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January 26, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Compensatory Financing Facility - Recent Experience and Issues for Consideration

The attached paper on recent experience with the compensatory financing facility and issues for consideration is scheduled for discussion by the Executive Board on Wednesday, February 18, 1987.

Mr. Kaibni (ext. 7721) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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Compensatory Financing Facility--Recent Experience and Issues for Consideration

Prepared by the Research Department

(In consultation with the Exchange and Trade Relations Department and other Departments)

Approved by Jacob A. Frenkel

January 23, 1987

In response to requests by Executive Directors at the Executive Board meeting on access limits for 1987 (EBM/86/150-51, 9/9/86) and during the course of Executive Board consideration of recent requests for compensatory financing (CF) drawings, it was agreed that the Board would undertake a comprehensive review of the compensatory financing facility (CFF) during the course of 1987. Subsequently, it was also agreed that, as background for this comprehensive review, the staff would first prepare a paper outlining the major policy issues that needed to be addressed in the light of experience with the CFF in recent years. 1/ This paper serves that function.

The paper is organized as follows. Section I provides a brief survey of the origins of the CFF and its evolution in response both to changes in the external environment and to experience gained in its application. Sections II and III discuss the major issues associated with the implementation of the CFF. Section II deals with questions related to conditionality, access and phasing, while Section III covers a number of issues associated with the calculation of compensable export shortfalls. These include the questions: (i) whether export projections made in calculating export shortfalls have been subject to a systematic bias; (ii) whether application of the requirement regarding the "temporary" nature of an export shortfall should be re-examined; (iii) whether the requirement that an export shortfall be largely attributable to circumstances "beyond the control" of the member needs to be modified; (iv) whether the commodity coverage of compensable shortfalls remains appropriate; and (v) whether provision for repurchase of drawings in cases of overcompensation needs to be introduced. Section IV provides a summary and highlights a number of issues on which guidance for further work is sought. Four annexes provide supporting material on particular issues, namely: experience with the "beyond the control" requirement, the data coverage of the CFF, ex post calculations of shortfalls and drawings, and

1/ Statement by the Managing Director on the Work Program Until the April 1987 Meetings of the Interim and Development Committees (Buff 86/204, October 27, 1986, EBM/86/178-79, 11/10/86).

the "temporary" character of shortfalls. An appendix summarizing the issues raised by Executive Directors at Board meetings on CF requests is also included for reference purposes.

Many of the issues discussed in this background paper are complex and will clearly require further analysis, and particularly further empirical investigation. The requisite staff work is under way; it will be modified in light of the guidance provided by the discussion of this background paper; and it is expected to appear in the subsequent more comprehensive paper.

I. Origins and Evolution

The creation of the compensatory financing facility (CFF) in 1963 resulted from consideration by the Fund of proposals designed to assist members, especially primary product exporting countries, that face payments difficulties arising from a temporary shortfall in export earnings. 1/ Although the Fund had always regarded payments problems arising from shortfalls in export receipts as legitimate grounds for use of its resources under regular tranche policies, the establishment of the CFF reflected a perceived need for a special facility to deal with these problems. The CFF was designed to provide access to Fund resources to members that met criteria established specifically for its use, and the presumption has been that this use could be either separate from or in conjunction with the use of resources in the credit tranches.

To qualify for use of the CFF, a member had to be experiencing a temporary shortfall in its export earnings and, in addition to having a balance of payments need, had to meet two criteria. The first was that the shortfall be largely attributable to circumstances beyond the control of the member; the second was that the member would cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties. The shortfall in exports has always been measured as the deviation of exports in the shortfall year from a medium-term trend, defined as an average of export earnings over five years centered on the shortfall year.

It is important to emphasize that the intention of the facility was, and remains, to alleviate the temporary effects of export shortfalls on the balance of payments and thereby to stabilize the capacity to import. As noted in the second review of the CFF (1966), the CFF "is designed to help countries to bring their export availabilities--export receipts plus compensatory drawings less repayments of such drawings--closer to the presumed trend level rather than to provide them with a financial buffer

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1/ Studies by the Fund had shown that fluctuations in export earnings by primary producing countries were some 45-55 percent greater than for industrial countries during the period 1945-60.

against declines in exports from their previous standards." 1/ To the extent that countries were experiencing balance of payments problems more severe than those resulting from an export shortfall, the 1963 decision recognized the need for accompanying policy adjustments. Indeed, the 1963 decision stressed that the Fund had always considered that fluctuations in export receipts had to be viewed within the context of the balance of payments as a whole. In assessing a shortfall, declines in exports would need to be accompanied by a careful examination of their possible causes in order to determine whether some of them were open to remedial action by the country itself. The 1963 decision stated that "In many cases . . . it will also be necessary to introduce measures of a policy character in order to attain a satisfactory and lasting solution to a country's balance of payments problems." The requirement that members wishing to purchase under the CFF had to give an undertaking to introduce changes in policies, when judged appropriate by the Fund, meant that use of resources under the CFF was never intended to be unconditional in all circumstances. However, if the only source of the payments difficulty could be shown to be a shortfall that was self-correcting, it was accepted that a change in policies would neither be needed nor required for a CF drawing.

The major changes introduced as a result of reviews of the CFF by the Executive Board in 1966, 1975, and 1979 generally resulted in a liberalization of the facility. Access was progressively increased from 25 percent of quota in 1963 to 50 percent in 1966, 75 percent in 1975, and 100 percent in 1979 (see Table 1). Although access was subsequently reduced to 83 percent of quota in 1984, following the eighth general review of quotas, the increase in quotas meant for most members an effective increase in absolute access. A limit on annual CF drawings--25 percent of quota under the 1966 decision and 50 percent of quota under the 1975 decision--was abolished in 1979.

Other amendments to the CF decision included the early drawing provision introduced in 1975, under which members could request drawings using up to six months of estimated export data for the shortfall year, and the 1979 provision allowing receipts from tourism and workers' remittances to be used in determining the export earnings shortfall. The

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1/ "Compensatory Financing of Export Fluctuations: Developments in the Fund's Facility: A Second Report by the International Monetary Fund on Compensatory Financing of the Fluctuations in Exports of Primary Producing Countries," September 1966 (Washington, D.C.). Reprinted in The International Monetary Fund 1945-1965, Twenty Years of International Monetary Cooperation, Vol. III: Documents, pp. 469-496 (Washington, D.C.). This report also considered the possibility of requiring members to effect repurchases not on a fixed schedule but in years when exports were above their estimated trend value. This approach was not accepted on the grounds that members might encounter difficulties in repurchasing out of export excesses for a number of reasons, and because a proportion of repurchases would probably remain outstanding for periods longer than is compatible with the temporary character of Fund assistance.

Table 1. Evolution of Access Limits for Drawings Under the Special Facilities and for Use of Ordinary Resources

(In percent of quota)

	Special Facilities						
	Compensatory financing facility				Buffer stock financing facility	Use of Ordinary Resources 1/	
	Cumulative			Tranche conditionality limits			
	Exports	Exports plus cereal imports	Annual			Cumulative	Annual
February 1963	25	25	--	--	--	100	25
September 1966	50	50	25	25	--	100	25
June 1969	50	50	25	25	50 2/	100	25
December 1975	75	75	50	50	50 2/	165 (Sept. 1974)	25
August 1979	100	100	--	50	50	305 (Feb. 1979)	n/a
May 1981	100	125 3/	--	50	50	600 (July 1980)	150
January 1984	83	105 4/	--	50	45	408-500 5/	102-125 5/
January 1985	83	105	--	50	45	408-450	95-115
January 1986	83	105	--	50	45	400-440	90-110

1/ Pertains to the maxima, which occur under extended arrangements; pertains to stand-by arrangements prior to September 1974. The original Articles (Article V, Section 3) provided for an annual access limit, which was often waived, of 25 percent of quota. Quota limits for shorter periods of time were also in effect. The cumulative limit of 165 percent of quota was raised to 176.25 from January 1976 through March 1978, after which it was reinstated at 165; however, the annual limit of 25 percent of quota was then dropped, effective April 1978. The cumulative limit of 305 percent of quota was amended to 465 from September 1979 to July 1980 when it was dropped and an annual limit of 200 percent of quota was reinstated.

2/ A joint limit of 75 percent of quota on CFF and BSFF purchases was in effect from June 1969 until December 1975.

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

4/ Separate limit for cereal imports is 83 percent of quota.

5/ Depending on magnitude of the member's balance of payments needs.

cereal decision, providing for the possibility of compensating temporary increases in payments for cereal imports as well as shortfalls in export earnings, was established in 1981. 1/

As may be seen from Chart 1, there was little recourse to the CFF in its early years, but use became more widespread in the late 1960s and early 1970s. Since the mid-1970s there have been periods of considerable use, reflecting in the main the cyclical pattern of economic activity in the major industrial countries. Drawings amounted to SDR 2.3 billion in 1976 in the aftermath of the 1975 recession and averaged SDR 2.7 billion a year in 1982-83 in the wake of the recession in the two preceding years. In the recovery phase of economic activity, drawings have been significantly lower, averaging SDR 0.7 billion annually in the 1977-81 period and about SDR 0.8 billion in 1984-86. Outstanding drawings rose sharply after the 1975 recession to SDR 2.9 billion in 1978 and remained at about this level in the following three years. There was a sharp rise in 1982 to SDR 5.4 billion and a further rise to a peak of SDR 7.5 billion at end-1983. Following the decline in annual drawings in 1984-86 and the repurchases of earlier drawings, outstanding use had fallen to SDR 5.4 billion by end-1986.

Relative to total drawings from the Fund, drawings under the CFF reached a peak of 38 percent in 1976, and averaged about 29 percent in 1982-83 before declining to about 25 percent in 1985-86. In relation to total Fund credit outstanding, 2/ use of the CFF reached a peak in 1983 and 1984 when the outstanding amount was equivalent to about 23 percent of total Fund credit (Charts 2 and 3).

II. Issues in the Implementation of the CFF: Conditionality, Phasing, and Access

Viewed broadly, the major operational concerns that have arisen since the facility came into force, and the resulting modifications that have occurred, have reflected the need to reconcile the terms of the CFF with changes in the global environment. In the 1960s and 1970s the main concern was to liberalize access to the facility to enable it to play an adequate role in alleviating the payments difficulties faced by members as a result of export variability. More recently, the principal issue has been to ensure that use of the CFF is accompanied, where necessary, by policy adjustments needed to restore a sustainable external position.

The deterioration in the external situation since the early 1980s has had important implications for the operation of the CFF. Primary commodity prices have shown a persistent tendency to weaken; structural payments disequilibria have become larger; effective adjustment has become a paramount requirement for heavily indebted countries; and there has been an

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1/ Since the cereal decision is scheduled for review in May 1987, it is not discussed in this paper.

2/ Excluding the reserve tranche and borrowing from the trust fund.

increase in external payments arrears, including arrears to the Fund. In these circumstances, questions have been posed about the continued appropriateness of certain key features of the CFF.

The underlying philosophy of the CFF involves distinguishing that part of a balance of payments problem which may be attributed to export instability and treating it separately as regards the required mixture of adjustment and financing. This separation poses few difficulties if export shortfalls occur separately from structural balance of payments problems. However, when export instability is combined with structural payments difficulties, as has been common in recent years, a more complex situation arises. The export shortfall qualifies a member for CFF assistance, but such assistance, by itself, is insufficient to restore a viable payments position. Indeed, without action to improve the underlying payments position, assistance under the CFF may simply provide temporary relief at the cost of increasing the member's burden of medium-term debt and complicating balance of payments management in the future.

The objective, therefore, must be to ensure that the financing of export shortfalls takes place against a background in which effective measures are being undertaken to strengthen the member's underlying external position. This has always been the intention of the "test of cooperation" that is applied to all drawings under the CFF. However, questions can be raised about whether this test has worked in a manner that balances equitably the member's right to access under the facility, on the one hand, with the Fund's need to assure the revolving character of its resources, on the other. Drawings under the CFF are often large relative to annual entitlements under stand-by and extended arrangements, and the total entitlement becomes fully drawable upon approval of a CF request. This means that the Fund's standard safeguard of phased drawings, subject to the satisfactory fulfillment of performance criteria, does not apply. Since the assessment of whether a member meets the test of cooperation has to be made at the time a drawing is approved, judgment has been exercised concerning whether a member will continue to be in a position to cooperate with the Fund, in the sense of meeting policy commitments in the period after the drawing has been made. Clearly, mistakes in the exercise of such judgment can lead to members either making drawings that they subsequently find difficult to repurchase or being denied access to resources that should legitimately be made available under the terms of the CFF.

