

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES  
ROOM C-525

0451

EBS/90/219

CONFIDENTIAL

December 27, 1990

To: Members of the Executive Board

From: The Acting Secretary

Subject: Enhanced Structural Adjustment Facility (ESAF) -  
Update on Status of Operations

Attached for the information of the Executive Directors is an update through November 30, 1990, of the operations of the enhanced structural adjustment facility (ESAF), issued in connection with the forthcoming interest period January-June 1991.

Mr. Munzberg (ext. 6675), Ms. Puckahtikom (ext. 8780), or Ms. Fennell (ext. 7630) is available to answer technical or factual questions relating to this paper.

Att: (1)



INTERNATIONAL MONETARY FUND

Enhanced Structural Adjustment Facility (ESAF):  
Update on Status of Operations

Prepared by the Treasurer's, Exchange and Trade Relations,  
and Legal Departments

Approved by John T. Boorman, François Gianviti, and Gerhard Laske

December 26, 1990

The staff indicated in EBS/88/74 (March 31, 1988) that it would report to the Executive Board on the status of Trust operations on a six-monthly basis before the beginning of each new interest period for Trust loans to ESAF beneficiaries. 1/ In connection with the forthcoming interest period January - June 1991, this paper updates the information relating to ESAF Trust operations provided to Executive Directors in EBS/90/106 (June 12, 1990). 2/ The staff will reexamine the financial aspects of the ESAF Trust in connection with the next review of SAF/ESAF operations that must be completed by July 31, 1991. A staff paper for that review will be issued by end-June 1991, before the start of the following interest period, July - December 1991.

Use of ESAF Trust Resources

As of November 30, 1990, there were 14 ESAF arrangements in effect. Commitments under these arrangements totaled SDR 1,795.9 million, of which SDR 1,410.5 million represented commitments of ESAF Trust resources and the balance of SDR 385.4 million represented commitments of SDA resources (Table 1). Since April 30, 1990, the date through which ESAF operations were last updated, three new ESAF arrangements have been approved, including for Bangladesh (for a total commitment of SDR 258.8 million), Guyana (SDR 81.5 million), and Mozambique (SDR 85.4 million). Discussions are currently underway between the staff and the authorities of a number of eligible members on possible growth-oriented adjustment programs that could be supported by ESAF arrangements or, in the case of some members with

---

1/ "Enhanced Structural Adjustment Facility (ESAF) -- Access Limit and Interest Rate on Loans by the ESAF Trust", EBS/88/74, March 31, 1988.

2/ "Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF) - Review of Operations," EBS/90/106, June 12, 1990.

existing arrangements, on augmentation of arrangements to meet the current more adverse circumstances. 1/

Drawdowns on ESAF Trust loan agreements used to finance disbursements under ESAF Trust commitments are set out in Table 2. As of November 30, 1990, SDR 620.9 million had been drawn down under ESAF loan agreements to finance disbursements, compared with SDR 416.0 million as of April 30, 1990.

In the seven months since the last review of ESAF operations (i.e., May 1, 1990 to November 30, 1990), the ESAF Trust has made interest payments to lenders amounting to SDR 16.6 million, of which SDR 1.4 million was financed by payments of interest made by borrowers and the balance of SDR 15.2 million was drawn from the resources of the Subsidy Account. It is anticipated that further drawings on the Subsidy Account amounting to SDR 6.2 million will be made in December 1990 to finance interest payments due to lenders.

1. Availability of ESAF Trust and Associated Resources

a. ESAF Trust Loan Account and associated loans

Loan contributions to the ESAF Trust (including the agreement with the Saudi Fund for Development to lend in association with the ESAF Trust) remained at the same level as reported in EBS/90/106--about SDR 5.3 billion (and potentially SDR 5.6 billion) (Table 6). 2/ 3/ Of this amount, agreements amounting to SDR 5,145 million have been approved by the

---

1/ The Executive Board recently adopted decisions amending the Instrument to establish the ESAF Trust in response to recent developments in the Middle East to permit augmentation of the overall amount committed under a three-year arrangement when increasing the amount for a second disbursement under an annual arrangement to help meet adverse external contingencies, or to permit the adoption of a fourth annual arrangement under specified conditions. See "Fund Response to Recent Developments in Middle East - Decisions Amending Compensatory and Contingency Financing Facility and Other Decisions," EBS/90/179, December 5, 1990.

