FOR AGENDA

EBS/85/283
Correction 1

CONFIDENTIAL

December 24, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Use of Resources of the Special Disbursement Account

The following corrections have been made in EBS/85/283 (12/17/85):

Page 1, line 3: for "SDR 3.1 million" read "SDR 3.1 billion"

Page 26, para. # 2, heading: for "U.S. States proposal" read "U.S. proposal"

Corrected pages are attached.

Att: (2)

Use of Resources of the Special Disbursement Account

I. Introduction

The assets that become available as a result of the termination of the Trust Fund are to be transferred to the Special Disbursement Account (SDA). Of the total of SDR 3.1 billion scheduled to accrue to that account by April 1991 from Trust Fund loan repayments and interest, SDR 0.4 billion has been transferred to the Supplementary Financing Facility Subsidy Account. The remaining SDR 2.7 billion is to be used in accordance with the 1980 Executive Board Decision terminating the Trust Fund. 1/

A preliminary discussion on this subject was held on September 13, 1985 (EBM/85/141 and EBM/85/142) on the basis of a staff paper which presented some general considerations relating to the types of new arrangements which could be envisaged in light of the 1980 decision (EBS/85/183, 8/6/85). The Executive Board's deliberations were summarized by the Chairman (Buff 85/167, 9/19/85) and formed the basis for his report to the Interim Committee meeting in Seoul in October 1985.

The Interim Committee provided clear guidelines for the use of these resources in its Communiqué as follows:

a. "The total amount of these resources (about SDR 2.7 billion), which might be supplemented with funds from other sources, should be used to provide additional balance of payments assistance on concessional terms to the low-income countries eligible for IDA resources that are in need of such assistance and face protracted balance of payments problems. In this connection, the Committee welcomed the statements made by the representatives of China and India that they would not avail themselves of the facility in the period 1985-91.

b. This assistance should be made available to countries implementing economic programs designed to promote structural adjustment and growth in a medium-term framework. These economic programs should be reviewed periodically. Given the emphasis on structural adjustment, it was important that the Fund should work in close collaboration with the World Bank, whilst avoiding cross-conditionality.

1/ See Paragraph 3 (b) of Decision No. 6704-(80/185) TR, December 17, 1980 which is reproduced in Annex I. The discussion and references to the Special Disbursement Account in this paper relate only to resources derived from repayment of principal and interest on Trust Fund loans and from income derived from the temporary investment of those reflows.

c. The terms of the use of the resources, such as the rate of interest and the period of repayment, should be similar to those applied to loans from the Trust Fund.

d. Such arrangements would not adversely affect the availability of concessional development finance for low-income countries not utilizing Trust Fund reflows."

In view of the clear need for prompt financial support of appropriate adjustment policies in many of the countries that could be eligible to use these resources, the Executive Board was urged to complete its work on this matter, in light of the guidance provided by the Committee, before the Committee's next meeting.

In accord with the guidelines of the Interim Committee, this paper presents background for the Executive Board to consider decisions to establish specific procedures for use of the resources of the SDA. The following section suggests criteria to be used to determine the presence of a protracted balance of payments problem. These criteria are then applied to the list of IDA-eligible countries to indicate which of these countries, on the basis of information currently available to the staff, appear to be facing such problems. Section III describes a scheme for the commitment and disbursement of SDA resources to eligible countries that qualify for use of these resources. Some uncertainty exists as to both the amount and timing of the receipt of resources by the SDA, as well as to the extent to which members will make use of these resources. Moreover, the aims to be achieved through the use of such resources--especially the intended focus on structural adjustment over the medium term--impose additional constraints on the commitment and disbursement of SDA resources. In this paper, priority is given to a reasonably firm commitment of resources to members for a three-year period and to early initiation of disbursements of available funds to qualifying countries.

Section IV considers the nature of the policy programs to help foster structural adjustment that could be supported by the use of SDA resources. The relationship between the use of these resources and the Fund's general resources under existing facilities is examined in Section V, as is the question of access to these resources by prolonged users and by members with overdue obligations to the Fund. The financial terms to be associated with the use of these resources are also discussed in this section. In Section VI, modalities are suggested for enhancing the collaboration between the World Bank and the Fund in formulating policy programs in countries requesting use of these resources. In this connection, the elements of a proposal by the United States for joint Fund-Bank programs to be supported by the use of SDA resources in conjunction with resources from other sources, including bilateral donors, are described in Section VII. The last section of the paper indicates a possible time schedule under which the facility could begin operations.