These questions raise the issue of whether the manner in which conditionality is applied in connection with CF requests needs to be modified, and whether the relation between drawings under the CFF and the extension of Fund credit under other facilities needs to be reconsidered. The balance between availabilities under the CFF and regular tranche policies is affected both by the level of access under each facility and by the phasing of drawings. There are, of course, a number of alternative--or complementary--approaches by which the Fund may attempt to meet members' needs for assistance resulting from export instability. The approach followed in the stand-by arrangement with

CHART 1

ANNUAL DRAWINGS AND OUTSTANDING AMOUNTS UNDER THE CFF, 1963–1986

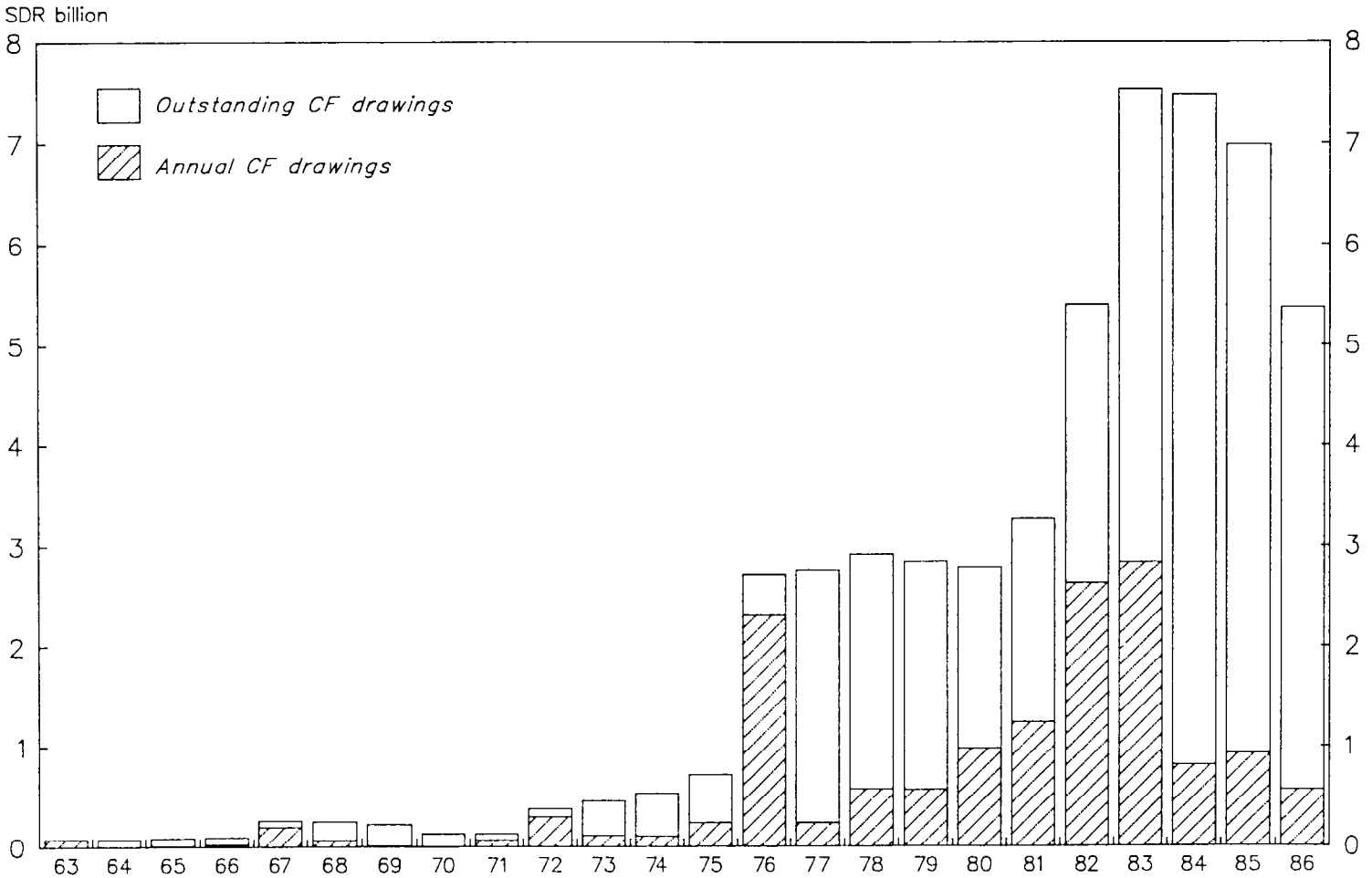
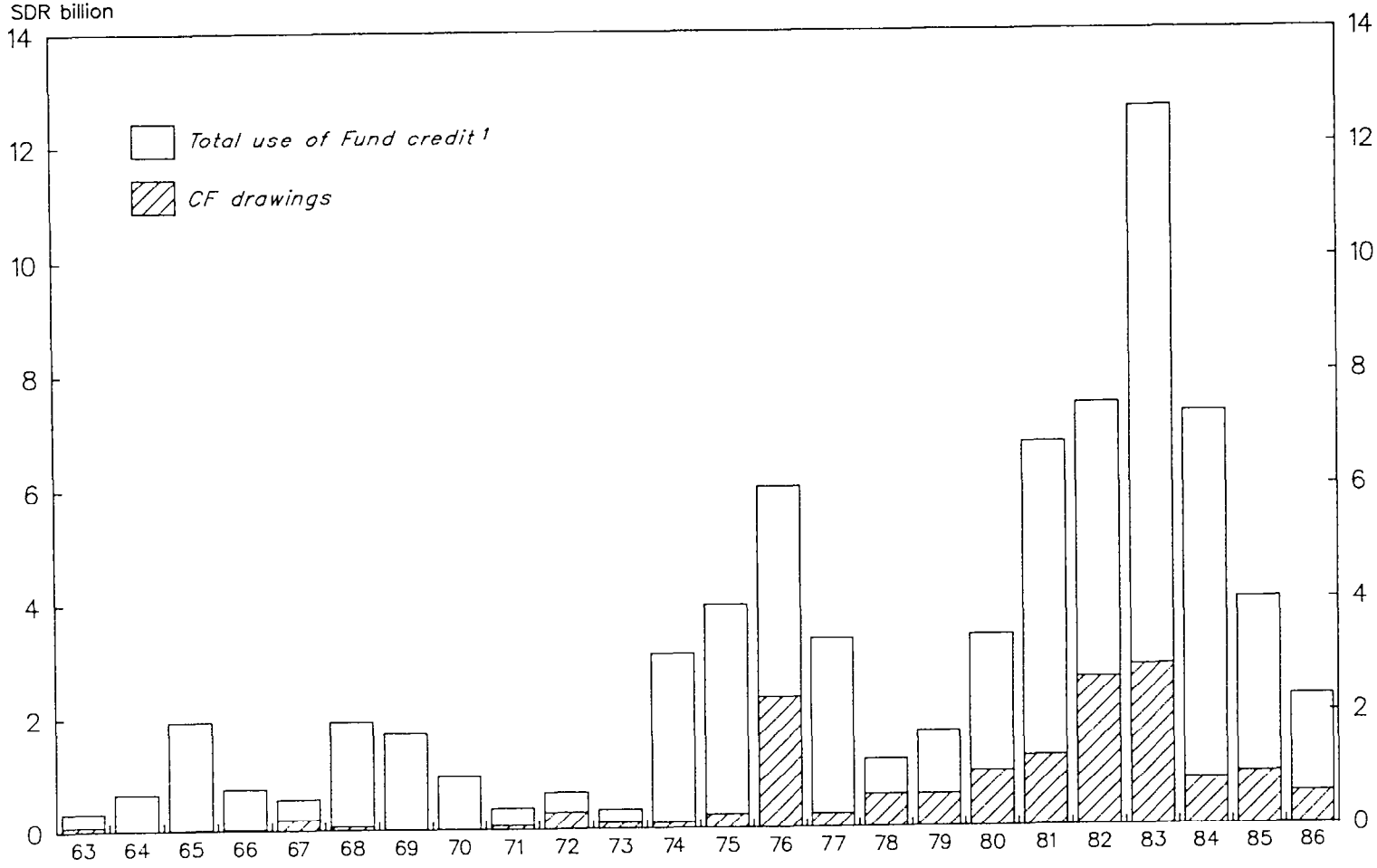


CHART 2

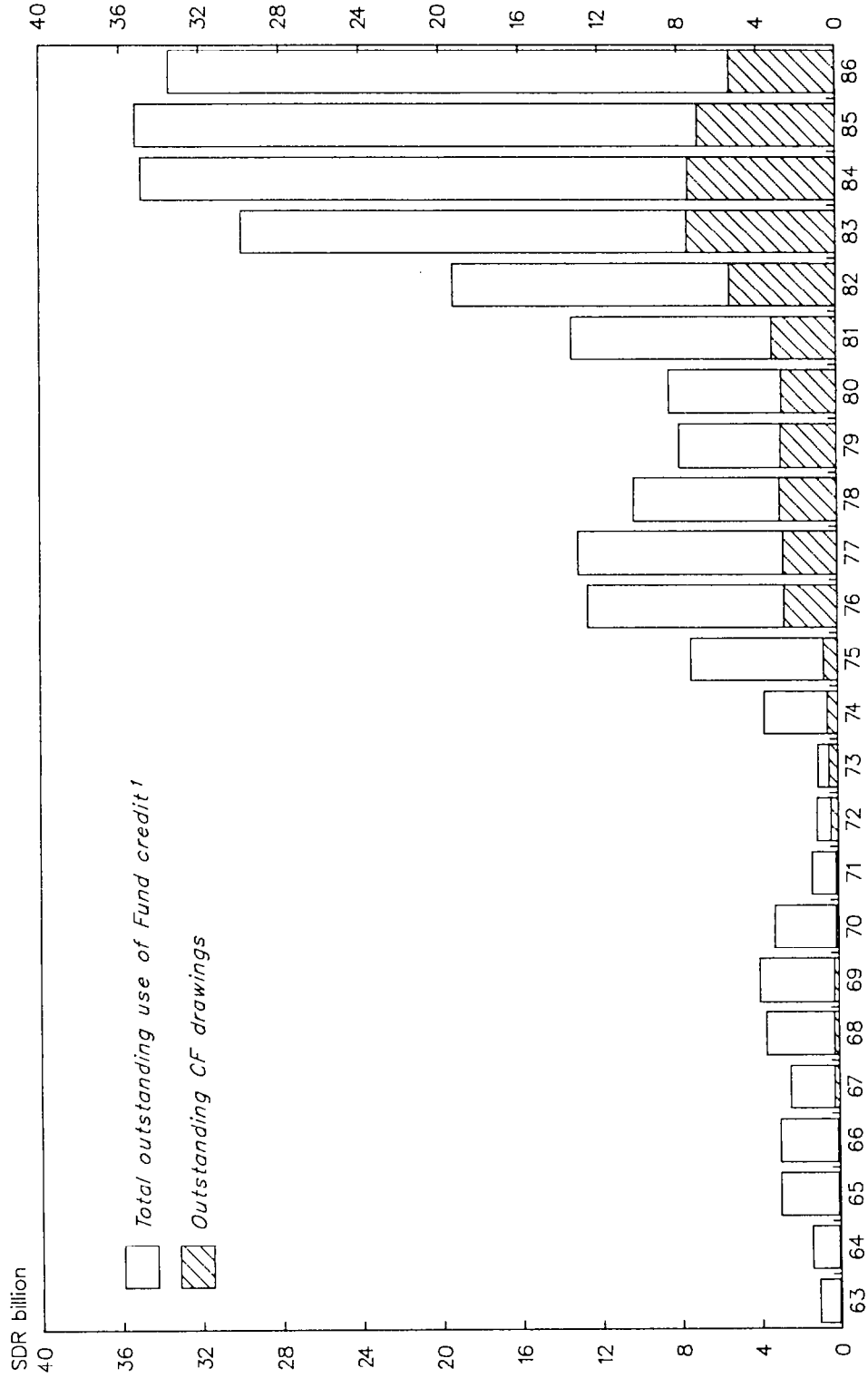
USE OF FUND CREDIT AND CF DRAWINGS, 1963–1986



[1] Excluding use of the reserve tranche and Trust Fund loans.

CHART 3

OUTSTANDING USE OF FUND CREDIT AND CF DRAWINGS, 1963–1986



[1]Excluding use of the reserve tranche and Trust Fund loans.

Mexico will be briefly discussed at the end of this section. In general, however, the focus of this paper has been deliberately restricted to the operation of particular aspects of existing arrangements.

1. Conditionality

The conditionality attached to CF drawings has been amended on several occasions. In the relatively more stable economic environment of the 1960s and early 1970s, temporary fluctuations in export receipts were not associated with such deep-rooted or structural balance of payments problems as has been the case in the late 1970s, and particularly in the 1980s. As a result of the structural problems of more recent years, there has been an increasing need to ensure that requests for CF drawings are accompanied by policy actions designed to correct more fundamental causes of the balance of payments problems. The original CFF decision provided that where the Fund determined policy changes were required, the member would agree to "cooperate" with the Fund in an effort to find, where required, a solution for its balance of payments difficulties. When the 1966 decision increased the maximum CF access from 25 percent of quota to 50 percent of quota, conditionality was strengthened by requiring that members requesting drawings above 25 percent of quota demonstrate they had been cooperating with the Fund in an effort to find solutions for their balance of payments difficulties. The threshold separating the upper from the lower CF tranches was increased to 50 percent of quota under the 1975 decision, which raised maximum access under the facility to 75 percent of quota. The 50 percent threshold remained in effect after access was raised to 100 percent of quota in 1979 and also after access was subsequently reduced to 83 percent in 1984.

An important development related to conditionality was the issuance of specific guidelines on cooperation in 1983. The guidelines specify that for drawings in the lower CF tranche (up to 50 percent of quota), the test of cooperation is met if the member agrees to discuss with the Fund in good faith the appropriateness of its policies and the question of whether changes in policies are necessary to deal with its balance of payments difficulties. Where the Fund considers that the member's existing policies are deficient, the Fund will expect the member to "take action that gives, prior to the submission of the request for the purchase, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted." 1/ For drawings in the upper CF tranche, a stricter test of cooperation is applied: "The existence of a satisfactory balance of payments position (apart from the effects of the shortfall) or the existence of and broadly satisfactory performance under an arrangement with the Fund, or the adoption of such an arrangement at the time the request for a CF drawing is made, will be considered to provide evidence of cooperation." 2/

1/ EBS/83/171, 8/12/83 and Supplements 1 and 2, 9/12/83 and 9/19/83. (Reprinted in Selected Decisions of the International Monetary Fund and Selected Documents, 12th Issue (Washington, D.C.), April 30, 1986, page 87).

2/ Loc. cit. page 88.

The application of the criteria just described clearly involves a considerable degree of judgment. In practice, this judgment has been exercised rather cautiously in recent years, given the serious underlying payments difficulties faced by many members. As is evident from Table 2 there have been few CF drawings in the upper tranche in recent years that have not been accompanied by a stand-by arrangement, either approved simultaneously with the CF request or already in place. Since September 1983, when the formal guidelines were issued, there has been only one upper CF tranche drawing out of 27 that was not accompanied by a stand-by or extended arrangement. There have been only six drawings confined to the lower CF tranche during this period, one of which was accompanied by a stand-by or extended arrangement.

During the same period, there were a considerable number of instances where members experienced an export shortfall and had a balance of payments need, but did not make a formal request to draw under the CFF. In a statistical exercise undertaken in mid-1986 (based on data submitted for the WEO exercise) 106 cases of shortfall were calculated for CY 1986 on the basis of the most recent data then available. In some 30 of these cases the staff examined inquiries about possible use of the facility in the course of the year. By contrast, only eight CF drawings were approved in 1986, of which five were in the upper tranche.

In a number of cases where members had a compensable shortfall, but did not draw under the CFF, the reason was that the member could not meet the relevant test of cooperation. In other cases, where the test of cooperation was met (e.g., through the existence of a stand-by arrangement), discussions between the Fund staff and the authorities of a member highlighted concerns as to whether the implicit total access to Fund resources would be consistent with the member's capacity to service a large increment in outstanding debt. Frequently, it was concluded that it would not be wise to make a sizable drawing under the CFF at the time a stand-by was agreed. Another reason for not using the CFF was the desirability to hold resource availability "in reserve," for possible use if unexpected developments during the life of a program created an additional financing need.

