

EBS/86/53
Supplement 1

CONFIDENTIAL

March 13, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Special Disbursement Account--"Structural Adjustment
Facility"--Proposed Decisions

Attached for consideration by the Executive Board is a memorandum on the use of resources of the Special Disbursement Account under the "Structural Adjustment Facility", including five draft decisions, which is proposed to be brought to the agenda for discussion on Wednesday, March 26, 1986.

Mr. Gianviti (ext. 8329) is available to answer technical questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

Special Disbursement Account - Structural Adjustment Facility
Proposed Decisions

Prepared by the Legal Department

(In consultation with the Exchange and Trade Relations
and Treasurer's Departments)

Approved by François Gianviti

March 13, 1986

Introduction

On December 17, 1980 the Executive Board adopted Decision No. 6704-(80/185) TR on the termination of the Trust Fund and the transfer of resources to the Special Disbursement Account. 1/ This decision provided, inter alia:

"Of the resources received in the Special Disbursement Account as a consequence of the termination of the Trust Fund which are not used for the Subsidy Account as provided in (a) above, SDR 1,500 million shall be used to provide balance of payments assistance on concessional terms, on a uniform basis, to low-income developing members in need of such assistance under arrangements similar to those set forth in the Trust Instrument. The remainder shall be used to provide assistance to low-income developing members in accordance with the second sentence of subsection 12(f)(ii) of Article V of the Articles of Agreement under a decision of the Fund to be taken not later than June 30, 1986. If no such decision is taken by that date, the remainder referred to in the preceding sentence shall be used on the same terms as the SDR 1,500 million referred to in the first sentence of this subparagraph." 2/

In EBS/86/53, entitled "Use of Resources of the Special Disbursement Account - Further Considerations" (March 4, 1986) different names for the Facility under which the resources would be used were considered. In this memorandum, without prejudging the final decision, the name "The Structural Adjustment Facility Within the Special Disbursement Account" is used (shortened, where appropriate, to "the Structural Adjustment Facility", or "the Facility"). 3/

1/ Selected Decisions, Eleventh Issue, page 333.

2/ Paragraph 3(b).

3/ See EBS/86/53, p.1.

Attached to this memorandum are five proposed decisions:

- (a) Decision No. I would authorize the use under the Facility of income from investment and interest on loans;
- (b) Decision No. II would adopt regulations for the administration of the Facility;
- (c) Decision No. III would prescribe operations in SDRs with participants and prescribed holders under the Facility;
- (d) Decision No. IV would determine the list of members eligible to use the resources of the Facility, and the amount of assistance in terms of quotas available to each member under the Facility;
- (e) Decision No. V would provide for the review of the operation of the Facility by the end of 1988.

General Comments

1. Decision No. 6704 was adopted pursuant to Article V, Section 12(f)(ii) which provides in part as follows:

(f) Whenever under (c) above the Fund sells gold held by it on the date of the second amendment of this Agreement, an amount of the proceeds equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold shall be placed in the General Resources Account and, except as the Fund may decide otherwise under (g) below, any excess shall be held in the Special Disbursement Account. The assets held in the Special Disbursement Account shall be held separately from the other accounts of the General Department, and may be used at any time:

- (i) ...
- (ii) for operations and transactions that are not authorized by other provisions of this Agreement but are consistent with the purposes of the Fund. Under this subsection (f)(ii) balance of payments assistance may be made available on special terms to developing members in difficult circumstances, and for this purpose the Fund shall take into account the level of per capita income;
- (iii) ...

Decisions to use assets pursuant to (i) above shall be taken by a seventy percent majority of the total voting power, and decisions pursuant to (ii) and (iii) above shall be taken by an eighty five percent majority of the total voting power."

In accordance with the last paragraph of Article V, Section 12(f), Decision No. 6704 was adopted by eighty five percent of the total voting power.

