

04

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 81/47

1981

3:00 p.m., March 27, 1981

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors

Alternate Executive Directors

B. Kharmawan

G. Lovato

O. Kabbaj
L. D. D. Price
S. E. Conrado, Temporary
J. E. Leimone, Temporary
O. Uçer, Temporary
M. Casey
M. A. Janjua, Temporary
H. Suzuki, Temporary
F. A. Tourreilles, Temporary
W. A. Kabli, Temporary
J. R. Gabriel-Peña
V. Supinit
A. K. Mullei, Temporary
G. Winkelmann

P. D. Peroz, Temporary
C. Bouchard, Temporary
D. L. Kannangara
T. de Vries
S.-W. Kwon, Temporary
L. Vidvei
Tai Q.

L. Van Houtven, Secretary
R. S. Laurent, Assistant

1. Grenada - Purchase Transaction - Compensatory Financing Facility Page 3
2. St. Lucia - Purchase Transaction - Compensatory Financing Facility Page 3

Also Present

Exchange and Trade Relations Department: M. Guitian. Legal Department: H. Elizalde, W. E. Holder, J. M. Ogoola. Research Department: U. R. Gunjal, N. M. Kaibni, P. Radhakrishnan, P. C. Ugolini. Western Hemisphere Department: E. W. Robichek, Director; A. I. Abdi, E. O. Bell, Y. Ozeki, S. J. Stephens, G. Yadav, J. E. Zeas. Advisor to Executive Director: G. Jauregui. Assistants to Executive Director: S. R. Abiad, A. F. P. Bakker, J. U. Holst, G. B. Lind, J. S. Mair, V. K. S. Nair, J. Reddy, M. Shadman, P. S. Tjokronegoro, J. F. Williams.

1. GRENADA - PURCHASE TRANSACTION - COMPENSATORY FINANCING FACILITY

The Executive Directors considered a request by Grenada for a purchase equivalent to SDR 2.1 million under the compensatory financing facility (EBS/81/19, 2/3/81; and Sup. 1, 3/20/81).

Mr. Casey noted that Grenada was making its first request for a purchase under the compensatory financing facility. The country was requesting a purchase of 46.7 per cent of quota, an amount equal to the judgmental shortfall and a good deal less than the shortfall derived from the formula.

With the possible exception of two years, the overall balance of payments had been in deficit since 1975, Mr. Casey continued. The current balance of payments position was rather volatile, reflecting sharp movements in net transfers on current account. The trade balance was often in substantial deficit and had reached the high figure of SDR 18.5 million in 1980, the shortfall year.

The export shortfall in 1980 had been due almost entirely to volume effects, Mr. Casey commented. Most of the reduction in crop exports--including cocoa, bananas, and nutmeg--could be attributed to damage caused by abnormally heavy rainfall and by a hurricane. The export shortfall was therefore completely beyond the authorities' control and was expected to be temporary. Finally, in the formal request for the drawing, the authorities had stated that Grenada would cooperate with the Fund in an effort to find appropriate solutions for its balance of payments difficulties.

Mr. de Vries said that he could support the request.

The Executive Board then took the following decision:

1. The Fund has received a request from the Government of Grenada for a purchase of the equivalent of SDR 2.1 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representation of Grenada and approves the purchase in accordance with the request.

Decision No. 6799-(81/47), adopted
March 27, 1981

2. ST. LUCIA - PURCHASE TRANSACTION - COMPENSATORY FINANCING FACILITY

The Executive Directors considered a request by St. Lucia for a purchase equivalent to SDR 2.7 million under the compensatory financing facility (EBS/81/53, 3/11/81; and Sup. 1, 3/20/81).

Mr. Casey observed that St. Lucia was making its first request for a purchase under the compensatory financing facility. The amount requested was SDR 2.7 million, or 50 per cent of quota, a figure substantially below the judgmental shortfall. St. Lucia clearly had a balance of payments need: in 1980, the current account deficit had worsened to a record SDR 32 million, almost one third of GDP. Capital inflows, while substantial, did not fully offset the deficit. Furthermore, the overall deficit was expected to widen considerably in 1981.

Since the export shortfall in 1980 had been caused by a hurricane that had greatly damaged bananas and other crops, the shortfall was beyond the control of the authorities, Mr. Casey considered. Assuming no further natural disasters, the shortfall was temporary in nature. Finally, the request for the purchase included a statement that St. Lucia would cooperate with the Fund in an effort to find solutions to the balance of payments difficulties.

Mr. de Vries noted that his difficulties with St. Lucia's request were similar to those mentioned by Mr. Polak during the request for a compensatory financing facility drawing by St. Vincent and the Grenadines (EBM/81/42, 3/20/81).

The judgmental shortfall for St. Lucia was SDR 4 million, Mr. de Vries observed. The country had made an emergency drawing of SDR 1.8 million owing to damage caused by the same hurricane that had caused the shortfall. While the country might have a legal right to apply for a compensatory drawing even though it had already made an emergency drawing, in another sense the Fund was being asked to compensate St. Lucia twice for the same natural disaster. As Mr. Polak had said at EBM/81/42, it was not right to compensate a country twice for the same shortfall. Of course, if the country agreed to a program with the Fund, it could make additional drawings later on. However, he felt that St. Lucia's present request was SDR 0.5 million too high.