These changes in the effective conditionality attached to the CFF, and in the circumstances in which its use has been considered appropriate, have reflected the emergence of widespread balance of payments and debt servicing difficulties since the early 1980s, which have changed the nature and severety of balance of payments problems faced by many members, including those considering use of the CFF. In part at least, these more difficult circumstances were recognized and addressed in the guidelines on cooperation adopted in 1983. As just noted, these provide that the test of cooperation can be met by the existence of a stand-by or extended arrangement and thus create a "linkage" between conditionality under the CFF and that under other facilities. Beyond this, however, members and the Fund have also had to exercise judgment concerning whether drawings, although meeting the criteria established under the facility, were appropriate and timely in view of (i) the existing size of medium-term

Table 2. Drawings Under the Compensatory Financing Facility in Upper and Lower CF Tranches, 1979-86 1/

	Number of CF Drawings	Existing Stand-by 2/ or Extended Arrangement	Stand-by 2/ or Extended Arrangement Concurrently Discussed	Total Stand-by or Extended Arrangements
		(Upper CF tranche)		
1979	12	4	2	6
1980	13	5	5	10
1981	18	7	9	16
1982	10	3	7	10
1983	16	4	12	16
1984	8	6	2	8
1985	10	2	7	9
1986	5	1	4	5
Total	92	32	48	80
		(Lower CF tranche)		
1979	11	--	2	2
1980	2	--	--	--
1981	11	1	--	1
1982	18	6 3/	2	8 3/
1983	8	--	1	1
1984	--	--	--	--
1985	3	--	--	--
1986	3	--	1	1
Total	56	7	6	13

1/ Cannot be reconciled with Table 4 which refers to CF drawings accompanied by upper tranche stand-by arrangements only and by reference to the year the stand-by was approved, which is not necessarily the year in which the CF drawing occurred.

2/ Including drawings in the first credit tranche and trust fund loans.

3/ Includes three arrangements that were inoperative at the time of the CF drawing.

debt service obligations of the member, and (ii) the uncertainty of future export earnings and the desirability of retaining CF access in case these earnings are lower than expected.

An issue to be addressed is whether the existing guidelines on cooperation have functioned effectively and whether they remain appropriate in current circumstances. This encompasses several different types of questions: Has the effective degree of conditionality been appropriate? Is the increased linkage of conditionality applied in the context of the CFF with conditionality under stand-bys and extended arrangements an appropriate means of safeguarding the use of the Fund's resources? Does the effective implementation of conditionality under the CFF require the setting and monitoring of performance criteria? (This last issue links up with the question of phasing, which is discussed below). Lastly, in assessing requests for use of the facility, should the Fund, and if so in what circumstances, take explicit account of factors other than the existence of a stand-by arrangement (e.g., the size and profile of debt service obligations; the degree of uncertainty related to future export receipts).

2. Access

As was noted in section 1, current access limits under the CFF are 83 percent of quota, of which 50 percent of quota is subject to "lower tranche" conditionality and the remaining 33 percent to "higher tranche" conditionality. By way of comparison, the use of the Fund's ordinary resources under stand-by programs or extended Fund facility programs are subject to an annual limit of 90-110 percent, and to a cumulative limit of 400-440 percent. As may be seen from Table 1 (page 4), there have been times in the past where access limits under the CFF have been higher relative to access limits for ordinary resources than at present. There have also been times when they have been lower. The present ratio of the access limit under the CFF to the cumulative lower access limit for ordinary resources is 0.21 (i.e., 83:400). 1/ This ratio was as high as 0.50 from 1966-1975, and as low as 0.18 from 1981-1984. When yearly access limits under ordinary resources were introduced in 1981, the ratio of maximum access under the CFF to maximum yearly use of ordinary resources was 0.81. That ratio has since risen to 0.83.

Of more relevance than a simple comparison of maximum access levels is the question how far the respective access limits are adequate to meet the needs for drawings under the different facilities. This, too, has to remain largely a matter of judgment. The "need" for finance under an adjustment program cannot be precisely calculated, but depends on the mix of adjustment and financing that is considered optimal in the circumstances.

1/ This and subsequent calculations use the lower access limit as the higher access limit has not been applied.

Table 3. Compensatory Financing Facility:
Average Rate of Compensation 1/

(In percent)

	1979	1980	1981	1982	1983	1984	1985	1986
Weighted average 2/	54.1	75.4	49.7	63.2	75.7	40.5	76.2	59.9
Simple average	65.1	71.8	76.5	79.0	73.7	60.2	78.7	74.9

1/ The ratio of drawings under the CFF to the export shortfall calculated ex ante (i.e., using projected export data for the two post-shortfall years).

2/ Weighted by the size of the drawing under the CFF.

Table 3 details the average rate of compensation under the CFF (defined as the ratio of drawings to the shortfalls calculated ex ante from 1979-1986). The table shows that the weighted average rate of compensation--that is, the sum of drawings as a percent of the sum of shortfalls--has varied between about 40 percent and about 75 percent, with no clear trend over time. Using a simple average, compensation has varied between 60 percent and 79 percent. (The lower rate of compensation on a weighted average basis reflects the relatively small number of large drawings involving substantial undercompensation).

A relevant question in determining access under the facility is the appropriateness of the scale of use of the facility relative to the actual and prospective circumstances facing the member. As discussed above, considerations that may be particularly relevant in this regard are the member's debt servicing capacity and the uncertainty of its export receipts in the future.

The issues that arise with respect to access under the facility are therefore threefold: (i) whether existing access limits remain appropriate relative to members' needs and the size of access under other facilities; (ii) whether access limits under all facilities need to be considered jointly, rather than separately; and (iii) whether access to the CFF needs to take more explicit account of the specific circumstances facing individual members.

3. Phasing

An important distinction between use of the CFF and use of resources in the upper credit tranches is that purchases under the CFF (like those in the first credit tranche) are not phased. A member may draw the entire

amount for which it qualifies under the CFF as soon as the Board approves a request. Drawings under stand-by and extended arrangements, on the other hand, are invariably phased, and subject to the member meeting performance criteria.

In part, this difference can be traced to the different functions for which stand-by and extended arrangements, on the one hand, and compensatory financing drawings, on the other, were initially intended. Stand-by and extended arrangements are intended to cover financing needs during the period in which adjustment measures take effect, and before a country has returned to external viability. Compensatory financing drawings are intended to compensate for past shortfalls in export receipts that may have been initially financed by running down reserves, or postponing import purchases. It is for this reason that drawings under stand-by and extended arrangements are distributed over the period for which financial assistance has been deemed necessary; while drawings under the CFF take place as soon as possible after the shortfall period. Of course, it must be recognized that in a situation where export variability is superimposed on structural balance of payments weakness, a distinction between the two sources of external difficulty may be difficult to make and less relevant to the practical problem of providing financial assistance to underpin the member's efforts to adjust. The growing problem of overdue obligations to the Fund has served to highlight the issue of whether the immediate availability of a relatively large amount of resources undermines the incentive to members to follow through on an adjustment program.

Distributing access to resources over time would be one way of tackling this problem, and was indeed a feature of the facility in the past. An annual limit of 25 percent of quota on the amount by which outstanding CF drawings were permitted to increase was introduced with the 1966 decision at the same time as maximum access was raised from 25 percent of quota to 50 percent. At the time of this amendment, it was expected that the annual limit would "impose a delaying effect in utilizing the compensatory facility to the full extent" and provide an opportunity for "testing the extent to which a member had implemented its undertakings under earlier compensatory drawings to 'cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.'" 1/ This feature was abandoned in 1979, when access limits under the CFF were raised to 100 percent in line with the general liberalization of the facility that was deemed appropriate at that time.

1/ "Compensatory Financing of Export Fluctuations: Developments in the Fund's Facility: A Second Report by the International Monetary Fund on Compensatory Financing of the Fluctuations in Exports of Primary Producing Countries," September 1966 (Washington, D.C.). Reprinted in The International Monetary Fund 1945-1965, Twenty Years of International Monetary Cooperation, Vol. III: Documents, pp. 469-496 (Washington, D.C.).

An alternative mechanism for limiting the amount of resources immediately available under the CFF would be to introduce phased drawings, subject to verification of the implementation of agreed corrective policies in those cases in which such policies are required. This phasing could either be linked directly with drawings under a stand-by or extended arrangement, and subject to the same conditions, or else could be on a separate timetable. The phasing of drawings under the CFF could be considered to run counter to one of the central features of the facility as originally conceived, namely, that compensation should take place as closely as possible in time to the shortfall to which it relates. Phasing would therefore achieve the advantage of increasing the incentive to pursue adjustment, but at the potential cost of reducing the effectiveness of the facility in stabilizing aggregate foreign exchange receipts i.e., exports plus CFF drawings less CFF repurchases. This potential cost could be minimized if each phased drawing were made subject to the continued existence of an export shortfall equal to or larger than the drawing.

In assessing the balance of advantages and costs, it may be useful to have some impression of the potential importance of the factors involved. Drawings under the CFF are not subject to the safeguards provided jointly by phased access and performance criteria. The question may therefore be raised of whether the presence of CF drawings at the inception or in the course of Fund-supported adjustment programs may have weakened members' adjustment efforts to the extent of making the uninterrupted completion of programs less likely. Table 4 provides some evidence on the basis of experience since 1979, when the CFF underwent its last major reform. In 38 out of the 80 stand-by arrangements 1/ (48 percent) approved between 1979 and 1985 without corresponding use of the CFF, the available resources were fully purchased. The average of actual drawings to total available stand-by resources for this group amounted to about 74 percent for the period as a whole. For the 54 upper tranche stand-by arrangements that were accompanied by CF drawings, available resources were fully purchased in 28 cases (or 52 percent), with the average of total drawings to available resources standing at 70 percent. It is perhaps noteworthy that in the period 1980-83 stand-by arrangements with CF drawings were more fully utilized than stand-bys without CF drawings, with the reverse being the case in 1984-85. 2/ This evidence suggests that members using the CFF have, on average, not allowed their adjustment efforts to weaken relative to the efforts of those members that did not have recourse to the CFF. It should be borne in mind, however, that some members were discouraged in light of the nature of their balance of payments difficulties or previous record of adjustment from requesting a CFF drawing along with a stand-by arrangement. This may tend to impart a bias to the results just noted.

1/ Stand-by arrangements in the upper credit tranches that have either expired or been canceled and excluding arrangements where no drawings took place.

2/ Several stand-by arrangements approved in 1985 do not expire until 1987 which may change the final outcome somewhat.

Table 4. Purchases Under Stand-by Arrangements, 1979-85 1/

Year	Not Accompanied by Compensatory Financing Purchase				Accompanied by a Compensatory Financing Purchase or With a CF Purchase Approved During Course of Stand-by			
	Number of stand-by arrangements	Full amount of stand-by purchased		Average of total actual purchases to amount available under stand-bys (In percent)	Number of stand-by arrangements	Full amount of stand-by purchased		Average of total actual purchases to amount available under stand-bys (In percent)
		Number	Percent of total			Number	Percent of total	
1979	8	2	25.0	79.1	4	--	--	56.2
1980	10	2	20.0	61.7	7 2/	3	42.9	65.7
1981	10	5	50.0	69.4	7	5	71.4	87.1
1982	9	6	66.7	77.1	11	6	54.5	84.3
1983	16	9	56.3	73.4	14 2/	8	57.1	81.7
1984	16	7	43.7	70.1	5	3	60.0	52.0
1985	11	7	63.6	85.3	6	3	50.0	64.3
Total	80	38	47.5	73.8	54	28	51.9	70.2

Source: International Financial Statistics, Transactions of the Fund, February 1986 and subsequent issues; and IMF Research Department.

1/ Refers to stand-by arrangements in the upper credit tranches that have either expired or been canceled and excludes arrangements where no purchases were made. Refers also to the year in which the stand-by arrangement was approved, which is not necessarily the year of the CF drawing.

2/ Includes one country with two CF purchases during the period of the stand-by arrangement.

Turning to the question of whether phasing would have a significant cost in reducing the stabilizing property of the CFF, it would be relevant to give attention to the variability over time of net foreign exchange receipts, defined as exports plus CF receipts minus CF repurchases. Comparisons could then be made as to how the variance of this series would be affected by shifts in the timing of drawings and/or repurchases. The staff intends to undertake this analysis in the context of the forthcoming comprehensive review of the CF facility, and will welcome guidance concerning aspects of the calculation on which Directors have views.

4. Other issues

Any assessment of conditionality, access, and phasing depends to some extent on the particular scope and design of the mechanism by which members are compensated for fluctuations in export earnings. The existing facility relies on ex post compensation of the shortfall that has occurred during a past 12-month period. An alternative would be to seek a mechanism providing coverage in respect of prospective declines in export earnings, relative to projected levels. Such a mechanism could be used in conjunction with a program of economic adjustment, which might or might not be supported by the use of Fund resources under other facilities. This approach would have the benefit of safeguarding an adjustment program from adverse contingencies that could be envisaged, but not accurately projected. Some relevant considerations in this context have already been discussed in connection with the oil price contingency included in the stand-by arrangement with Mexico. 1/

The oil price contingency concept could be broadened to encompass export receipts (prices and quantities) in general and could of course vary in other respects from the particular provisions of the Mexican program. In the context of an agreed adjustment program, such a contingency mechanism would permit compensation for a decline in export earnings to take place within established procedures for monitoring policies and performance. A number of issues would have to be considered if the contingency approach were to be used more generally. These include the relation between the CFF and other sources of funds at the time a program, including its external financing, is framed; the relation between the CFF and other sources of funds (including other Fund resources) when a contingency is activated (especially the problem of double compensation); the range of exports to be covered by the contingency; the question of the responsibility for the contingency; and the issue of symmetry in the effect of deviations of the contingency measure from a predetermined central point or range. A more general issue is whether and how, if such a contingency approach were generalized, past shortfalls of members not covered by stand-bys would be compensated.

1/ The Mexican contingency mechanism and related issues for Fund policy are examined in "Program Design and Performance Criteria--Automatic Adjustments in Response to Developments in Commodity Prices and Economic Growth," EBS/86/211, Supplement 2 (11/11/86).