2. In addition to the amounts of Trust Fund reflows that are to be used for balance of payments assistance to low-income developing members pursuant to Executive Board Decision No. 6704, it has been proposed that income earned on investments of resources available for the Facility as well as the interest paid on loans disbursed under the Facility also be made available to supplement the resources of the Facility. In view of Article V, Section 12(h), 4/ and in order to implement the above proposal, the Fund would need to adopt a decision pursuant to the last sentence of Article V, Section 12(f). Such a decision would, as in the case of Decision No. 6704, require an eighty-five percent of the total voting power. Decision No. I is proposed for this purpose.

3. The Fund is required by Article V, Section 12(j), last sentence, to adopt rules and regulations for the administration of the Special Disbursement Account. The adoption of specific rules is necessary only to the extent that the rules of the General Department are not appropriate. A seventy percent majority of the total voting power is required for the adoption of rules and regulations for the Facility. 5/ Accordingly, the adoption of proposed Decision No. II will require a seventy percent majority of the total voting power.

4. In order to make provision for certain operations in SDRs under the Facility, a decision prescribing these operations will

4/ Article V, Section 12(h), provides, in relevant part, as follows:

" Pending uses specified under (f) above, the Fund may invest a member's currency held in the Special Disbursement Account in marketable obligations of that member or in marketable obligations of international financial organizations. The income of investment and interest received under (f)(ii) above shall be placed in the Special Disbursement Account..."

5/ Article V, Section 12(j), last sentence, provides:

"The Fund, by a seventy percent majority of the total voting power, shall adopt rules and regulations for the administration of the Special Disbursement Account."

have to be adopted (see paragraph 11 below). It will require a majority of the votes cast.

5. The proposed Regulations do not deal with certain procedural aspects of the working of the Facility, such as the practical modalities of enhanced collaboration between the Fund and the World Bank, or the methods by which the staff of the Fund would collaborate with authorities of eligible members for the elaboration of a policy framework for three-year structural adjustment programs. These aspects will be dealt with by the Executive Board in its discussion, and procedures on these matters will evolve as required.

6. For decisions regarding the application of the proposed Regulations in respect of individual members, the Articles do not prescribe a special majority. Accordingly, the adoption of such decisions requires only a majority of the votes cast. ^{6/} An example of a decision in this category would be the finding by the Fund that particular members are eligible to use the resources of the Facility pursuant to Decision No. 6704. Therefore, the adoption of proposed Decision No. IV determining the list of eligible members requires a majority of the votes cast. In addition, decisions will have to be taken in response to requests by individual members for assistance under the Facility. To determine in each individual case whether an eligible member meets the conditions for qualification, a majority of the votes cast will be required.

7. At its meeting of February 11, 1986, the Executive Board confirmed that the eligibility criterion for use of Special Disbursement Account resources specified in Decision No. 6704 was met by those members that are at present eligible to receive IDA resources. Therefore, the list annexed to proposed Decision No. IV contains the names of these members. If the IDA list were changed, the change would not automatically be incorporated in the list of eligible members for the Facility because the Fund cannot legally abdicate its responsibility for determining the members that may benefit from assistance under the Facility. A change in the list of eligible members could be effected only by a decision of the Executive Board, adopted by a majority of the votes cast.

Comments on Certain Provisions of the Proposed Regulations

8. On the whole, the proposed Regulations are modeled after the arrangements set forth in the Trust Instrument. Nevertheless, there

^{6/} Article XII, Section 5(c) provides:

"Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast."

are necessary differences between the Regulations and the Trust Fund arrangements, arising from the different legal status of the Facility within the Special Disbursement Account, and from the resources available for the Facility. This commentary focuses only on those provisions of the proposed Regulations that differ from the corresponding Trust Fund arrangements.

9. Resources: Under paragraph 2 of the Regulations, the bulk of the resources of the Facility will comprise Trust Fund reflows of a total amount equivalent to SDR 1500 million. This amount would be supplemented by the remainder of these reflows (other than those used for the Subsidy Account) ^{7/} if the Fund has not, by June 30, 1986, taken a contrary decision as contemplated in Executive Board Decision No. 6704. Additional resources would comprise the Facility's income from payments of interest on loans and investment earnings accruing to the Facility pursuant to proposed Decision No. I. Amounts repaid in respect of loans from the Facility will be held in the Special Disbursement Account, but will not be available for use under the Facility under the present or proposed decisions.

