No
Lesotho	10.5	15.1	540	Yes
Gambia	13.5	17.1	370	Yes
Botswana	13.5	22.6	1,010	Yes
Eq. Guinea	15.0	18.4	180	Yes
Swaziland	18.0	24.7	480	No

Source: Per capita GNP, 1983 World Bank Atlas.

To the extent that the small-quota low-income members have economies characterized by slow growth and an inherently weak balance of payments which prevents the pursuit of an active development policy, these members are eligible for assistance under the terms of the decision establishing the extended Fund facility. In SM/74/58 (3/8/74, p. 5), the particular relevance of the extended Fund facility to such countries was stressed. When an inherently unstable balance of payments stems from a weak productive base, "there may be a case for the Fund to provide an assurance of support to a country for a period long enough for it to develop its monetary and fiscal instruments for effective application and to realize the benefits of appropriate trade and exchange policies. Such situations could be found in some members of the 'least developed country' category."

Subject to the important proviso that the other conditions for use of the extended Fund facility must be met, in particular, the need for comprehensive programs of adjustment adequate for the solution of the member's problem, access to the Fund's resources for small-quota, low-income countries in payments difficulties through this facility would be appropriate. In determining the amount of access, including any access under the enlarged access policy, reference would have to be made to the amount of resources needed to make a significant impact on the country's problems. Special attention would have to be given to ensuring that substantial use of the Fund's resources did not create a servicing burden for these countries.

V. Proposed Criteria for 1984

1. The *annual limits of 102 and 125 percent of quota are not to* be regarded as targets. Within these limits, the amount of access in individual arrangements would depend, inter alia, on the following criteria: (a) the size of the payments imbalance in relation to quota and the possible need for financing from the Fund, taking into account the availability of other financing and the desirability of maintaining a reasonable level of reserves; (b) the nature of the payments imbalance, and the expected speed of improvement of the balance of payments; (c) the quality and strength of the adjustment program, including the appropriateness of the policies and of the timing of their application; and (d) the outstanding use of Fund resources by the member and its record in avoiding continuous use of such resources.

2. Given a particularly large financing need in relation to quota, a strong adjustment program that holds the prospect of a rapid and decisive improvement in the balance of payments, and a satisfactory record of the member with regard to its past use of the Fund's resources, access could be at or close to the annual limit of 102 percent of quota. In some circumstances, where a judgment on the basis of the relevant criteria so warrants, access may exceed the limit of 102 percent and reach up to the limit of 125 percent of quota. In all cases, the member would be expected to have a comprehensive adjustment program or strategy, with major adjustment measures to be taken at the start, and adjustment expected to be substantially completed before repurchases fall due. In exceptional circumstances, annual access exceeding the limit of 125 percent of quota may be provided: these may include cases where failure to provide orderly adjustment might impair the stability of the international monetary system. The Managing Director will consult with Executive Directors in an appropriate manner in advance of recommending such exceptional use.

3. In cases where the process of balance of payments adjustment is likely to take somewhat longer, the annual amount should be well below the limit of 102 percent of quota. It would be expected that by the time repurchases fall due, significant progress would have been made in overcoming the balance of payments difficulties. This progress

should clearly enable a sustainable payments position to be achieved in the near future, thus allowing the member to make net repurchases to the Fund at that time.

4. In other circumstances, namely, where the need for exceptional balance of payments finance is likely to persist beyond the medium term, the Fund's role would be largely catalytic. The Fund would provide limited support in an amount that would be closely related to the anticipated rate of improvement in the balance of payments when the member was taking appropriate steps to deal with its situation and when there was a clear prospect of sufficient improvement in the balance of payments over the medium term to allow the member to start making net repurchases.