III. Issues in the Implementation of the CFF: Entitlement to Draw

Beyond the broad issues connected with conditionality, phasing and access, several questions have arisen in connection with how entitlements to draw under the CFF are calculated. These questions surround such matters as how well future export receipts have been estimated, how the trend in exports should be taken into account, how the requirement that a shortfall be "beyond the control" of the member is applied, what is the commodity coverage of compensable shortfalls, and whether there should be early repurchase of overcompensated amounts under the facility.

1. Determination of the shortfalls and drawings under the CFF

Under present practice, a shortfall is calculated according to a formula which attempts to assess the extent to which exports in the shortfall year are below a medium-term trend. The two aspects of this calculation that have attracted the most attention are: (i) whether the projections for future years (which are necessary to estimate the underlying trend) are systematically biased; and (ii) whether a shortfall associated with a decline in future exports should fall within the purview of the CFF.

a. Accuracy of projections

It goes without saying that economic projections are subject to a margin of error. The relevant issue is whether the projections are sufficiently accurate to improve on some simple rule, such as the extrapolation of a past trend; and whether the residual errors are systematic or random.

For the 165 CF cases analyzed in Annex III, shortfalls were overestimated in 93 cases, and underestimated in 72 cases. For the cases of overestimation, estimated shortfalls exceeded actual shortfalls by SDR 6.1 billion, while for underestimated cases actual shortfalls exceeded ex ante estimates by SDR 7.1 billion, resulting in a net underestimation of shortfalls of SDR 1 billion (Table 5). These large discrepancies between projected and actual shortfalls do not, however, result in a corresponding degree of over- or undercompensation, largely because of the impact of quota limits on entitlements to draw. Table 5 shows that the overestimated shortfalls (totaling SDR 6.1 billion) led to overcompensation of SDR 3.3 billion, whereas underestimated shortfalls (totaling SDR 7.1 billion), although larger, gave rise to undercompensation amounting to SDR 0.4 billion. The existence of quota limits places an upper bound on the extent to which overestimation of a shortfall can lead to compensation in excess of a member's entitlement, as calculated ex post. For this reason, 47 drawings were unaffected by misestimation of shortfalls, while 85 were overcompensated and 33 undercompensated.

Table 5. CF Shortfalls and Related Drawings: Ex Ante and Ex Post

	Total	Over-estimation	Under-estimation	Exact Estimation
		(Number of cases)		
Shortfalls	165	93	72	--
		(In billions of SDRs)		
Ex ante	18.8	9.6	9.2	--
Ex post	19.8	3.5	16.3	--
Ex ante minus ex post	-1.0	6.1	-7.1	--
		(Number of cases)		
Drawings 1/	165	85	33	47
		(In billions of SDRs)		
Actual	10.4	5.5	1.5	3.3
Simulated 2/	7.4	2.2	1.9	3.3
Actual minus simulated	3.0	3.3	-0.4	--

1/ Because of quota limits, there is no direct relationship between drawings under each classification and shortfalls in the same classification.

2/ Simulated drawings are based on shortfalls calculated ex post, that is with actual export data.

Staff analysis indicates that the incidence of overcompensation was particularly high in respect of drawings made during the 1981-82 recession, but has since subsided considerably. The Fund staff, in common with most other private and official forecasters, miscalculated the duration of the recession. This had the effect of compensating countries prematurely in relation to the profile of their shortfalls. Forty of 85 cases of overestimated drawings occurred in respect of shortfalls in 1981-82 and accounted for 64 percent of the total amount of overestimation. In the bulk of these cases, an accurate forecast of the path of export receipts would have led to a CF entitlement at a later date.

A more detailed study of past forecasting errors and their implications will be presented in the paper providing background material for the comprehensive review of the CFF.

b. The relevance of the underlying trend

The other aspect of the formula that has attracted attention is its exclusive attention to deviations from trend, and its lack of concern with the direction of the trend. The basic reason for this is the analytical distinction that can be made between problems that arise from fluctuations in export receipts and problems that arise from structural weakness. Both are important from the Fund's standpoint, but the policy response they call for may not be identical.

In practice, of course, the same development may contain elements of both structural weakness and temporary fluctuation. If the price of an export commodity drops sharply and remains low, it is clear the country has a structural problem to which it needs to adjust through appropriate policy measures. At the same time, in the year in which the price decline occurs, export receipts will be below trend, since the trend is the average of earlier years, when prices were higher, and future years when the price is expected to be the same as at present. A justification for the use of the CFF in such a case could be that the adjustment to the lower level of receipts will take time to become effective, and compensation is appropriate in the interim.

Looked at from another standpoint, however, it could be argued that the application of the formula should not work against the incentive to adjust to what is expected to be a permanent change in the environment facing a member. In this perception, the expected future path of export receipts is a key element in whether or not the conditions for use of the CFF are met. Since a recovery in the rate of projected export growth is a prerequisite for a shortfall to occur, it follows that where projected exports show a decline a shortfall would materialize only if the projected decline is preceded by an even larger decline in the shortfall year itself. Therefore, whether a country experiencing a permanent drop in its export receipts would qualify for CF assistance in addition to financing associated with adjustment essentially depends on the timing of a CF request in relation to the profile of its exports. 1/

An examination of the historical record reveals that there have been only a few cases of compensation of shortfalls associated with lower average exports in the post-shortfall period than in the shortfall year. Typically, this would occur as a result of a significant downturn in exports which is not expected to be reversed within a short period of time; such situations include a collapse of the international prices of a major commodity or a drop in export supply due, for example, to a natural disaster. In Table 6, which provides a summary of 123 CF cases classified by whether growth rates were negative or positive in the shortfall year, there were 91 CF drawings involving negative growth in the shortfall year; of this total, the number of cases with negative export projections were only five. About one quarter of the cases (32) involved positive export growth in the shortfall year.

1/ For example, starting from the period when the drop initially takes place there would be a shortfall, but it will progressively decline as the period is moved forward.

Table 6. Summary of CF Drawings and Related Growth Rates

	Number	Sum of Shortfalls (In millions of	Sum of Drawings SDRs)
All cases	123	14,193	9,120
1. Cases with negative growth in shortfall year	91	9,287	5,922
Of which: Growth in post-shortfall year was:			
1.1 Positive	(86)	(8,696)	(5,576)
1.2 Negative	(5)	(591)	(346)
2. Cases with positive growth in shortfall year	32	4,906	3,198

2. Responsibility for the shortfall

The requirement that the member requesting a CF purchase should be experiencing an export shortfall that is "largely attributable to circumstances beyond the control of the member" was embodied in the 1963 decision establishing the CFF and has remained unchanged in all subsequent revisions of that decision. The reason for the inclusion of such a provision appears to be related to a general desire to focus the facility on helping members respond to purely external disturbances; it also addresses the specific need to eliminate the possibility of manipulating entitlements, e.g., through accumulating stocks of exportable goods in a shortfall year and marketing them subsequently.

Assessment of all the factors that have affected the performance of a particular export commodity is clearly a complex task. It is often difficult to assess precisely the extent to which the shortfall for a given commodity, or indeed for total export earnings, is due to factors outside the control of the member. Accordingly, the procedures that have been applied in this respect involve an overall appraisal of the factors responsible for the shortfall by the inclusion of the "largely attributable" clause. Once established as meeting this test, the compensation relates to the total shortfall, not just to that part of the export shortfall that is attributable to factors clearly outside the control of the member. However, current procedures provide for the possibility that the compensable amount of the shortfall may be reduced on account of deliberate actions,

such as stock accumulation, that have the effect of creating a shortfall or increasing its size. Specific policies have been developed to deal with such cases. 1/

In analyzing the causes of export shortfalls the staff has followed the practice of disaggregating the value of exports into their major components and then providing a further breakdown of their price and volume elements. The factors that have led to the changes in prices and volumes are then examined. In general, changes in export earnings due to international price movements are considered beyond the control of an individual country, unless the country is a dominant exporter of a particular commodity. The assessment is less straightforward, however, for changes in earnings stemming from variations in export volumes. Volume changes can be attributed to a number of factors, some within the control of the member--such as inadequate exchange rate or producer pricing policies, while others are clearly outside the member's control, such as the effects of climatic variations or external demand conditions.

Even in cases where export volumes can be shown to have been affected by inappropriate policies, it does not necessarily follow that the shortfall itself results from these policies; this depends on whether they had a transitory or lasting effect on exports. To the extent that inappropriate policies have existed over a long period of time, their effect on exports would be reflected in a lower trend value, but not necessarily in a deviation from the trend. In other words, they would not give rise to a shortfall unless the effects of policy on exports intensified in the shortfall year in relation to the other four years of the trend period. Thus, in assessing the contribution of inappropriate policies, their effect has to be judged not only with respect to the shortfall year, but also with respect to the two years preceding the shortfall year and the two years following it.

A deviation of volume from a policy-induced trend in exports may not necessarily be related to policy, as it may be caused by natural factors outside the control of the member. The staff bases its export projections on the assumption that the thrust of policy will not change from that existing at the time of the CF request, in order to avoid biasing the calculation of the shortfall either way. In forming its judgment, the staff attempts to distinguish between the effect of policy on the trend in exports and the effect on exports in the shortfall year, and takes into account any additional developments which are beyond the control of the member. Annex I sets out the factors that have contributed to export shortfalls for members requesting CF drawings since the last major Board review of the "beyond the control" clause. The analysis reveals that about 80 percent of the export shortfalls related to drawings made since 1976 have been considered to be due to exogenous factors clearly outside the control of the members concerned.

1/ Stock accumulations are dealt with by reducing the compensable amount of the shortfall by an appropriate amount, determined by taking into account the effect of the stockpiling on exports in the shortfall year and the later sale on projected exports.

One issue that has arisen in respect of the "beyond the control" requirement is whether it is desirable to limit compensation to that portion of the shortfall that is determined to be beyond the member's control. 1/ While there would seem to be some logic in this approach, it has to be recognized that there are very considerable difficulties in making distinctions at the margin between shortfalls that are within or outside the control of members. Nevertheless, if Executive Directors wished, the staff could undertake a more thorough analysis of this issue in the context of the forthcoming review.

3. Commodity coverage of compensable shortfalls

Successive CF decisions since 1963 have not specified the type of export statistics to be used in the shortfall calculation. Accordingly, the procedures now applied have evolved from Executive Board consideration of individual CF requests and of staff proposals on the application of the decision. Since 1963, standard practice has been to calculate shortfalls using the concept of total domestic merchandise exports, net of re-exports, measured wherever feasible on a customs basis. The Executive Board has also endorsed procedures to adjust the shortfall calculated on this basis for stock accumulation and to avoid double compensation arising from CF drawings relating to overlapping shortfall years; as these adjustments did not give rise to any particular difficulties of implementation they will not be reviewed further here. Since August 1979, shortfall calculations may also include, at the member's option, receipts from certain services--travel receipts and workers' remittances. 2/

The issues that arise in considering the coverage of compensable shortfalls include the following: (i) should an attempt be made to adjust export data for variations in the cost of the import component of exports? (ii) should a more general adjustment to entitlements under the facility be made to take into account variations in total import costs (whether or not imports enter directly into exports)? and (iii) can a case be made for extending the coverage of the facilities to other contingencies, (e.g., interest rate fluctuations)?

a. Adjustment for the import component of exports

The rationale for making this adjustment is that the CFF is designed to protect a country's import capacity from the effects of temporary fluctuations in export receipts. To the extent that a decline in export receipts is matched by a decline in payments for imported inputs, it

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1/ It is perhaps worth noting that on the basis of experience through 1981, at the last Executive Board review of the "beyond the control" issue, Directors endorsed the practice of providing compensation for the whole shortfall once it could be shown to have been due to factors largely beyond the control of the member.

2/ In May 1981, coverage of the CFF was widened to include excesses in the cost of cereal imports. As noted earlier the cereal decision is scheduled for review in May 1987, it is therefore not discussed in this paper.

would seem reasonable to adjust the calculated shortfall accordingly. This procedure is followed in the case of re-exports, which are defined as exports of goods which have previously been imported and whose physical characteristics have not been modified while they have been within the country's boundaries. The situation becomes less clear when the import component of gross export value is less than 100 percent. In principle, it would seem clearly desirable to net out the value of the imported component. But for practical reasons, such an adjustment would have to be performed judgmentally. This is because there are often no accurate data concerning the import component of final value, and because the imports incorporated in exports will have entered the country during a different period than that in which the exports take place. An alternative approach, having the same general intent, would be to extend the present exclusion of re-exports to cover all export commodities where the average import content is judged to be above a certain percentage.

In practice, the extent of the problem that has just been discussed should not be exaggerated. An analysis of all CF drawings from 1976 to 1983 showed that products with high import content have contributed to the shortfalls in some cases and reduced shortfalls in other cases. Annex II summarizes the findings reported in SM/83/262 and updates the analysis through the request by Bolivia (EBS/86/264, 11/26/86). It shows that out of 230 CF cases since 1976, in only about 10 cases (less than 5 percent) has a country been either overcompensated or undercompensated to a significant extent by current practice. Moreover, the incidence of countries being undercompensated is about twice that of countries being overcompensated. Only one country, Panama, has consistently benefited from current practice; another, Sri Lanka, was undercompensated in two successive drawings. Other countries have both benefited and been penalized over time.

SM/83/262 examined in detail two possible methods for excluding the value of the import content of exports of refined petroleum, polished diamonds, and in-bond industries from gross export data: (i) netting out the value of direct imports of the principal raw material input, and (ii) calculating value-added directly. The paper showed that the net export approach suffered from difficulties in identifying the time at which the raw-material import took place; in allocating the value of a raw-material import to more than one end-product; in identifying indirect import content; 1/ and in establishing rules regarding the percentage of import content or the share of relevant products in total exports that would trigger the adjustment. With respect to the value-added approach, the paper concluded that most countries would not be able to provide adequate statistical information to make such an adjustment feasible.

1/ Indirect import content refers to the import content of domestically produced goods used as inputs in the manufacture of the final good which is exported.

b. Adjustment for fluctuations in import costs

A more far-reaching adjustment would be to net off against export shortfalls variations in import costs, irrespective of whether or not the imports were a component of exports. In support of this proposal, it has been suggested that, where a generalized decline in import prices has taken place, the need for financing arising out of export shortfalls is reduced, and therefore, that a downward adjustment of the amount of compensation should be made.