2/ The contribution from Japan could be increased by up to a further SDR 0.3 billion, for a total of up to SDR 2.5 billion, in the event that further contributions to the Subsidy Account become available to subsidize the additional funds down to an effective interest rate of 0.5 percent and to the extent that total loan contributions do not exceed SDR 6 billion.

3/ On September 24, 1990 the Executive Board approved a two-year extension of the commitment period for ESAF Trust loans, from November 30, 1990 to November 30, 1992. The Managing Director is authorized to conclude corresponding extensions of the commitment and disbursement periods with lenders (and associated lenders) to the ESAF Trust Loan Account. Five lenders have agreed to the requested extensions and the applicable provisions of the respective agreements have been amended accordingly. Responses from the remaining lenders are expected shortly.

Executive Board and have entered into effect. Discussions in respect of an agreement with the Government of Spain for SDR 40 million (at a rate of 0.5 percent) are continuing. Discussions with four lenders who had indicated that they would be willing to commit loans for a total of up to SDR 130 million will need to be pursued further.

b. ESAF Subsidy Resources

(i) ESAF Subsidy Operations

In the period from April 30, 1990 to November 30, 1990, the resources of the ESAF Subsidy Account increased by a total of SDR 111.0 million (Table 3), comprising further contributions in the form of grants amounting to SDR 84.7 million from 10 members, 1/ net income from the investment of grants of SDR 16.8 million, and net income from concessional loans to or investments with the Subsidy Account or transfers of net earnings on placements with administered accounts for the benefit of the Subsidy Account of SDR 9.5 million. As noted above, drawings on the Subsidy Account amounting to SDR 15.2 million were made during this period to subsidize the rate of interest paid by Trust beneficiaries. As a result, the resources available to the Subsidy Account increased from SDR 226.9 million at end-April 1990 to SDR 322.7 million at end-November 1990, or by a net amount of SDR 95.8 million. Taking account of the relatively low level of ESAF Trust disbursements made during the early period of ESAF operations and projected ESAF disbursements, the staff judges that available balances in the Subsidy Account are more than adequate to meet projected disbursement needs in 1991.

(ii) Total Subsidy Contributions and Requirements

The projection of overall ESAF subsidy requirements is established in light of the objective of reducing the effective rate of interest charged on Trust loans down to 0.5 percent per annum. The projection of subsidy requirements, as well as the calculation of the value of the subsidy contributions on an "as needed" basis, depend on assumptions relating to the level of interest rates projected to prevail over the ESAF Trust lending period and, to a lesser extent, on the pattern of Trust loan disbursements.

As discussed in the Annex to EBS/90/106, it is considered appropriate to use as the "central assumption" in the projections of ESAF Trust operations the average of the six-month combined domestic SDR interest rates prevailing over the period from the establishment of the ESAF Trust at the end of 1987 through the date of the review of operations. In the case of the present review, this would be the average of rates from December 1987 through November 1990, or for a period of almost three years. On this

---

1/ Since November 30, 1990, additional grant contributions have been received from Iceland in an amount of SDR 0.2 million and from Italy in an amount of SDR 56.1 million.

basis, the level of interest rate to be used in the "central assumption" would increase from the 7.5 percent used in the preceding review to 8.0 percent. 1/

The assumption regarding the rate at which ESAF Trust resources are disbursed has been modified to reflect actual ESAF disbursements in 1990 as well as current projections regarding the future pace of disbursements. Based on current projections of ESAF arrangements for the period ahead, and taking into account the potential demand for ESAF resources arising from recent developments in the Middle East, it has been assumed for the purpose of calculations in this paper that total commitments of ESAF Trust resources will reach SDR 2 billion by end-June 1991. It is assumed that the balance of commitments--SDR 4 billion--would be made over the period July 1991-November 1992, with commitments toward the end of the period taking account of the possible effects of commitments following the completion of "rights" accumulation programs. Disbursements would stretch out to end-November 1995.