10. Conditions for Assistance: The principal features in respect of conditions for assistance would be the following: (i) three-year commitments with three annual arrangements on the basis of three-year adjustment programs and annual programs; (ii) existence of a protracted balance of payments problem; and (iii) annual assessments of the member's balance of payments need and "reasonable effort".

Disbursements to the member under a three-year commitment will be made annually, in the amounts prescribed in the three-year arrangement. Any funds available to the member that remain undisbursed after the expiration of the commitment period would cease to be available under that commitment. Under paragraph 6(3), disbursements to a member would be suspended while the member has an overdue obligation to the Fund in the General Resources Account, the SDR Department or with respect to the Trust Fund.

11. Media of Payment

It is proposed in the Regulations that operations under the Facility be in U.S. dollars, or, by agreement with the member, in SDRs (paragraph 9). As the Special Disbursement Account cannot hold

^{7/} Amounts not used for the Subsidy Account may be re-transferred back to the Special Disbursement Account under paragraph 4(b) of Executive Board Decision No. 6683-(80/185) G/TR, of December 17, 1980, and used for the Facility as part of the remainder of the Trust Fund reflows pursuant to Decision No. 6704.

SDRs (Article XVII, Section 2), these operations would have to be conducted either through the General Resources Account or through a prescribed holder. There are, however, certain limitations on these operations through the General Resources Account. Therefore, in some instances, it may be necessary to conduct the operation through a prescribed holder, and this procedure would be particularly appropriate when assets held in the Special Disbursement Account are invested in SDR-denominated assets with that holder. Under this procedure, the prescribed holder would at the time of the loan transfer SDRs to the member and receive the countervalue from the Special Disbursement Account; at the time of repayment of the loan or payment of interest the prescribed holder would receive SDRs from the member and transfer the countervalue to the Special Disbursement Account. If the intervention of a prescribed holder is felt necessary, the Fund will have to prescribe these operations under Article XVII, Section 3. A simple majority of the votes cast will be required to adopt such a decision.

12. Modification of regulations

If a regulation (e.g., on repayment periods) is modified, it will not apply to loans that have already been made. It will apply, however, to future loans, even if they are made under current commitments. An exception is made, however, for interest rates; the modified rate will apply immediately, but only for the future, to outstanding loans.

The prohibition of retroactivity would not prevent the Fund from extending the benefit of a favorable modification, retroactively, to members.

Proposed Decisions on the Structural Adjustment Facility
Within the Special Disbursement Account

The following draft decisions are proposed for adoption by the Executive Board:

I. Income from Investment and Loans - Availability for Use

Pursuant to Article V, Section 12(f), the income of investment of resources available for the Structural Adjustment Facility within the Special Disbursement Account, and the interest on loans disbursed under the Facility, accruing to the Special Disbursement Account for the period December 17, 1980, to June 30, 1991, shall be available, as they accrue, for use under the Facility.

(85% of total voting power)

II. Regulations for Administration

Pursuant to Article V, Section 12(j), the Fund adopts the Regulations set forth in the Annex to this decision for the administration of the Structural Adjustment Facility within the Special Disbursement Account.

(70% of total voting power)

III. Use of SDRs in Operations

In accordance with Article XVII, Section 3, the Fund prescribes that:

1. A prescribed holder, by agreement with a participant and at the instruction of the Fund, may transfer SDRs to the participant in disbursement of a loan payable from the Structural Adjustment Facility within the Special Disbursement Account ("the Facility").

2. A participant, by agreement with a prescribed holder and at the instruction of the Fund, may transfer SDRs to the prescribed holder in repayment of loans, and/or payment of interest on loans, under the Facility.

3. The Fund shall record operations pursuant to these prescriptions in accordance with Rule P-9.

(Majority of votes cast)

IV. List of Eligible Members and Amounts of Assistance

1. The members on the list annexed to this decision are eligible to receive balance of payments assistance under the Structural Adjustment Facility within the Special Disbursement Account ("the Facility").