Although this is a logically separate issue from adjusting for the import content of exports, it is subject to some of the same practical difficulties. These include the choice of period over which the movement in import prices should be measured, and the method of adjusting the amount of compensation once the change in import prices is determined. In addition, a decision would have to be made on the symmetry of adjustment, that is, whether compensation would also be raised in the case of an increase in import prices. 1/ One straightforward solution would be to calculate the shortfall in the merchandise trade balance, but this would also take import volume movements into account and fundamentally broaden the nature and purpose of the compensatory financing facility beyond the financing of export shortfalls.

c. Compensation for other contingencies

An issue that arose in the early 1980s was whether it would be desirable to extend the CFF to cover unexpected increases in payments resulting from movements in international interest rates. Such a change would put interest payments (and, conceivably, other types of payments) on the same footing as cereal payments. 2/ A more far-reaching proposal would be to provide coverage for contingencies outside the external payments sector, e.g., declines in domestic investment or growth. 3/ The justification for such an extension would be to help safeguard the growth process against unexpected adverse developments. It would have to be recognized, however, that such an extension of the facility's coverage would go beyond the original rationale of smoothing fluctuations in foreign exchange receipts, and would thus raise additional issues.

1/ One general approach would be to conduct shortfall calculations in real terms by deflating exports by an import price index. In the 1970s, the staff experimented with shortfall calculations based on real export values but the Executive Board decided to retain the calculation of the shortfall in nominal terms. Over time use of real rather than nominal values results in broadly similar levels of compensation, but calculations in real terms provide for compensation that is more synchronized to the needs of countries--larger compensation when inflation is high and smaller compensation when inflation is lower than calculations in nominal terms.

2/ For a discussion of this issue, see "A Fund Facility to Help Members Meet Increases in Interest Costs--Main Issues" (SM/86/43, 2/26/86) and EBM/86/57.

3/ For a discussion of the growth contingency in the context of the Mexican program, see EBS/86/211, Supplement 2 (11/11/86).

4. Adjustment for overcompensation

An issue that has sometimes arisen is whether members should be asked to make early repurchases in circumstances where they are overcompensated for export shortfalls.

At present an expectation to make an early repurchase applies to members availing themselves of the early drawing provision--which allows a determination of the shortfall to be made using up to six months of estimated data--if actual data subsequently reveal that the member has been overcompensated. 1/ Actual data have to be provided to the Fund as soon as they become available and on the same basis as the data on which the original shortfall calculation was based. Once it is determined that overcompensation has occurred, a member is expected to make a prompt repurchase in the amount of the overcompensation. 2/

In addition to overcompensation that may result from the use of partially estimated data, however, overcompensation may arise in two situations stemming from erroneous export projections, and current procedures do not provide for a reversal of this overcompensation. First, a shortfall might prove to have been overcompensated because projections for post-shortfall years turn out to be too optimistic. This source of overcompensation was discussed above; the extent of overcompensation could be verified when actual data for the post-shortfall period become available, roughly 2 1/2 years after the drawing. Secondly, current practice allows a member to make drawings in successive periods if exports fall short of projections and actual data subsequently indicate another shortfall. Thus, within the constraint of access limits, it is possible for a member to be compensated for a shortfall that does not turn out to be a shortfall once actual export data are available, and to be compensated again on the basis of the new and corrected figures for the earlier shortfall year. Since 1976, there have been 27 cases of consecutive drawings resulting at least in part from inaccurate export projections.

It is for consideration whether overcompensation of the first type should be subject to an early repurchase provision once the extent of overcompensation is known, and for overcompensation of the second type whether there should be an adjustment to the subsequent drawing equivalent to the amount of the overcompensation.

IV. Summary and Issues for Consideration

The following is a summary of the discussion in the body of the paper together with a number of points intended to serve as a focus for discussion by Executive Directors of the issues that they would like to see more fully developed in the forthcoming major review of the compensatory financing facility.

1/ An overestimation of the shortfall does not require early repurchase if actual data show a shortfall that is still in excess of the drawing.

2/ Within 30 days of being notified by the Fund.

1. Summary

The creation of the CFF in 1963 resulted from a view that it was desirable to have a special facility to deal with balance of payments problems encountered by many primary producing countries as a result of instability in their export receipts. While the Fund had always regarded fluctuations in export receipts as legitimate grounds for use of its resources, the creation of a special facility with the objective of a speedy response to difficulties stemming from export instability formalized this recognition. A member could be assured that its request for assistance under the CFF would be met, provided that it had a balance of payments need, could demonstrate that the export shortfall was of a short-term nature and due to factors largely beyond its control, and satisfied the Fund that it would cooperate to find solutions acceptable to the Fund for its balance of payments difficulties. This last proviso followed from the recognition that export instability would in some cases need to be tackled by fundamental policy adjustments, even though a particular shortfall could be clearly shown to have been largely beyond the control of the member. It was thus always intended that use of the facility would, in appropriate cases, be conditional upon the Fund being satisfied that the member would implement policies to address payment difficulties resulting from factors other than temporary shortfalls. Of course, where the shortfall could be shown to be of a self-correcting nature and the only source of the payments difficulty, the presumption has always been that policy adjustment would be neither needed nor required.

In the early years of the facility's operation it was little used; even where export shortfalls did occur, members' reserve positions were often sufficient to accommodate the shortfall, and access to the facility could not be justified on grounds of balance of payments need. With the changes in the international environment for many developing countries that began in the early 1970s and were intensified later in the decade, it was evident that the facility was in need of reform if its objectives were to be achieved. Access under the facility was not sufficient to deal adequately with the scale of export shortfalls that began to emerge around the middle of the 1970s. In response, there were major reforms of the CFF in 1975 and 1979; access was raised to 75 percent and then to 100 percent of quota (though subsequently reduced to 83 percent of quota), and there were other amendments designed to encourage more timely and adequate support in response to export shortfalls.

However, it became increasingly evident that many export shortfalls were occurring in circumstances of fundamental balance of payments disequilibria that required the implementation of corrective policies. Concomitant with the increased access to the facility, therefore, there were moves to strengthen the conditionality governing its use. For drawings that took outstanding use above a certain limit (above 25 percent in 1966 and above 50 percent after 1975), the Fund had to be satisfied that the member had been cooperating with the Fund in an effort to find,

where required, appropriate solutions for its balance of payments difficulties. The emergence of more intractable balance of payments difficulties also raised questions about how to interpret the requirement that the shortfall be "largely beyond the control" of the member.

As a result of concerns frequently expressed in considerations of CF requests, reviews of two major aspects of the operation of the CFF were conducted by the Executive Board in 1982 and 1983. The review of cooperation in September 1983 resulted in a formalization of the conditions that govern drawings in both the lower (up to 50 percent of quota) and upper CF tranches. Although not a prerequisite, drawings in the upper tranche have increasingly been associated with operative stand-by or extended arrangements with the Fund. Despite the tightening of conditionality, however, increasing concerns have recently emerged to the effect that the adjustment need faced by many members using the facility is so severe that access to the CFF under current guidelines may, even in the presence of a stand-by arrangement, jeopardize the revolving character of Fund resources. There have also been concerns that the immediate availability of resources under the CFF may have discouraged, or at least weakened, the adjustment effort. Against this background, there have been suggestions that CF drawings should again be subject to an annual limit or should be phased in a manner similar to resources under a stand-by arrangement.

2. Issues for consideration

Although a number of aspects of the operation of the CFF are closely inter-related, it is helpful to list the various issues separately. Needless to say, this listing is not intended to preclude joint consideration of particular issues, or to prevent Executive Directors from raising questions that have not been dealt with by the staff. The following list groups topics under two broad headings: those dealing with access, conditionality, and phasing; and those dealing with the question of how entitlements to draw (or expectations to repurchase) under the facility are calculated.

a. Conditionality, access, and phasing

(1) Conditionality

The degree of conditionality attached to the use of resources under the CFF has been adapted over the past several years to reflect the difficult circumstances faced by many member countries. Issues that arise are, first, the appropriateness of the current degree of conditionality, and second, the continued implementation of conditionality through linkage with Fund programs. An aspect of this latter question is whether linking CFF access to the existence of a Fund supported adjustment program is by itself a sufficient safeguard to ensure that use of the Fund's resources is temporary. Circumstances could arise, for example, in which a member's existing debt service burden made it inappropriate to increase drawings from the Fund beyond a certain point.

(2) Access

Several questions arise in this connection. The first is whether current level of access to the CFF can be regarded as appropriate, both in relation to the size of export shortfalls and in relation to access under other facilities. The second is whether it is appropriate to think in terms of combined access limits, taking drawings under both ordinary and special facilities together. A third issue is whether the access of individual members should be differentiated on the basis of relevant criteria, such as debt servicing capacity. Lastly, the issue of contingent financing can be considered either within the CFF or under stand-by arrangements for members facing uncertain export prospects.

(3) Phasing

Here the issue is whether the advantages of phasing (in reinforcing adjustment incentives) outweigh the disadvantages of increasing the temporal separation of the shortfall and the compensation attributable to it. A subsidiary issue is how phasing could be introduced and whether it should be linked to the drawing schedule under a stand-by or extended arrangement. The question also arises of whether there may be merit in reintroducing annual limits on access under the CFF.

b. Issues related to determining members' shortfalls and drawings

(1) Use of projections

Since any method of calculating the shortfall from a trend involves implicit or explicit projections, the issue is whether or not Directors view the staff's judgmental projections as being superior to a more mechanical or extrapolative method.

(2) Consideration of trend

The present method of calculating the shortfall assesses deviations from trend, without reference to the direction of trend. Executive Directors may wish to give their views as to whether the direction of a trend should be taken into account in determining shortfalls, and the ways in which this might be done.

(3) Responsibility for the shortfall

Under existing practice, a shortfall is compensable so long as it is determined to be "largely beyond the control of the member." The major issue that has arisen in considering this provision is the impact of the member's policies on the export shortfall and whether procedures relating to the "beyond the control" requirement should be examined in greater detail in the forthcoming review.

(4) Coverage of the facility

At present, the facility is available to meet shortfalls in total exports, net of re-exports. Service and remittance flows may be included at the member's option. The excess of costs of cereal imports over its trend value is also compensable. The issue of coverage concerns: (i) whether a more systematic attempt should be made to take into account fluctuations in import costs when determining members' eligibility to draw; and (ii) whether other contingencies (such as those included in the current Mexican program) should also be incorporated into the facility.

(5) Early repurchase for overcompensation

Do Directors believe that it is desirable or feasible to make increased provision for early repurchase in circumstances where it appears that a member has been overcompensated?

Responsibility for the Shortfall

To qualify for a drawing under the compensatory financing facility, the Fund must be satisfied that the shortfall incurred by the member making the request is "largely attributable to circumstances beyond the control of the member." The factors relevant to a determination of whether a shortfall meets this criterion have featured prominently in Executive Board reviews of the CFF, as well as in considerations by the Board of request for drawings in individual cases. The last major review of the issues raised by the beyond the control requirement took place in April 1982 (EBM/82/41 and EBM/82/42). A staff paper entitled "Compensatory Financing Facility--The Meaning of "Shortfall Attributable to Circumstances Beyond the Control of the Member" (EBS/82/42, 3/12/82), was prepared as background for that discussion. The Board's examination covered a broad range of factors, including inappropriate policies, political disturbances, shortfalls for leading exporting countries of individual commodities, and stock accumulation. A considerable part of the discussion was devoted to the treatment in CF cases involving stock accumulation.

The staff paper noted that determining whether or not an export shortfall could be deemed to have arisen because of factors largely beyond the control of the member clearly involved an element of judgment. This judgment must take into account all the information relevant to each individual case. In practice, shortfalls can be attributed to many factors; a disaggregation of the value of shortfalls for particular exports into their price and volume components assists the staff in distinguishing the effects of variations in international prices, which for most countries are clearly beyond their control, from the effects of volume variations, which may or may not be beyond their control. Provided that the Fund is satisfied that most of the total shortfall in exports is attributable to circumstances beyond the control of the authorities, the requirement is deemed to have been met. It is important to emphasize that compensation is not limited to that part of the shortfall which is judged to be clearly beyond the authorities' control, but to the entire shortfall.

The staff paper also proposed a modification to the practice of dealing with shortfalls involving stock accumulation. Where stockpiling results in a volume shortfall, the compensable amount of the shortfall is reduced by an appropriate amount determined by taking into account the effect of the stockpiling on exports in the shortfall year and of the later sale on projected exports. It was recommended that an adjustment on account of an increase in stocks in the shortfall year should not be made if the increase restores stocks to normal levels.

By and large, Executive Directors endorsed the recommendations of the staff paper that judgments relating to the "beyond the control" requirement should be determined on a case-by-case basis, but it was also understood that in individual cases Executive Directors could discuss all matters that they considered pertinent.

A survey of 59 Board discussions of CF requests since November 1982 shows that questions relating to "beyond the control" were raised by at least one Executive Director in over one-half of the discussions (see Appendix). However, of the principal issues relating to "beyond the control" discussed at the time of the 1982 Board review, only those relating to "inappropriate policies" have featured prominently. Nearly one-half of these questions relating to "beyond the control" concerned exchange rate policy, and most of the remainder concerned the sectoral policies being pursued with regard to one or more of the major export items; few questions concerned problems associated with stock accumulation.

Table 7 summarizes a recent analysis of the causes of the export shortfalls associated with CF drawings over the period 1976-86. The analysis attributes a main reason for the export shortfall or excess to each export item and includes a weighting of the reasons in accordance with the size of the shortfall in value terms. 1/ The results show that over 80 percent of the total value of shortfalls during the period 1976-86 was attributed to causes that were clearly beyond the control of the country concerned: to prices received for exports, weak external demand affecting volumes of exports, weather, and other unpredictable causes affecting volumes of exports. Unit value changes were particularly dominant in explaining shortfalls for drawings made in 1976 in the wake of the 1975 recession. Unit value changes were also the main reason in 1984-86, a period of declining commodity prices.

The value of commodity shortfalls for which the main cause was attributed to overvalued currencies was negligible. 2/ Overvalued exchange rates in some instances may have been a contributory factor in a number of the other causes that were determined to have influenced the shortfall, such as increased domestic demand, inadequate producer prices, high production costs and substitution of export commodities, shortages of inputs, and internal transport problems. These factors, taken together, accounted for 7 percent of the total value of shortfalls, for which reasons were identified; they were most important in the period 1977-80.