balance of payments problems. 1/ The U.S. Treasury Secretary's statement indicated that the United States would be prepared to consider a bolder approach involving more intensive IMF and World Bank collaboration to provide a framework for development of unified, comprehensive economic programs, and to catalyze additional financing in support of such programs. This approach was suggested to help ensure that the institutions provide sound, mutually consistent advice on the full range of policies that can be used to attack poverty and promote growth. It was recognized that some members may have reservations about such an approach on grounds that it could be complicated and difficult to implement. While agreeing that it would not be an easy approach to put into place, the U.S. Treasury Secretary felt that it should be explored as it offered substantial possibilities for helping the poorest countries and for strengthening the ties between the Fund and the Bank, and hoped that further consideration could be given to it in the months ahead.

The U.S. proposal envisaged the provision of resources over the period 1986-1991 aimed at the poorest (IDA-eligible) countries which are confronting protracted balance of payments problems and are willing to implement a comprehensive growth-oriented economic program. The resources would come from (a) the Fund's Special Disbursement Account (initial estimate of SDR 2.7 billion); (b) IDA VII and IDA VIII nonproject lending; and (c) IBRD net income and lending. In addition, it is envisioned to associate existing bilateral aid as well as new, additional bilateral funds with the above Fund and Bank resources. The United States was prepared to consider seeking additional bilateral funds if other donors are also prepared to make equitable contributions.

The above resources would be in support of comprehensive economic programs containing both macroeconomic and structural elements similar to the program policy content envisaged by Fund staff in the case of use of SDA resources. The macroeconomic elements would be those typically included in Fund programs plus some increased Fund emphasis on structural and institutional reforms. The structural elements would include such matters as appropriate sectoral pricing policies, growth-oriented tax reform, financial reform to mobilize domestic savings and stimulate investment, reduced government intervention in the economy, promotion of the private sector and improvement of efficiency of state enterprises, trade liberalization, and measures to make foreign direct investment more attractive.

The United States, under this proposal, envisaged that the macro and structural elements would be contained in a single program developed and negotiated by joint Fund-Bank staff teams with the concerned member. Fund and Bank staff would prepare a single, joint document for nearly simultaneous consideration and endorsement by the Fund and Bank

Boards. Each Board would approve use of the resources under its own jurisdiction. Disbursements would be phased in line with program implementation which would be spread over several years. To monitor progress in implementation, quantitative targets and qualitative objectives would be specified in the joint program, which would be evaluated in a flexible and qualitative way in the context of semiannual reviews by both Boards. Approval of the joint program and/or successful completion of the review by the two Boards would trigger disbursements of Fund and Bank resources and associated bilateral aid.

2. <u>Some implications of the U.S. proposal</u>

Implementation of the U.S. proposal would require decisions and the adoption of certain procedures at the Board and staff operational levels. The two Boards would need to endorse the concept of joint programs, determine the form and extent of linking of resources, and the disbursement and other mechanisms to achieve this. Within the total pool of resources, for resources under their respective jurisdiction, each Board would need to decide upon the amount, purposes, time period, and criteria for eligibility and use of the relevant resources, and the potential access of individual members. The phased disbursements of resources from the two institutions presumably would be linked in some fashion specified in the joint program document. There would need to be mutual agreement between the two institutions on a common list of potential users based on similar and mutually consistent criteria. Consideration of joint programs and reviews of the implementation of these programs by the two Boards would need to be scheduled simultaneously or at least very closely together. Procedures would need to be instituted to deal with the eventuality that the joint program is endorsed by one Board but not by the other. Joint programs imply that collaboration must also increase between Bank and Fund Executive Directors for purposes of harmonized and consistent views.

Decisions on disbursements of bilateral aid associated with the joint programs would be a matter for individual donors rather than for the Bank or the Fund. However, since the joint program would be formulated on the basis of an assessment of balance of payments needs and the prospective availability of financing, it would be expected that donors would make every effort to live up to commitments in order to avoid the emergence of unfilled financing gaps which could jeopardize program implementation. The Boards of the Bank and the Fund might want to consider whether other mechanisms to assure disbursement of bilateral assistance in concert with resources committed by the Bank and the Fund may be desirable.

At the staff and management levels, there would need to be a close association between the two institutions at each stage of program formulation and follow-up. While this principle is also envisaged by the staff in the formulation of SDA programs, the U.S. proposal on joint programs would go considerably further and would imply a significant extension of present procedures and practices on collaboration. It