On the basis of these assumptions regarding interest rates and disbursements of ESAF Trust resources, the value of subsidy contributions in all forms (on an "as-needed" basis) has been calculated to total SDR 2,744 million as at November 30, 1990 or SDR 206 million greater than the total of SDR 2,538 million indicated in EBS/89/127. This increase in the calculated value of contributions since the last ESAF update has been due to (i) a net increase of SDR 111 million owing to a change from 7.5 percent to 8.0 percent in the assumed level of interest earnings on Subsidy Account investments (arising from the front-loading implicit in a number of contributions) (ii) a net increase in SDR 70 million owing to a change in the assumptions relating to the pattern and amounts of subsidy contributions and, in particular, of subsidy disbursements, and (iii) a net increase of SDR 25 million reflecting the impact on subsidy commitments of exchange rate changes. The staff estimates, using these same assumptions of interest rates and disbursements, that present subsidy contributions of SDR 2,744 million are sufficient to support ESAF Trust lending of about SDR 4.7 billion at an interest rate to borrowers of 0.5 percent. Additional subsidy contributions, valued on an "as-needed" basis, in the order of about SDR 0.7 billion would be needed to support fully ESAF Trust lending at the target level of SDR 6 billion at 0.5 percent per annum.

The amount of lending that existing contributions are able to support and the amount of additional contributions that would be needed to support fully the target level of ESAF lending have remained of approximately the same order of magnitude as reported at the time of the last ESAF review,

---

1/ The six-month combined domestic SDR interest rate, which is the rate used for most lending to the Trust as well as the rate that reasonably approximates the return on the Trust's investments, has remained about the same in the six months preceding the current review (9.2 percent) as in the six months preceding the last review (9.1 percent).

despite the increase in assumed interest rate and the consequent increase in the amount of subsidy disbursements. This is due to the fact, as noted above, that commitments and, hence, disbursements under ESAF arrangements are now projected to be concentrated more heavily toward the end of the respective periods. Consequently, subsidy disbursements will also be delayed relative to the assumptions at the time of the previous review, thereby enhancing the value of subsidy contributions as the balances in the Subsidy Account will be available for investment over a longer period.

c. ESAF Trust Reserve Account

Resources available to the Reserve Account amounted to SDR 384 million as of November 30, 1990 (Table 5), comprising actual and accrued income through November 30, 1990 from the investment of resources in the Special Disbursement Account (SDR 306.0 million), interest received on SAF loans (SDR 11.6 million), net earnings from investment of the resources of the Loan Account (SDR 23.8 million), and net earnings from investment of resources of the Reserve Account (SDR 42.9 million). Current projections suggest that the balance in the Reserve Account at end-2005 would amount to about SDR 7.0 billion in comparison to a total of SDR 6.6 billion projected for the same date in EBS/90/106. This increase of SDR 0.4 billion relative to earlier projections is due to slower than anticipated disbursements from the SDA over the past year as well as a higher actual yield so far on investments in the SDA and the Reserve Account than projected earlier resulting in greater interest earnings available to the Reserve Account.

2. Summary

As at November 30, 1990, loan contributions to the ESAF Trust remained unchanged at about SDR 5.3 billion (and potentially SDR 5.6 billion) from the figure reported in the last ESAF update (EBS/90/106). Of this amount, loans totalling SDR 5.15 billion have been approved by the Executive Board and have entered into effect. A total of SDR 1,410.5 million of ESAF Trust resources has been committed under 14 ESAF arrangements through end-November 1990 and a total of SDR 620.9 million has been disbursed.

Subsidy contributions total about SDR 2.7 billion as calculated on the basis of assumptions used for this purpose (as described above). A balance of SDR 322.7 million was available in the Subsidy Account at end-November 1990, after taking account of cumulative subsidy payments of SDR 24.2 million.

Balances in the Reserve Account (including accrued interest) amounted to SDR 384 million at end-November 1990 and projections of accumulation of resources in the Reserve Account suggest that about SDR 7.0 billion would be available at end-2005, somewhat larger than projected in EBS/90/106.