2. The potential access of each eligible member to the resources of the Facility as of [] shall be [] percent of quota; no more than 20 percent of quota shall be disbursed under the first annual arrangement.

(Majority of votes cast)

V. Review of Operation of Facility

The Fund shall review the operation of the Structural Adjustment Facility within the Special Disbursement Account not later than December 31, 1988.

(Majority of votes cast)

The Structural Adjustment Facility
Within the Special Disbursement Account

Paragraph 1. Purposes

The Structural Adjustment Facility within the Special Disbursement Account shall provide balance of payments assistance on concessional terms, on a uniform basis, to low income developing members of the Fund in need of such assistance, in accordance with these Regulations.

Paragraph 2. Resources

The resources of the Special Disbursement Account available for the Structural Adjustment Facility ("the Facility") shall consist of the assets that have been made, or will be, available for the Facility pursuant to Executive Board Decisions No. 6704- (80/185) TR and No. [].

Paragraph 3. Conditions for Assistance

Balance of payments assistance shall be provided in the form of loans on the terms specified in paragraph 7 to eligible members that qualify for assistance under paragraph 5.

Paragraph 4. Amount of Assistance

(1) The potential access of all eligible members to the resources of the Facility shall be expressed as a uniform proportion of their quotas in the Fund. It shall be determined from time to time, at least annually, by the Fund.

(2) Whenever a member has notified the Fund that it does not intend to make use of the resources available under the Facility, the member shall not be included in the calculations under subparagraph (1) above.

(3) If, after resources have been committed to a member under paragraph 5(2), the member's potential access is increased or decreased pursuant to subparagraph (1) or (2) above, the total amount available to the member under the three-year commitment will be proportionately modified and subsequent disbursements will be modified accordingly.

(4) Access to the Fund's resources under other policies of the Fund will remain available in accordance with the terms of those policies.

Paragraph 5. Qualification for Assistance

(1) An eligible member shall consult the Managing Director before making an initial request for a commitment of resources for a three-year period.

(2) Resources shall be committed to a qualifying member, subject to these Regulations, for a three-year period upon approval by the Fund of an arrangement in support of a three-year structural adjustment program presented by the member. The arrangement will prescribe the total amount, and the annual amounts within the total, available in accordance with the original or any modified terms of the arrangement, subject to these Regulations.

(3) Before approving a three-year arrangement, the Fund shall be satisfied that the member has a protracted balance of payments problem and is making a reasonable effort to strengthen its balance of payments position.

(4) A member shall be deemed to be making a reasonable effort within the meaning of subparagraph (3) of this paragraph if the member has presented to the Fund (i) a three-year adjustment program which seeks to correct structural problems that have impeded balance of payments adjustment and economic growth, and (ii) the first of three annual programs setting forth the objectives for the year and the policies to be followed during the year to meet those objectives.

(5) Resources under three-year commitments shall be made available annually in the form of loans under three successive, but not necessarily contiguous, annual arrangements approved by the Fund. The approval of an annual arrangement under a three-year commitment must precede the expiration of the commitment period.

(6) An annual arrangement shall be approved only for a member that has submitted a satisfactory program for the corresponding year and has a need for balance of payments assistance. Such need shall be assessed at the time of approval of each annual arrangement on the basis of the member's balance of payments position, its reserve position, and developments in its reserves.

(7) If, during a three-year commitment period, a member ceases to be eligible for assistance under the Facility, a commitment of resources under the Facility, made to the member for that period, shall remain in effect, subject to these Regulations.

Paragraph 6. Disbursements

(1) One disbursement shall be made for each annual arrangement upon approval of the arrangement.

(2) Disbursements will normally be made either on the 15th or the last day of the month, or the preceding business day if the day selected is not a business day. If a request for disbursement is not received in the Fund in time for its instructions to be issued for the first of these dates following the date of receipt, the disbursement will be executed at the next such date.