Mr. Leimone indicated that he could support St. Lucia's request for a purchase under the compensatory financing facility. The country had a demonstrable balance of payments need and an export shortfall that was clearly beyond the authorities' control. In view of the much larger overall balance of payments deficit in prospect for 1981, it was encouraging that St. Lucia expected to discuss with the Fund the possibility of a medium-term program later in the year. He would appreciate comments by the staff on the likely timing of such a program.

Mr. Price stated that, like Mr. Leimone, he supported the request and was interested in St. Lucia following a longer-term adjustment program with the help of the Fund.

As to Mr. de Vries' point, the shortfall year for the purposes of the compensatory financing facility had ended in March 1981, Mr. Price noted. The Executive Board had not considered St. Lucia's 1980 drawing as being for a definite 12-month period. Moreover, the criterion that there be a balance of payments need had been met in St. Lucia's case.

The staff representative from the Western Hemisphere Department, responding to Mr. Leimone, explained that the staff had planned a mission to St. Lucia. At present, the staff was reviewing the circumstances of the country to determine whether a medium-term program or a short-term program would be appropriate. St. Lucia had recently joined the Fund, and one consultation had been held. It had not yet used Fund resources, except during the emergency.

The staff representative from the Research Department, responding to Mr. de Vries, noted that the decision establishing the compensatory financing facility did not provide for explicit account to be taken of drawings other than those under the compensatory financing facility in the calculation of double compensation. Furthermore, no provision was made for the reclassification of drawings made under other Fund policies as drawings under the compensatory financing facility.

In 1979, the Executive Board had considered requests by Dominica and the Dominican Republic for both compensatory financing and emergency drawings, the staff representative recalled. The request by the Dominican Republic for compensatory financing had raised the outstanding amount to 100 per cent of quota, in addition to which there had been an emergency drawing of 50 per cent of quota. The provision in the decision on compensatory financing regarding early drawings--although partly intended to speed up the timing of compensatory assistance by allowing estimates to be made for up to six months of the data for shortfall years--did not meet the needs of countries for prompt assistance when disasters had occurred that would affect exports over a longer period. Nor did it meet their needs in cases of a sharp drop in the price of commodities that were of export interest to a country. For example, there had been a sharp drop in the prices of coffee and cocoa during recent months. Even though members could project their export earnings fairly accurately over the coming year, they could come to the Fund for assistance only when the effects of the price decline had been reflected in export earnings for a sufficient number of months to lead to the calculation of an export shortfall.

Mr. de Vries commented that the present technique of emergency assistance was welcome. Before that technique had been implemented, two countries in his constituency had had natural disasters and had attempted to provide figures rapidly. It was clear that a shortfall was occurring, but the figures produced by the countries had been inadequate. The technique of emergency drawings was much more suited to such cases, but he believed that it was wrong that a country's right to draw on the compensatory financing facility should remain unimpaired even if it had first obtained an emergency drawing. All in all, the Fund procedures for emergency drawings were not well developed.

The staff representative from the Western Hemisphere Department recalled that, at the time of emergency assistance for Dominica, the Executive Board had indicated to the staff that the aid was being provided under the Fund's ordinary tranche policies, and that the lending was for relief and reconstruction rather than compensation for an export shortfall. Thus, the emergency assistance had not been an advance on a future compensatory drawing.

Mr. Price said that the point raised by Mr. de Vries was an important one. As Mr. Drabble had suggested on previous occasions, the Fund should examine its emergency financing procedures more closely. The Fund should also examine further the idea that emergency financing might be made available for six months or so, after which time it could be converted into a program under a tranche policy or into a drawing under a facility.

The Chairman observed that there was some uncertainty regarding the way in which the Fund arranged emergency assistance, and it might be better to reach a clear decision on the matter. Either emergency assistance would be transformed after a reasonable period into an agreement with the Fund, at which time the Fund and the authorities would work out a program; or there might be cases in which the compensatory financing facility provided assistance, but double compensation would have to be avoided. The staff would prepare a paper for the consideration of the Executive Board.

Mr. Casey agreed that the Fund's present arrangements were rather unclear and should be regularized. St. Lucia's compensatory financing facility request came after a tranche drawing that had been called an "emergency drawing," and did not represent double compensation. A more reasonable interpretation would be that conditionality had been waived for the time being because the country had needed a tranche drawing immediately and had not had time to formulate a program.

Perhaps the very short-term emergency assistance previously recommended by Mr. Drabble could be considered in the future, Mr. Casey went on. Whether that would take the form of a tranche drawing with deferred conditionality or some other form of short-term credit was a matter to be discussed. On a separate matter it should be noted that St. Lucia's balance of payments need was made stronger by the country's limited access to reserves.

The authorities would certainly consider the Executive Board's thinking about a medium-term program, Mr. Casey concluded. However, in view of the quality of data, it might be difficult to specify performance criteria that could be monitored on a regular basis.

The Executive Board then took the following decision:

1. The Fund has received a request from the Government of St. Lucia for a purchase of the equivalent of SDR 2.7 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representation of St. Lucia and approves the purchase in accordance with the request.

Decision No. 6800-(81/47), adopted
March 27, 1981

APPROVED: August 18, 1981

ALAN WRIGHT
Acting Secretary