Table 8 summarizes the movements in real effective exchange rates 3/ for countries making CF drawings in 1981-86. Given the time lags in the effects of exchange rate changes, it seems likely that a major appreciation

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1/ The sum of the values of shortfalls and excesses for individual export items does not add to the value of the overall shortfall or excess when the geometric formula is used to calculate the shortfall or excess. For this reason, the values of shortfalls and excesses for individual export items have been prorated so that their sum equals the total shortfall in each CF request.

2/ The fact that overvaluation was not found to contribute to an export shortfall does not mean, of course, that overvaluation was unimportant in determining the underlying level of export receipts.

3/ A country's real effective exchange rates is defined as the exchange rate between the currency of that country and the currencies of major trading partners, with weights in accordance with trade shares, adjusted by movements in relative prices.

Table 7. Analysis of Causes of Export Earnings Shortfalls Associated with CF Drawings, 1976-86

	Year of Drawing				
	1976	1977-80	1981-83	1984-86	Total
A. CF drawings					
Number	48	67	81	29	225
Total value (In billions of SDRs) 1/	2.31	2.37	6.71	2.31	13.70
			(In billions of SDRs)		
B. Shortfall values associated with CF drawings					
Total	2.96	4.09	7.93	3.88	18.87
1. Sum of component excesses	-1.10	-3.22	-6.46	-3.81	-14.59
2. Sum of component shortfalls	4.06	7.31	14.39	7.69	33.46
Of which: Causes identified	(2.99)	(5.63)	(12.28)	(5.86)	(26.77)
			(Percentages)		
C. Allocation of value of component shortfall by main identifiable cause					
Total	100	100	100	100	100
1. Main cause beyond control of country	86	71	85	88	83
a. Unit value changes	(60)	(39)	(44)	(57)	(48)
b. Weak external demand affecting volumes	(22)	(16)	(24)	(22)	(22)
c. Weather affecting volumes	(3)	(13)	(13)	(6)	(10)
d. Other fortuitous factors affecting volumes 2/	(1)	(3)	(4)	(3)	(3)
2. Unusual performance in pre-shortfall or post-shortfall years	7	13	5	6	7
3. Political causes affecting volumes	4	4	4	3	4
4. Miscellaneous domestic factors affecting volumes 3/	3	12	6	3	6

1/ Includes value of drawing attributable to excesses in cereal import costs.

2/ Plant disease, exhaustion of natural resources, production cycles, external transportation difficulties, industrial accidents, etc.

3/ Increased domestic demand, inadequate producer prices, substitution of export commodities, shortage of inputs, internal transport difficulties, high production costs, and overvalued currency.

Table 8. Analysis of Movements in Real Effective Exchange Rates (REER) for Countries Making CF Drawings, 1981-86

(Number of drawings)

	Year of Drawing						
	1981	1982	1983	1984	1985	1986	Total
Total drawings	29	28	24	8	13	8	110
Classification of drawings by changes in REER of country making drawing:							
1. Changes in REER in immediate preshortfall year ($REER_{t-1}$-$REER_{t-2}$, where t is the shortfall year)							
Appreciation 10% or more	1	5	5	1	0	1	13
Changes less than 10%	25	21	17	7	9	5	84
Depreciation 10% or more	0	2	1	0	3	2	8
No information	3	0	1	0	1	0	5
2. Changes in REER in shortfall year ($REER_t$-$REER_{t-1}$)							
Appreciation 10% or more	5	4	6	0	2	1	18
Changes less than 10%	19	24	14	6	10	3	76
Depreciation 10% or more	2	0	3	2	0	1	8
No information	3	0	1	0	1	3	8
3. Cumulative changes in REER in immediate preshortfall year and shortfall year ($REER_t$-$REER_{t-2}$)							
Appreciation 10% or more	7	15	10	0	1	1	34
Changes less than 10%	16	10	9	5	6	1	47
Depreciation 10% or more	3	3	4	3	5	3	21
No information	3	0	1	0	1	3	8

in the immediate preshortfall year or the early part of the shortfall year would have the greatest impact on the size of the shortfall. In the years 1981-86 there were 34 countries out of a total of 110 making CF drawings which experienced a cumulative increase of 10 percent or more in their real effective exchange rates in the shortfall year and the immediate preshortfall year. There were 21 countries where the real effective exchange rate declined over the same period. There was, however, a marked distinction between the countries making drawings in the first half of this period and those making drawings in the last half. The number of appreciations greatly exceeded the number of depreciations in 1981-83, whereas depreciations greatly outnumbered the few appreciations in 1984-86. This pattern corresponds to the overall pattern for developing countries in these years. 1/

It should also be added that the above assessment from a broad survey does not imply that even where some of the factors--which are related to exchange rate policy--were clearly within the control of the authorities, that the member would not have qualified for compensation. As noted above, a multiplicity of factors, in particular the effects of variation in external demand on prices and volumes, is taken into account in assessing the causes of the shortfall and where most of the shortfall can be shown to meet the "beyond the control" requirement, this test is satisfied.

The questions raised at Board discussions of individual CF requests in recent years, as to the degree to which sectoral policies within the control of a country may have caused the shortfall, have covered a wide range of export items: cloves, copper, cotton, groundnuts, manufactures, petroleum, sugar, and timber. The situation with regard to petroleum exports, however, has attracted the most attention. In this regard there has been considerable discussion of the implications of a country's membership in an organization such as the Organization of Petroleum Exporting Countries (OPEC) for the determination of whether a shortfall in petroleum exports is beyond the control of that country. The Managing Director summed up a Board discussion in 1983 on CF requests by oil exporting countries (EBM/83/80, 6/2/83) as follows:

> ". . . OPEC membership creates neither a negative nor a positive presumption relating to a member's eligibility. What is important for the purpose of applying the criterion of whether or not an export shortfall is beyond the member's control is an examination of the specific conditions and behavior of each country requesting a drawing, covering such matters as output, stockpiling, and price policies. Against that background, and because of the importance given to the principle of uniformity of treatment, I think it fair to say that almost all Directors explicitly endorsed the case-by-case approach in which each request is examined on its own merits . . . on the basis of the Articles of Agreement and the policy decisions adopted by the Board."

1/ IMF Annual Report (1986).

The Data Coverage

This annex discusses those aspects of current practice with respect to the definition and coverage of exports which have been endorsed consistently by the Executive Board and which, therefore, are not discussed in the body of the paper. These aspects are the use of customs data, where feasible, and the optional inclusion of receipts from services. The annex also provides a summary of the analysis in SM/83/262, 12/27/83 on the incidence of cases of high import content of exports from 1976-83 and updates the analysis for 1984-86.

1. Customs data

Customs data is the preferred statistical source for merchandise exports because the timing of export shipments is known exactly, thereby permitting the accurate calculation of the shortfall for a given 12-month period. In addition, customs data generally list both the value and volume of a transaction, which allows the contribution of volume and unit value movements to the shortfall in value to be identified. In cases where customs data are unavailable, alternative data sources may be used, provided that the staff is satisfied that the shortfall can be calculated with reasonable accuracy. For example, export value may be estimated from payments data with the banking system, volume may be inferred from letters of credit issued by commercial banks, and both value and volume data may be available from commodity marketing agencies. 1/

2. Services

The inclusion of services reflects the importance of tourism and workers' remittances in the foreign exchange earnings of a number of countries and their observed fluctuation due to factors beyond the member's control. Although receipts from travel and workers' remittances are, in principle, measurable with a reasonable degree of accuracy, there is wide variation in the quality of the data among Fund members. Therefore, it is impossible to require that services be included in all cases. Equality of treatment among members is ensured by allowing members to opt to include services in the calculation of the overall shortfall, and for either travel receipts or workers' remittances to be excluded if the staff determines that data for either category are not reasonably accurate. In order to prevent members gaining higher access to the CFF over time by opting in and out of services in successive drawings, once a member opts either to include or exclude services in its first drawing after the end of 1979, it remains bound to this option for a period of five years. 2/

1/ Recent cases where customs data were not available on a timely basis were in connection with the drawing by Somalia (EBS/85/8, 1/8/85) and Bolivia (EBS/86/264, 11/26/86).

2/ If a member opts to include services, but data on only one category is of sufficient quality to be included in the first drawing and the quality of the data on the second category improves subsequently, then both categories must be inlcuded in the shortfall calculation for a second drawing within the 5-year option period.

Since the introduction of this option in 1979, ten members have based their requests for CF drawings on exports inclusive of either tourist earnings or workers' remittances, or both. This aspect of the CFF has not given rise to any particular problems of implementation.

3. The import content of exports--extent of the problem

In SM/83/262, CF drawings from 1976 to 1983 were examined for instances where the shortfall calculations included products that were likely to contain a relatively large import component. Four products were identified--refined petroleum, polished diamonds, in-bond industries, and petrochemicals. Shortfalls or excesses occurred for one or more of these products 19 times and 25 times, respectively, in 40 out of the 195 CF drawings examined (Table 9). But in only six of the drawings was the ratio of product shortfall to the overall shortfall substantially greater than 10 percent, and in three of these six drawings, the inclusion of products with high import content did not increase the size of the drawing because shortfalls in other products were sufficiently large to accommodate the drawings. In the remaining drawings, one by Israel and two by Panama, shortfalls in products with high import content--polished diamonds and refined petroleum--contributed to the drawings. However, only Panama benefited consistently from current practice, in the sense that the shortfall in petroleum products contributed to its two drawings. In another drawing by Israel, an excess for polished diamonds had the effect of reducing the drawing. The paper concluded that only in very few cases had current practice led to consequences that might be considered by some as not being fully compatible with the spirit of the CFF.

An examination of the 30 CF requests that have been approved since SM/83/262 was issued indicates that eight cases included products with a high import content (Table 10). In addition to the four products mentioned above, electronics products and garments were identified in the Board discussion of the most recent Philippines CF request as being likely to contain a high import component. Of these six products, electronics products have exerted the greatest influence on the calculation of overall shortfalls. Shortfalls and excesses occurred for petroleum products in five cases and for garments in three cases, with shortfalls marginally exceeding excesses in each product. One shortfall and one excess occurred for petroleum products; their net impact was to reduce the aggregate shortfalls for the eight cases by SDR 73 million or about 5 percent. There were no instances of shortfalls or excesses for polished diamonds or in-bond industries in the past three years.

Of the eight drawings, in only two cases was the ratio of the product shortfall to the overall shortfall substantially greater than 10 percent. For Kenya's 1985 drawing, the shortfall in refined petroleum was 18 percent of the overall shortfall, and for the 1986 drawing by the Philippines, shortfalls in refined petroleum, electronics, and garments had a combined share of 58 percent in the overall shortfall. In two other cases (Thailand and Morocco) the combined product shortfalls were less than 5 percent of the overall shortfall, while in the remaining four cases (Korea, Portugal,

Table 9. CF Drawings and Shortfalls:
Cases Involving Selected Products With Import Content, 1976-83 1/

	Country	EBS No.	Drawings (1)	Shortfalls: Total 2/ (2)	Shortfalls: Selected Products: Petroleum products (3)	Shortfalls: Selected Products: Polished diamonds (4)	Shortfalls: Selected Products: In-bond (5)	Shortfalls: Selected Products: Petro-chemical (6)	Subtotal Sum of (3)-(6)= (7)	Share of Group in: Total earnings 3/ (8)	Share of Group in: Overall shortfall (9)
			(In millions of SDRs)							(In percent)	
	1976										
1.	Egypt	76/257	94.0	121.0	9.0	--	--	--	9.0	10.2	7.4
2.	Kenya	76/305	24.0	28.4	-6.2	--	--	--	-6.2	17.2	-21.8
3.	Israel	76/333	65.0	82.4	--	47.6	--	--	47.6	31.2	57.8
4.	Mexico	76/423	185.0	284.0	--	--	78.4	--	78.4	25.3	27.6
5.	Sri Lanka	76/469	15.8	15.8	0.3	--	--	--	0.3	9.7	1.9
6.	Panama	76/503	18.0	19.6	15.6	--	--	--	15.6	79.6	56.6
7.	Barbados	76/523	3.5	3.5	--	--	-0.8	--	-0.8	20.8	-22.9
	1977										
8.	Portugal	77/264	29.3	178.6	--	16.0	--	--	16.0	1.6	9.0
9.	Romania	77/313	47.5	80.0	-32.3	--	--	28.5	-3.8	11.7	-4.8
10.	Barbados	77/358	3.0	4.3	--	--	-0.3	--	-0.3	25.1	-7.0
	1978										
11.	Spain	78/39	98.8	99.0	12.0	--	--	--	12.0	3.7	12.1
12.	Turkey	78/175	74.5	223.7	12.5	--	--	--	12.5	--	5.6
13.	Morocco	78/271	56.0	93.4	--	--	--	-2.9	-2.9	5.7	-3.1
14.	Israel	78/475	72.4	72.4	--	-25.0	--	--	-25.0	36.5	-34.5
15.	Senegal	78/565	21.0	100.5	3.5	--	--	--	3.5	6.7	3.5
	1979										
16.	Romania	79/172	41.3	170.0	49.2	--	--	-8.1	41.1	13.5	24.2
17.	Kenya	79/453	69.0	99.8	-5.8	--	--	--	-5.8	21.4	-5.8
18.	Ethiopia	79/630	18.0	35.6	3.6	--	--	--	3.6	3.6	10.1
	1980										
19.	Romania	80/99	121.3	159.6	-256.8	--	--	-21.8	-278.6	22.4	-174.6
20.	Korea	80/140	160.0	210.0	-24.0	--	--	--	-24.0	3.6	-11.4
21.	India	80/171	266.0	266.0	--	--	--	3.0	3.0	2.6	1.1
	1981										
22.	St. Lucia	81/53	2.7	4.0	--	--	0.2	--	0.2	8.2	5.0
23.	Ethiopia	81/96	18.0	36.5	-1.9	--	--	--	-1.9	7.1	-5.2
24.	Sri Lanka	81/107	25.3	25.3	-29.7	--	--	--	-29.7	17.1	-117.4
25.	Tanzania	81/112	15.9	15.9	-2.8	--	--	--	-2.8	5.0	-17.6
26.	Romania	81/121	169.5	428.6	-183.6	--	--	24.4	-159.2	26.5	-13.3
27.	Senegal	81/185	42.0	50.8	-7.7	--	--	--	-7.7	18.7	-15.2
28.	Cote d'Ivoire	81/187	114.0	358.7	31.8	--	--	--	31.8	9.7	8.9
	1982										
29.	Morocco	82/58	236.4	236.4	1.1	--	--	-3.8	-2.7	19.4	-1.1
30.	Kenya	82/84	60.4	65.8	-33.7	--	--	--	-33.7	30.2	-51.2
31.	Madagascar	82/109	21.8	30.9	-0.4	--	--	--	-0.4	3.3	-1.3
32.	Pakistan	82/119	180.2	180.2	-17.3	--	--	--	-17.3	12.2	-9.6
33.	Uruguay	82/124	55.3	55.3	--	--	--	0.7	0.7	1.1	1.3
34.	Sri Lanka	82/141	39.2	39.2	-6.0	--	--	--	-6.0	17.1	-15.3
35.	Barbados	82/171	12.6	12.6	--	--	-0.3	--	-0.3	6.5	-2.4
36.	Brazil	82/215	498.8	920.0	-113.0	--	--	--	-113.0	2.5	-12.1
	1983										
37.	Brazil	83/38	466.3	965.0	-134.0	--	--	--	-134.0	2.8	-13.9
38.	Panama	83/103	58.9	58.9	40.6	--	--	--	40.6	36.6	68.9
39.	Belize	83/107	3.6	6.0	--	--	2.5	--	2.5	9.4	41.7
40.	Portugal	83/197	258.0	359.0	--	--	--	-42.0	-42.0	3.7	-11.7
	Total		3,762.3	6,196.7	-676.0	38.6	79.7	-22.0	-579.0	7.9	-5.8
Shortfalls					-179.2	63.6	81.1	56.6	381.0		
Excess (-)					-855.2	-25.0	-1.4	-78.6	-960.0		

1/ CF cases for which export products with relatively large import contents were identified in CF papers.
2/ Overall shortfalls.
3/ The share of earnings from the products listed in columns (3)-(6) in total exports in the shortfall year.