(3) Disbursements to a member under the Facility shall be suspended while the member has an overdue financial obligation to the Fund in the General Resources Account or in the SDR Department or to the Fund as Trustee under the Trust Instrument. The disbursements shall be made when the overdue financial obligation has been discharged.

(4) No disbursement under a three-year commitment shall be made after the expiration of the commitment period.

Paragraph 7. Terms of Loans

(1) Interest shall be charged at the rate of one-half of one percent per annum on the outstanding balance of a loan and shall be paid on June 30 and December 31 of each year, or the next day if the day when payment is due is not a business day.

(2) A member shall repay each loan in ten equal semiannual installments, which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of the disbursement.

(3) On the request of a member when repayment of an installment is due under a loan, the Fund may reschedule the repayment to a date not later than two years after the due date if the Fund finds that repayment on the due date would result in serious hardship for the member and that such rescheduling would not impair the ability of the Special Disbursement Account to meet the liabilities of the Facility.

Paragraph 8. Unit of Account

The SDR shall be the unit of account for commitments, loans and all other operations under the Facility.

Paragraph 9. Media of Payment

Loans shall be disbursed and repaid, and interest paid, in U.S. dollars. The Managing Director is authorized to make arrange-

ments under which, at the request of a member, SDRs may be used for disbursements to the member or payment of interest or repayments of loans by it to the Fund.

Paragraph 10. Reimbursement of Expenses

The General Resources Account of the Fund shall be reimbursed annually by the Special Disbursement Account in respect of the expenses of administration of the Facility that are paid from the General Resources Account. Reimbursement shall be made on the basis of a reasonable estimate of these expenses by the Fund.

Paragraph 11. Reserves

The Fund may establish, in the Special Disbursement Account, such reserves for the purposes of the Facility as it deems appropriate.

Paragraph 12. Modifications

Any modification of these Regulations will affect only loans made after the effective date of the modification, provided that a modification of the interest rate shall apply to interest accruing after the effective date of the modification.

Paragraph 13. Identification of Decisions

Decisions and other actions taken by the Fund in the administration of the Facility shall be identified as such.

Low-Income Developing Members Eligible for Assistance Under the
Structural Adjustment Facility Within the Special Disbursement Account

Member	Quota (In SDR millions)	Member	Quota (In SDR millions)
China, P.R. of ^{1/}	2,390.9	Maldives	2.0
India ^{1/}	<u>2,207.7</u>	Mali	50.8
Subtotal	<u>4,598.6</u>	Mauritania	33.9
		Mozambique	61.0
		Nepal	37.3
Afghanistan	86.7	Niger	33.7
Bangladesh	287.5	Pakistan	546.3
Benin	31.3	Rwanda	43.8
Bhutan	2.5	St. Christopher & Nevis	4.5
Bolivia	90.7	St. Lucia	7.5
Burkina Faso	31.6	St. Vincent	4.0
Burma	137.0	Sao Tome and Principe	4.0
Burundi	42.7	Senegal	85.1
Cape Verde	4.5	Sierra Leone	57.9
Cent. African Rep.	30.4	Solomon Islands	5.0
Chad	30.6	Somalia	44.2
Comoros	4.5	Sri Lanka	223.1
Djibouti	8.0	Sudan	169.7
Dominica	4.0	Tanzania	107.0
Equatorial Guinea	18.4	Togo	38.4
Ethiopia	70.6	Uganda	99.6
Gambia, The	17.1	Vanuatu	9.0
Ghana	204.5	Viet Nam	176.8
Grenada	6.0	Western Samoa	6.0
Guinea	57.9	Yemen Arab Republic	43.3
Guinea-Bissau	7.5	Yemen P. D. R.	77.2
Guyana	49.2	Zaire	291.0
Haiti	44.1	Zambia	<u>270.3</u>
Kampuchea, Democratic	25.0	Subtotal	<u>4,186.0</u>
Kenya	142.0	Total	<u>8,784.6</u>
Lao, P.D.R.	29.3		
Lesotho	15.1		
Liberia	71.3		
Madagascar	66.4		
Malawi	37.2		

^{1/} China and India have indicated that they do not intend to make use of SAF resources.