On the basis of the assumptions discussed above regarding the central interest rate of 8.0 percent on the Trust's borrowings and investments, as

well as the pattern of future Trust disbursements, at this time available subsidy resources appear sufficient, in the staff's judgement, to permit ESAF Trust and associated lending of about SDR 4.7 billion at the fully subsidized interest rate of 0.5 percent. Additional subsidies of about SDR 0.7 billion, on an "as-needed" basis, would be required to support Trust lending at the target level of SDR 6 billion at 0.5 percent per annum. Efforts to raise additional resources sufficient for the ESAF Trust to lend SDR 6 billion at an interest rate of 0.5 percent will continue.



Table 1. ESAF Arrangements Approved  
(as of November 30, 1990)

(In millions of SDRs)

Member	Date Arrangement Approved	Three-year ESAF Commitments				Disbursements through 11/30/90		
		Total	Percent of Quota	of which:		Total	of which:	
				SDA Resources	ESAF Trust		SDA 1/ Resources	ESAF 1/ Trust
Bangladesh	Aug. 10, 1990	258.8	90	--	258.8	43.1	--	43.1
Bolivia	Jul. 27, 1988	136.1	150	45.4	90.7	90.7	45.4	45.4
Gambia, The	Nov. 23, 1988	20.5	120	3.4	17.1	13.7	3.4	10.3
Ghana	Nov. 9, 1988	368.1	180	102.3	265.9	272.1	102.3	169.9
Guyana	Jul. 13, 1990	81.5	166	34.4	47.1	37.2	4.9	32.3
Kenya	May 15, 1989	241.4	170	71.0	170.4	120.7	56.8	63.9
Madagascar	May 15, 1989	76.9	116	33.2	43.7	38.5	26.6	11.9
Malawi	Jul. 15, 1988	55.8	150	26.0	29.8	46.5	22.3	24.2
Mauritania	May 24, 1989	50.9	150	6.8	44.1	17.0	3.4	13.6
Mozambique	Jun. 1, 1990	85.4	140	--	85.4	9.2	--	9.2
Niger	Dec. 12, 1988	50.6	150	6.7	43.8	23.6	6.7	16.9
Senegal	Nov. 21, 1988	144.7	170	17.0	127.7	102.1	11.5	90.6
Togo	May 31, 1989	46.1	120	19.2	26.9	23.0	15.4	7.7
Uganda	Apr. 17, 1989	179.3	180	19.9	159.4	102.1	19.9	82.2
Total		1,795.9	144 2/	385.4 3/	1,410.5	939.4	318.5	620.9

Note: Totals may not add due to rounding.

1/ The following additional disbursements apply for the period through end-December 1990:

a. December 14, 1990 (completed)

i. Gambia--a first disbursement (3rd annual arrangement) of SDR 3.42 million comprised of ESAF Trust resources.

ii. Togo--a second disbursement (2nd annual arrangement) of SDR 7.68 million comprising SDR 3.84 million of SDA resources and SDR 3.84 million of ESAF Trust resources.

b. December 28, 1990 (planned)

i. Kenya--a second disbursement (2nd annual arrangement) of SDR 60.23 million comprising of SDR 14.20 million of SDA resources and SDR 46.03 million of ESAF Trust resources.

2/ Weighted average.

3/ Includes undisbursed commitments of SDA resources of SDR 359.32 million for those members for which SAF arrangements were replaced with ESAF arrangements.

Table 2. ESAF--Loan Agreements Approved  
(as of November 30, 1990)

(In millions of SDRs)

	Effective Date of Agreement	Loan Commitment	Amount Disbursed	
			Amount	As proportion of total available (in percent)
Caisse Centrale de Cooperation Economique (France)	Apr. 5, 1988	800	194.2 <u>1/</u>	24.3
The Export-Import Bank of Japan	Apr. 12, 1988	2,200	227.0 <u>2/</u>	10.3
Bank of Norway	Apr. 14, 1988	90	11.2	12.4
Swiss Confederation	Dec. 23, 1988	200	79.2 <u>3/</u>	39.6
Government of Canada	Feb. 22, 1989	300	31.2	10.4
Bank of Spain	Jun. 20, 1988	220	28.2	12.8
Ufficio Italiano dei Cambi	Oct. 4, 1990	370	-- <u>4/</u>	--
Kreditanstalt für Wiederaufbau (Germany)	Mar. 31, 1989	700	43.1	6.2
Bank of Korea	Apr. 20, 1989	<u>65</u>	<u>6.8</u>	<u>10.5</u>
Subtotal		4,945	620.9	12.6
Associated Agreement - Saudi Fund for Development	Feb. 27, 1989	<u>200</u>	<u>--</u>	<u>--</u>
Total		5,145	620.9	12.1