Table 10. CF Drawings and Shortfalls:
Cases Involving Selected Products with Import Content, 1984-86 1/

	EBS No.	Drawings (1)	Net Shortfall (2)	Shortfalls in Selected Products: Petroleum products (3)	Petrochemicals (4)	Electronics (5)	Garments (6)	Group Total Sum (3)-(6)	Share of Group in: Total earnings	Share of Group in: Overall shortfall
		(In millions of SDRS)							(In percent)	
Korea	84/100	279.7	577.1 2/	--	-85.0	--	--	-85.0	5.3	-15.3
Portugal	84/184	54.6	202.7	-30.0	12.0	--	--	-18.0	9.8	-8.9
Mauritius	85/28	7.5	7.5	--	--	--	-1.6	-1.6	38.5	-21.3
Thailand	85/129	185.0	185.0	--	--	23.0	-16.0	7.0	15.4	3.8
Morocco	85/159	85.5	119.1 2/	5.7	--	--	--	5.7	4.0	4.8
Kenya	85/250	37.9	37.9 2/	6.7	--	--	--	6.7	15.5	17.7
Ethiopia	86/15	35.3	51.7	-0.7	--	--	--	-0.7	8.9	-1.4
Philippines	86/223	224.1	293.0	19.8	--	130.7	20.4	170.9	35.8	58.3
Total		909.6	1,454.0	1.5	-73.	153.7	2.8	85.0		
Shortfalls				32.2	12.0	153.7	20.4	190.3		
Excesses (-)				-30.7	-85.0	--	-17.6	-105.3		
Memorandum items:										
Selected pre-1984 drawings 3/										
Kenya	79/453	69.0	99.8	-5.8	--	--	--	-5.8	21.4	5.8
Kenya	82/84	60.4	65.8 2/	-33.7	--	--	--	-33.7	30.2	-51.2
Philippines 4/	80/33	93.3	93.3	--	--	-48.0	7.0	-41.0	19.0	-37.8
Philippines	83/29	188.6	259.0	--	--	-69.1	-12.9	-82.0	30.1	-31.7

1/ Cases for which export products with relatively large import contents were identified in SM/83/262 or by Executive Directors in discussion of CF requests.

2/ Net shortfall includes an excess in the cost of cereals imports.

3/ Cases not analyzed in SM/83/262.

4/ Shortfalls and excesses for the 12-months ending in August 1979 are estimated on the basis of calendar year data.

Mauritius, and Ethiopia), combined product excesses were recorded. Since the amounts drawn by Kenya and the Philippines were equal to the calculated shortfall and were not subject to quota limit, the shortfalls in products with high import content contributed to the drawings. However, neither country benefited consistently from current practice. In the drawings made by Kenya in 1979 and 1982 and those made by the Philippines in 1980 and 1983 there were combined excesses rather than shortfalls in their export products with high import content. 1/

1/ See the memorandum items in the lower part of Table 10.

Ex Post Calculations of Shortfalls and Drawings

Shortfalls under the CFF have been calculated as the difference between exports in the shortfall year and a 5-year average of exports centered on the shortfall year. 1/ Since this method involves projections of export earnings, there is an element of uncertainty about the true size and timing of the shortfall. This section compares the calculation of the shortfall at the time of the request for the drawing (ex ante) with the true (ex post) shortfall as revealed by subsequent actual data.

There are two aspects involved in analyzing the accuracy of estimated shortfalls and drawings. The first is a determination of the difference between ex ante and ex post shortfalls, and between actual and simulated drawings--the latter based on the true (ex post) shortfall; the second relates to whether the timing of the drawing was appropriate in relation to the profile of the shortfalls experienced by the requesting countries. To the extent that the drawing is constrained by the quota limit and the ex post shortfall is larger than the ex ante shortfall (i.e., where the shortfall was underestimated), the error does not necessarily translate into an increase in the simulated drawing (i.e., drawing that would have taken place with perfect foresight). Where the ex post shortfall is smaller than the ex ante shortfall (i.e., the shortfall was underestimated), access limits do not act as a constraint; this results in a larger proportion of overestimated shortfalls translating into overestimated drawings than is true for underestimated shortfalls. Secondly, for cases involving overestimation of shortfalls, an exercise has been made to determine whether a shortfall relating to a subsequent period would have encompassed the actual drawing made. For this purpose, the shortfall year is moved forward and shortfalls are computed and drawings simulated.

Of the 225 CF cases which have been processed since 1976, actual data that enable the calculation of the shortfalls ex post are available for 165 (Table 11). 2/ For these 165 cases an overestimation of shortfalls occurred in 93 cases, while there were 72 cases of underestimation. In total, ex post calculations revealed shortfalls of SDR 19.8 billion compared with ex ante shortfalls of SDR 18.8 billion, amounting to an underestimation of about 5 percent. For the 93 cases, the overestimation of shortfalls amounted to SDR 6.1 billion which was slightly more than offset by an underestimation of shortfalls amounting to SDR 7.1 billion in 72 cases.

An examination of drawings simulated on the basis of ex post shortfalls indicates that the net effect of ex ante calculation of the shortfalls was to overestimate drawings by SDR 3.0 billion, equal to 29 percent

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1/ The member may avail itself of the early drawing procedure by which data for up to six months of the shortfall year may be estimated.

2/ Since the CFF has no provision for countries reporting ex post earnings on the same basis as in the original request, the ex post calculations are based on monthly or quarterly data available in the IFS. This implies that ex post calculations using IFS data should be viewed as estimates, although a comparison of results using IFS and customs data for the few members where multiple drawings allowed for ex post calculations with customs data, shows close correspondence.

of total actual drawings. For 33 cases of underestimated drawings undercompensation amounted to only SDR 0.4 billion due to the effect of quota limits. By contrast, the drawings associated with 85 overestimated cases resulted in an overcompensation of SDR 3.3 billion.

Table 11. CF Shortfalls and Related Drawings: Ex Ante and Ex Post

	Total	Over-estimation	Under-estimation	Exact Estimation
		(Number of cases)		
Shortfalls	165	93	72	--
		(In billions of SDRs)		
Ex ante	18.8	9.6	9.2	--
Ex post	19.8	3.5	16.3	--
Ex ante minus ex post	-1.0	6.1	-7.1	--
		(Number of cases)		47
Drawings 1/	165	85	33	
		(In billions of SDRs)		
Actual	10.4	5.5	1.5	3.3
Simulated 2/	7.4	2.2	1.9	3.3
Actual minus simulated	3.0	3.3	-0.4	--

1/ Because of quota limits, there is no direct relationship between drawings under each classification and shortfalls in the same classification.

2/ Simulated drawings are based on shortfalls calculated ex post, that is with actual export data.

A breakdown of the cases of overestimation by year indicates that the largest differences between actual and simulated drawings occurred during the world recession of 1981-82 (Table 12). In percentage terms net overestimations were largest for those cases with shortfall years ending in 1981, amounting to 73 percent of total drawings, while overestimations in absolute terms, equal to SDR 1.3 billion, were largest for drawings made with respect to shortfalls in 1982. By contrast, there were no net overestimations in 1984. For the 1981-82 recessionary period, the underlying cause contributing to the overestimations was the projected recovery in earnings which did not materialize until 1984.

Table 12. Shortfalls and Drawings by Year

Year in Which Shortfall Year Ends	No. of Cases	Ex Ante		Ex Post		Ex Post Minus Ex Ante Drawings	Ex Ante Minus Ex Post as Percent of Ex Ante		Rate of Compensation
		Shortfall	Drawings	Shortfall	Simulated drawings		Shortfall	Drawing	
		(In millions of SDRs)					(In percent)		
1975	18	2,553	678	2,736	617	-61	-7	9	27
1976	26	2,256	1,247	2,483	978	-269	-10	22	55
1977	7	437	231	690	329	98	-58	-43	53
1978	21	1,344	694	2,398	651	-43	-78	6	52
1979	19	1,050	718	1,992	662	-56	-90	8	68
1980	14	1,108	741	767	345	-396	31	53	67
1981	18	2,334	1,148	466	304	-844	80	73	49
1982	31	5,052	3,604	4,719	2,351	-1,253	7	35	71
1983	10	2,478	1,264	3,218	1,090	-174	-30	14	51
1984	1	218	55	343	55	--	-57	--	25
Total	165	18,832	10,380	19,811	7,383	-2,997	-5	29	55

Because of the length of the recession and the incorrect assessment of the timing of the turning point, it now appears that the majority of cases in this period were processed 7 to 8 months prematurely (Table 13). In 1981 and 1982 subsequent shortfalls emerged for 16 countries within 24 months of the initial drawing; overestimation of the drawings in these cases amounted to SDR 950 million. Had the shortfall year been delayed, then shortfalls with respect to later periods would have exceeded actual drawings for a large number of overestimated drawings. An analysis of 50 out of the 69 cases where data are available, indicates that delaying the shortfall year would have resulted in ex post shortfalls which covered the amount drawn in 30 cases. Instances of subsequent shortfalls 1/ would have lowered the net overestimation of drawings by SDR 1.1 billion to SDR 1.9 billion, equivalent to 18 percent of actual drawings.

Errors in forecasting the unit value of exports in the two post-shortfall years have been an important factor in the overestimation of shortfalls. An analysis of the 29 countries for which the data permit an assessment of both unit value and volume projections indicates that the shortfall attributable to unit values was overestimated in 24 cases by a total amount of SDR 2.0 billion (Table 14). By contrast, shortfalls attributable to export volume were underestimated by about SDR 0.2 billion. Projecting the unit value of particular commodities is fraught with difficulty as is well known. It was particularly severe in the recession years of 1981 and 1982 when structural declines in the use of certain commodities were not foreseen giving rise to projection which turned out to be overoptimistic. The absence of overestimated drawings in 1984 is to some extent a reflection of the improved record of forecasting unit values than was the case in earlier years.

1/ Excludes subsequent shortfalls where the member did in fact make a second drawing, after the overestimated drawing.

Table 13. CF Cases With Overestimation of Drawing: Incidence of Subsequent Shortfalls 1/

	1975	1976 2/	1978	1979	1980	1981	1982	1983	1984
				(In number of cases)					
Number of Cases 3/	3	7	3	2	3	12	17	3	--
Subsequent shortfall within 24 months	3	4	2	2	2	7	9	1	--
Lower tranche	2	3	--	2	1	1	5	--	--
Upper tranche	1	1	2	--	1	6	4	1	--
Coincident Fund program	1	1	1	--	1	4	4	1	--
No coincident Fund program	--	--	1	--	--	2	--	--	--
No subsequent shortfall	--	3	1	--	1	5	8	2	--
				(In millions of SDRs)					
Overestimation amount	76.1	270.5	88.7	18.2	206.6	799.7	1,054.5	200.2	--
Subsequent shortfall within 24 months	76.1	185.0	88.1	18.2	46.1	451.7	513.0	99.2	--
Lower tranche	32.0	66.5	--	18.2	25.3	189.0	105.5	--	--
Upper tranche	44.1	19.0							
Coincident Fund program	44.1	19.0	88.1	--	20.8	262.7	407.5	99.2	--
No coincident Fund program	--	--	15.8	--	20.8	216.6	407.5	99.2	--
No subsequent shortfall	--	85.5	72.3	--	--	46.1	--	--	--
			0.6	--	160.5	348.0	541.5	101.0	--
				(In number of months)					
Number of months to subsequent shortfall 4/	11	6	9	14	24	8	7	6	--
				(In percent of quota)					
Outstanding amount after drawing 4/	60	50	69	50	28	87	68	87	--

1/ Subsequent shortfall defined as the first occurrence of a net shortfall greater than or equal to the ex ante drawing, which occurs within two years after the end of the shortfall year. (Based on actual IFS data, and quarterly WEO estimates.)

2/ No cases occurred in 1977.

3/ For 50 out of 69 cases with overestimation of the drawings, for which data to compute subsequent shortfalls were available.

4/ Weighted by overestimation amount. Number of months refers to cases which experienced a subsequent shortfall. Outstanding refers to all cases.