1/ A further call on the CCCE for SDR 23.0 million has been advised for value December 28, 1990.

2/ A further call on JEXIM for SDR 23.1 million has been advised for value December 28, 1990.

3/ The full loan commitment of SDR 200 million was drawn down in January 1989 of which SDR 79.2 million has been used to finance ESAF disbursements. The balance of SDR 120.8 million remains invested until use in further disbursements. See EBS/88/70 (March 28, 1988) for details.

4/ A call on UIC for SDR 7.3 million was made for value December 14, 1990.

Table 3 - ESAF Trust Subsidy Account  
Availability of Resources  
As at November 30, 1990

(in millions of SDRs)

Contributor	Cumulative to April 30, 1990	April 30, 1990 - November 30, 1990	Cumulative to November 30, 1990
A. Resources Available to Subsidy Account			
1. Grants Received <u>1/</u>			
Canada	1.3	3.0	4.3
Denmark	22.5	--	22.5
Finland	13.8	8.9	22.7
Germany	4.5	4.5	9.0
Japan	37.5	36.7	74.2
Korea	27.7	--	27.7
Luxembourg	1.0	0.5	1.5
Netherlands	3.5	6.9	10.4
Norway	9.1	2.4	11.5
Sweden	36.6	18.7	55.3
United Kingdom	32.4	0.9	33.3
United States	--	2.2	2.2
Subtotal	189.9	84.7	274.6
2. Income from Investment <u>2/ 3/</u>	26.6	16.8	43.4
3. Income from Administered Accounts <u>2/</u>	19.4	9.5	28.9
4. Total	235.9	111.0	346.9
B. Resources Disbursed to Subsidize Trust Lending			
	9.0	15.2	24.2
C. Net Subsidy Resources Available	226.9	95.8	322.7

Note: Totals may not add due to rounding

1/ On December 14, 1990 a grant contribution of SDR 0.2 million was received from Iceland and on December 19, 1990 a grant contribution of SDR 56.1 million was received from Italy.

2/ Includes income accrued through November 30, 1990.

3/ Includes income from concessional loans to and investments by contributors with the Subsidy Account.

Table 4. Subsidy Contributions in Other Forms

(As of November 30, 1990)

	Vehicle	Loan/Investment Amount (SDR millions)		Interest Rate (percent)	Maturity
		Approved	Received <sup>1/</sup>		
Austrian National Bank	Administered Account	60	60	0.5	5 1/2-10 years
National Bank of Belgium	Administered Account	100	100	0.5	10 years
Bank of Greece	Administered Account	35	35	0.5	5 1/2-10 years
Central Bank of Malta	Subsidy Account	1.4	1.4	0.5	13 years
Bank Negara Malaysia	Subsidy Account	40	40	0.5	10 years
Monetary Authority of Singapore	Subsidy Account	40	30	2.0	10 years
Bank of Thailand	Subsidy Account	20	20	2.0	10 years
		<hr/>	<hr/>		
		296.4	286.4		

<sup>1/</sup> Some of these amounts will be paid in installments

ESAF--Notes on Contributions set out in Table 6

Austria:	Subsidy contribution accruing from net income on deposit of SDR 60 million in an Administered Account at 0.5 percent, repayable over 5 1/2-10 years.
Belgium:	Subsidy contribution accruing from net income on deposits of SDR 100 million in an Administered Account at 0.5 percent, repayable after 10 years.
Canada:	Contribution of SDR 300 million to Loan Account with subsidy necessary to achieve an effective lending rate of 0.5 percent per annum. It is presently anticipated that grants corresponding to loans in excess of SDR 200 million will be made available starting in 1995.
Chile:	Possible contribution of SDR 12 million to Loan Account. Amount of subsidy contribution yet to be determined.
Denmark:	Grant contribution of SDR 9 million per year in 1988-89, SDR 4.5 million in 1990, and SDR 4.5 million in late 1990 or early 1991.
Finland:	Grant contribution of SDR 5.4 million in 1988, SDR 8.4 million in 1989, and SDR 8.9 million in 1990.
France:	Contribution of SDR 800 million to Loan Account, of which SDR 700 million is at 0.5 percent; this interest rate is subject to review and possible adjustment if the Trust loan interest rate is raised.
Germany:	Contribution of SDR 700 million to the Loan Account. Grant contribution of SDR 4.5 million received in 1989 with further contributions amounting up to DM 300.31 million between 1990-2000. (See also footnote 5)
Greece:	Subsidy contribution accruing from net income on deposit of SDR 35 million in Administered Account at 0.5 percent, repayable over 5 1/2-10 years.
Iceland:	Grant contributions of SDR 2 million in 1990-95.
Italy:	Contribution of SDR 370 million to Loan Account, with subsidy necessary to achieve an effective lending rate of 0.5 percent. (Grant contribution of SDR 56.1 million received in 1990.)
Japan:	Grant contribution of SDR 300 million, somewhat front-loaded. Contribution to Loan Account of SDR 2.2 billion. Additional loan amount of up to SDR 0.3 billion could be provided, subject to the availability of further grants to subsidize this additional amount down to 0.5 percent (and to the extent that total contributions by members do not thereby exceed SDR 6 billion).
Korea:	Contribution of SDR 65 million to Loan Account. Grant contribution of SDR 27.7 million.
Kuwait	Possible contribution of US\$50 million to Loan Account.

ESAF--Notes on Contributions set out in Table 6--Continued

Luxembourg:	Annual grant contributions of SDR 500,000 per year in 1988-93.
Malaysia:	Subsidy contribution accruing from net income to Subsidy Account from an investment of SDR 30 million at 0.5 percent in 1988, and a further SDR 10 million in 1989. Investments repayable after 10 years.
Malta:	Subsidy contribution accruing from net income to the Subsidy Account from an investment of SDR 1.365 million at 0.5 percent for 13 years.
Mexico:	Possible contribution of SDR 45 million to Loan Account, accompanied by subsidy needed to achieve an effective lending rate of 0.5 percent.
Netherlands:	Grant contributions of SDR 0.8 million in 1988, SDR 2.7 million in 1989, SDR 7.1 million in 1990, and f108.5 million in 1991-97.
Norway:	Contribution of SDR 90 million to Loan Account. Subsidy contribution of SDR 6.9 million in 1988, SDR 2.3 million in 1989, SDR 2.4 million in 1990 and Nkr 47.5 million between 1990 and 1992.
Saudi Arabia:	Associated lending of SDR 200 million at loan charge of 0.5 percent; interest rate is subject to review if the Trust loan interest rate is increased.
Singapore:	Subsidy contribution accruing from net income to Subsidy Account from loans or investments of SDR 40 million at 2 percent, repayable after 10 years.
Spain:	Contribution of SDR 220 million to Loan Account at six-month combined domestic rate, and SDR 40 million at 0.5 percent. (The latter loan remains to be finalized).
Sweden:	Grant contribution of SDR 18.4 million in 1988, SDR 18.1 million in 1989, SDR 18.7 million in 1990 and SKr 150 million in 1991.
Switzerland:	Contribution of SDR 200 million to Loan Account at an interest rate of zero percent.
Thailand:	Subsidy contribution accruing from net income to Subsidy Account from an investment of SDR 20 million at 2 percent, repayable after 10 years.
Turkey:	Possible contribution of up to SDR 35 million to Loan Account.
United Kingdom:	Grant contribution equivalent to amounts sufficient, at interest and exchange rates prevailing in early December 1987, to provide necessary subsidy on Trust loans rising to up to SDR 1 billion. Amount calculated on this basis totals 327 million pounds sterling.
United States:	Grant contributions totalling US\$150 million in FY1990-FY2001.