Table 14. Overestimation of Drawing Amount: Price and Volume Components 1/

	Country (1)	End of Shortfall Year (2)	Ex Ante Shortfall Total value (3)	Ex Ante Shortfall Unit value (4)	Ex Post Shortfall Total value (5)	Ex Post Shortfall Unit value (6)	Ex Ante Minus Ex Post Shortfall Total value (7)=(3)-(5)	Total value due to unit value 3/ (8)	Implicit volume 9=(7)-(8)	Overestimation of Drawing 2/ Total value (10)	Unit value (11) (10)*(8)/(7)	Volume (12) (10)*(9)/(7)
			(In percent of shortfall year)							(In millions of SDRs)		
1981												
133	Costa Rica II	3/81	3.9	-4.5	2.2	-4.4	1.8	-0.1	1.9	13.5	-0.8	14.3
143	Guatemala	6/81	8.4	3.3	-5.8	-1.1	14.2	4.3	9.8	76.5	23.2	53.3
144	Haiti	9/81	13.4	10.0	8.2	7.1	5.2	2.8	2.4	6.6	3.6	3.0
145	Honduras I	6/81	3.9	1.9	-3.7	1.1	7.6	0.8	6.8	23.3	2.5	20.8
154	Liberia II	12/81	4.4	4.1	-4.2	-0.5	8.7	4.6	4.1	7.0	3.7	3.3
140	Malaysia II	6/81	6.3	-2.2	-0.5	-12.8	6.9	10.8	-4.0	189.8	297.1	-107.3
142	Papau New Guinea II	6/81	9.9	3.0	-0.3	-4.8	10.2	8.1	2.1	45.0	35.7	9.3
152	Peru III	12/81	11.9	2.5	3.5	-7.9	8.5	10.7	-2.3	129.3	162.8	-33.5
134	Thailand III	3/81	6.4	-3.3	-0.4	-12.4	6.8	9.1	-2.3	186.0	248.9	-62.9
141	Zambia IV	6/81	30.2	12.8	5.6	-2.1	24.6	15.8	8.8	11.5	7.4	4.1
									Subtotal	688.5	784.1	-95.6
1982												
174	Bolivia II	12/82	5.0	1.7	-2.6	-1.2	7.6	2.9	4.7	17.9	6.8	11.1
147	Bangladesh II	3/82	6.8	14.0	6.0	10.0	0.8	3.7	-2.9	4.5	20.8	-16.3
173	Chile II	9/82	8.6	10.8	1.5	-5.0	7.1	15.1	-8.0	244.4	519.8	-275.4
156	El Salvador II	3/82	29.3	6.9	8.1	4.5	21.2	2.8	18.4	15.2	2.0	13.2
167	Hungary	6/82	1.0	-1.2	-1.2	-5.1	2.2	3.8	-1.7	72.0	124.4	-52.4
159	Jamaica VI	3/82	1.8	-3.8	-8.2	-5.9	10.1	2.0	8.1	19.4	3.8	15.6
157	Pakistan III	6/82	8.1	-1.1	5.0	-6.2	3.0	5.2	-2.2	67.9	117.7	-49.8
179	Philippines IV	9/82	5.7	5.4	1.7	-0.6	4.0	6.0	-2.0	109.8	164.7	-54.9
177	Sierra Leone III	6/82	19.1	2.8	10.5	10.0	8.6	-7.9	16.5	9.3	-8.5	17.8
170	Zambia V	6/82	10.6	10.3	-2.6	-5.7	13.1	15.9	-2.8	34.0	41.0	-7.0
172	Burma I	9/82	7.0	5.3	-5.3	19.9	12.3	-14.2	26.5	25.6	-29.6	55.2
148	Fiji II	3/82	8.2	4.3	-2.6	-12.8	10.8	16.7	-5.9	13.5	20.9	-7.4
165	Guyana IV	6/82	5.4	-2.5	-6.5	-15.9	11.9	14.2	-2.3	5.9	7.0	-1.1
176	Argentina II	9/82	9.6	4.0	3.7	4.5	5.9	-0.5	6.4	262.9	-22.3	285.2
185	Panama II	12/82	17.2	0.1	-4.5	4.0	21.7	-3.9	25.6	58.9	-10.6	69.5
158	Uruguay II	9/82	5.0	3.9	2.4	-1.7	2.6	5.4	-2.9	22.8	47.4	-24.6
162	Liberia III	6/82	7.5	4.6	-0.9	-1.0	8.4	5.7	2.7	27.7	18.8	8.9
									Subtotal	1,011.7	1,024.1	-12.4
1983												
200	Jamaica III	12/82	10.0	9.5	-0.2	-7.9	10.2	16.7	-6.5	72.6	118.9	-46.3
191	Burma II	3/82	14.7	7.3	3.9	-3.7	10.8	11.1	-0.3	28.4	29.2	-0.8
									Subtotal	101.0	148.1	-47.1
									Total	1,801.2	1,956.3	-155.1

1/ For 29 countries for which the existence of international price forecasts allows for an analysis of price and volume forecasting errors.

2/ Defined as ex ante minus ex post drawing.

3/ Derived by holding volume constant and computing the error in value due to misspecification of unit value.

Duration of Shortfalls and Related Growth Rates

The following example is intended to demonstrate that a shortfall is temporary even when a drop in exports that occurs in the shortfall year lasts for a number of years thereafter. The figures in the Table 15 show a long-term trend of 100 with annual exports of 50 in the middle five years, and an annual shortfall of 50 during those years. Within this period, the export trend as defined in the CF decision 1/ declines through year 6, and then increases; the CF shortfall emerges in year 4, diminishes significantly in year 5 and disappears in year 6. The example also illustrates that the CF shortfall could be calculated around a declining trend (years 4 and 5) as well as a rising trend (years 7 and 8). Clearly, the shortfall would not emerge again after year 6 if exports did not recover after year 8.

Table 15. Illustrative Example--Shortfall

Year	Exports	CF Trend	CF Shortfall	Long-Term Shortfall
1	100	--	--	--
2	100	--	--	--
3	100	75.8	-24.2	--
4	50	66.0	16.0	50
5	50	57.4	7.4	50
6	50	50.0	0.0	50
7	50	57.4	7.4	50
8	50	66.0	16.0	50
9	100	75.8	-24.2	--
10	100	--	--	--
11	100	--	--	--

An export shortfall, for the purpose of the CFF, is measured as the amount by which a member's export earnings in the shortfall year are below the medium-term trend, defined as the geometric average of export earnings over five years centered on the shortfall year. In accordance

1/ Five-year moving average.

with this formula, a shortfall will occur only if the growth rate of exports from the preshortfall years to the shortfall year is less than the growth rate from the shortfall year to the post-shortfall years. 1/

Analysis of 123 CF cases presented to the Board during the period 1979-86 indicates that members have been compensated for export shortfalls involving a variety of growth rate movements in the shortfall year and the post-shortfall years. To illustrate these movements, the annualized growth rates in exports during the preshortfall and post-shortfall periods are summarized in Table 16. The cases have been grouped into two categories, those with positive growth and those with negative growth in the shortfall year. The latter category has been further subdivided by separating cases with positive from those with negative growth in the post-shortfall period.

Table 16 shows that by far the largest number of cases (91 cases or 74 percent of the total) were characterized by negative export growth in the shortfall year. In 86 of the 91 cases in this group, negative growth in the shortfall year was followed by a positive projected growth in the post-shortfall period. In five cases of negative growth in the shortfall year, the projected growth rate was also negative, though definitionally by a smaller extent. Typically, these are cases where exports decline from a high level in the preshortfall period and a recovery does not materialize in the two years following the shortfall year.

In about one-fourth of the requests for CF drawings approved by the Board since 1979, export growth in the shortfall year has been positive. As shown in Table 16, the growth rates in export earnings for this group of cases, being positive in both the shortfall year and the post-shortfall period, indicate that export shortfalls were generally measured from a rising trend in export earnings.

1/ The trend value $\overline{X_t}$ is defined as the geometric average of exports in years $t_{-2} \ldots t_{+2}$

$$\overline{X_t} = (x_{t-2} \cdot X_{t-1} \cdot X_t \cdot X_{t+1} \cdot X_{t+2})^{.2}$$

The shortfall $SX_t = \overline{X_t} - X_t$

It can be shown that $SX_t > 0$ only when:

$$\frac{X_t}{X_-} < \frac{X_+}{X_t}$$

Where X_- is average exports in t_{-2} and t_{-1}

X_+ is average exports in t_{+1} and t_{+2}.

Table 16. CF Cases: Analysis of Shortfalls and Related Growth Rates of Exports, 1979-86

(In millions of SDRs)

Category	Number of Cases	Total Shortfalls	Total Drawings	Weighted Growth Rates in: Shortfall year 1/	Weighted Growth Rates in: Post-shortfall year 2/
Total	123	14,193	9,120	-0.5	13.1
1. Positive growth in shortfall year	32	4,906	3,198	6.8	15.7
2. Negative growth in shortfall year	91	9,287	5,922	-4.5	11.7
a. Positive growth in post-shortfall period	(86)	(8,696)	(5,576)	(-3.9)	(12.5)
b. Negative growth in post-shortfall period	(5)	(591)	(346)	(-14.0)	(-1.2)

1/ Annual growth rate from average export in the two preshortfall years to the shortfall year.
2/ Annual growth rate from exports in the shortfall year to average exports in the two post-shortfall years.

Table 17 shows changes in the relative importance of each category of cases over time. The most striking change is the decline in the relative importance of the category of cases with a negative growth of exports in the shortfall year followed by positive growth in the post-shortfall period. During the period 1981-83, the period of the most recent recession, there were 59 cases in this category representing 76 percent of the total value of drawings made. However, during the period 1984-86, there were only 13 such cases representing less than one-third of the total drawings made during that period. This outcome is in line with expectations concerning the pattern of drawings in the aftermath of a major recession and drawings during the subsequent period of recovery.

Table 17. Evolution of CF Drawings by Category, 1979-86

Year	Number of Drawings	Total Drawings (In millions of SDRs)	Positive Export Growth in Shortfall Year		Negative Export Growth in Shortfall Year			
					Negative growth in post-shortfall period		Positive growth in post-shortfall period	
			Number of drawings	Total drawings (In millions of SDRs)	Number of drawings	Total drawings (In millions of SDRs)	Number of drawings	Total drawings (In millions of SDRs)
1979	12	265	3	70	2	18	7	177
1980	15	980	8	824	--	--	7	156
1981	27	1,199	6	638	--	--	21	561
1982	24	2,154	4	154	--	--	20	2,000
1983	23	2,826	5	669	--	--	18	2,157
1984	5	464	3	375	--	--	2	89
1985	9	665	3	468	--	--	6	197
1986	8	567	--	--	3	328	5	239
Total	123	9,120	32	3,198	5	346	86	5,576
1979-80	27	1,245	11	894	2	18	14	333
1981-83	74	6,179	15	1,461	--	--	59	4,718
1984-86	22	1,696	6	843	3	328	13	525
		(Percentage distribution of drawings by category)						
1979-80		100		72		1		27
1981-83		100		24		--		76
1984-86		100		50		19		31

Table 18. Issues Raised by Executive Directors at Board Meetings on CF Requests

Case Number		EBS Number	EBM Number	Beyond the Control	Cooperation with Fund	Export Projections	Ability to Repurchase	Temporary Nature of Shortfall	CF Formula	CF Appropriate	BOP Needs	Other Issues
1.	Guyana	82/190	82/142		X		X					
2.	Hungary	82/205	82/156-57			X						
3.	Iceland	82/209	82/161	X	X			X		X		Use of CF by industrial countries
4.	Zambia	82/212	82/159			X						Early repurchase
5.	Brazil	82/215	82/165		X							
6.	Burma	82/219	82/163			X						
7.	Chile	82/228	83/8	X								
8.	Bolivia	82/223	83/9									
9.	Dominican Republic	82/228	83/15									
10.	Argentina	83/11	83/17-18	X		X						
11.	Sierra Leone	83/14	83/29	X						X		
12.	Malawi	83/28	83/40									
13.	Philippines	83/24	83/38-39									
14.	Sudan	83/34	83/46	X		X						Timing of the request, unrecorded export
15.	Brazil	83/38	83/40-41									
16.	Zimbabwe	83/45	83/52	X								Stock adjustment
17.	Zambia	83/45	83/63			X						Decision in principle
18.	Swaziland	83/101	83/89			X						
19.	Belize	83/107	83/86									
20.	Panama	83/103	83/91									Import content of exports
21.	Western Samoa	83/105	83/92									
22.	Niger	83/120	83/96									
23.	Indonesia	83/145	83/113	X		X						
24.	Ghana	83/146	83/117-18	X		X						
25.	Burma	83/160	83/123	X	X							
26.	Costa Rica	83/163	83/132	X		X						CF for manufactured goods exports
27.	Niger	83/195	83/147									Request of waiver of 6-month estimation
28.	Portugal	83/197	83/148	X		X						
29.	Ecuador	83/229	83/161	X	X	X						
30.	Zaire	83/260	83/174	X	X	X						

Table 18 (concluded). Issues Raised by Executive Directors at Board Meetings on CF Requests

Case Number		EBS Number	EBM Number	Beyond the Control	Cooperation with Fund	Export Projections	Ability to Repurchase	Temporary Nature of Shortfall	CF Formula	CF Appropriate	BOP Needs	Other Issues
31.	Peru	84/59	84/67	X		X		X				CF purchases by copper exporters and copper prices
32.	Brazil	84/86	84/75	X								
33.	Korea	84/100	84/89	X					X		X	Prolonged use of Fund resources
34.	Jamaica	84/102	84/89									Frequent user of CFF
35.	Madagascar	84/120	84/100	X								
36.	Portugal	84/148	84/116									
37.	Malawi	84/153	84/122									
38.	Ghana	84/219	84/172	X		X						Frequency of use of cereal decision
39.	Argentina	84/252	84/190	X		X			X			
40.	Jordan	84/265	85/8		X	X						Cereal decision
41.	Fiji	85/3	85/11		X							
42.	Somalia	85/8	85/11-12	X		X						
43.	Mauritius	85/28	85/32	X		X						
44.	Bangladesh	85/62	85/57		X							
45.	Thailand	85/129	85/95-96	X		X			X			
46.	Chile	84/124	85/106	X		X						
47.	Morocco	85/159	85/139-40	X								
48.	Chad	85/200	85/141			X						
49.	Uruguay	85/213	85/152	X							X	
50.	Dominican Republic	85/248	85/172									
51.	Kenya	85/250	85/174									
52.	Ethiopia	86/15	86/27		X		X					
53.	Zambia	86/25	86/31-32	X		X						
54.	Madagascar	86/105	86/90				X					
55.	Ecuador	86/149	86/136	X								
56.	Gambia	86/193	86/157	X			X			X		Why were re-exports not included in the calculation?
57.	Philippines	86/223	86/172-73	X				X		X		Import content of exports
58.	Tunisia	86/238	86/177	X		X		X	X			
59.	Bolivia	86/264	86/197	X					X			