FOR
AGENDA

EBS/85/121

CONFIDENTIAL

May 13, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Special Charges on Overdue Financial Obligations to the Fund

Attached for consideration by the Executive Directors is a paper on special charges on overdue financial obligations to the Fund, which has been scheduled for discussion on Wednesday, June 5, 1985.

Mr. Leddy (ext. 8332) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Special Charges on Overdue Financial Obligations to the Fund

Prepared by the Treasurer's Department

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

Approved by W. O. Habermeier

May 10, 1985

I. Introduction

The six-monthly report on overdue financial obligations to the Fund issued last fall mentioned a number of issues relating to "penalty" charges on overdue obligations and indicated that, if desired by the Executive Board, a paper examining the issues in detail and developing possible options would be prepared by the staff for consideration by the Board. The Managing Director's summing up of the Board discussion on November 19, 1984 indicated that while there was no majority at that time in favor of introducing such charges, a number of Directors had asked the staff to prepare a paper exploring the different aspects of the subject. 1/ Subsequently, it has been requested that the paper also examine the possibility of "corrective" charges--i.e., charges that would be designed to compensate the Fund for costs arising from overdue payments. The present paper discusses possible purposes of applying charges in respect of overdue financial obligations to the Fund, for ease of reference characterized as "special charges" in this paper, and examines policy and operational questions that arise in designing a system of such charges. Relevant legal questions are discussed in a companion paper, "Financial Remedies in Connection with Overdue Financial Obligations to the Fund--Legal Aspects" (SM/85/131, 5/13/85). Section II of this paper briefly describes earlier experience in the Fund and practices followed by some other public and private financial institutions. Some general considerations relating to objectives to be served by special charges on members' overdue obligations to the Fund are discussed in Section III, and a number of operational questions are discussed in Section IV. In order to illustrate the possible design of alternative systems, several simulations are described in Section V. Section VI contains a summary and conclusions.

1/ See "Overdue Financial Obligations to the Fund--Six-Monthly Report" (EBS/84/211, 10/11/84) and the Managing Director's Summing Up in Buff Document 84/188 (12/3/84).

II. Background

1. Practices with respect to special charges in the Fund

The Fund has applied special rates of charge to overdue repurchases in several instances, though not in the recent past. In the late 1950s, the Executive Board decided that a maximum rate of charge of 5 percent should apply to repurchases completed according to agreed schedules within five years of the date of purchase and that higher rates could be applied if a repurchase were not completed within this period. It was also decided that charges higher than the 5 percent maximum would be applied if a member failed to reach agreement with the Fund on a schedule to complete repurchase within five years of the date of a purchase.

Pursuant to these decisions, rates of charge above the standard schedules were levied in the cases of Cuba, the United Arab Republic (UAR) and Cambodia, 1/ when these members failed to complete repurchases within five years after the dates of the drawings. 2/ In each of these cases, the staff proposed and the Executive Board agreed that the rates of charge should continue to rise, by 1/2 of 1 percent at intervals of six months, above the current maximum level of charges, then 5 percent; in other words, special charges were to rise by 10 percent of the maximum rate at six-monthly intervals. The Board also agreed to review the rate of charge when it had reached a certain level above the current maximum rate. Such reviews were conducted in these cases after the rate of charge had reached the level of 6 percent, and no further increases in the rate of charge were decided. In the cases of Cuba and Cambodia, it was decided to maintain the rate at the level of 6 percent on grounds that further progression beyond this level would be unlikely to accelerate repurchases by the members concerned. In the case of the UAR, a decision was postponed for a brief period, during which the member completed the repurchases to which the higher charges had applied.

Under Article V, Section 8(c) of the Articles of Agreement, if a member fails to make a repurchase on schedule, the Fund may, after consultation with the member on the reduction of the Fund's holdings of its currency, impose such charges as it deems appropriate on its holdings of the member's currency that should have been repurchased. This provision has not been used to date.

1/ Now Democratic Kampuchea.

2/ See, e.g., "Cuba - Charges on Fund Currency Holdings in Excess of Quota" (EBS/64/19, 1/22/64); "United Arab Republic - Charges" (EBS/67/294, 12/18/67) and "United Arab Republic - Charges" (EBS/68/16, 1/18/68); and "Cambodia - Review of Charges on Currency Holdings in Excess of Quota" (EBS/77/325, 9/1/77), "Relations with the Government of Cambodia - Failure to Fulfill Obligations under the Articles of Agreement (EBS/78/211, 4/26/78), and "Cambodia - Charges on Currency Holdings in Excess of Quota" (EBS/77/128, 4/27/77).

2. Other financial institutions

Special charges on payments in arrears are generally not applied by the World Bank or other major international development lending institutions. However, the International Finance Corporation, which enters into joint financing agreements with commercial banks, includes in its loan agreements provision for an additional charge of 1 percent per annum on past due principal amounts, levied through an adjustment to the interest rate on the loan.

With respect to central banks and governmental lending agencies, the staff has enquired about practices in several larger member countries. As noted in earlier staff papers, central banks do not normally hold assets of a kind that give rise to problems of arrears. However, the staff understands that some central banks do have provision for penalty charges on obligations in arrears, even though these provisions may rarely need to be applied. For example, some have provision for penalty charges on rediscounted bills which fall due but are not paid and on overdue loans to commercial banks. In addition, some central banks apply special charges in the event of deficiencies in meeting legal reserve requirements. Also, governmental lending agencies, such as export credit and development lending agencies, frequently have provision for the application of penalty interest on overdue principal, overdue interest or both, ranging in some cases as high as 5 percent above market rates. Others do not apply penalties but do have provision, particularly in the context of reschedulings, for capitalizing overdue interest and applying interest to the capitalized amount.

International commercial bank loans generally include provision for a surcharge on overdue principal and interest amounts, typically in the range of 1/2-2 percent over the base rate of the loan, and also for the borrower to indemnify any losses or expenses arising from overdue payments, including financial losses which may have been incurred in the process of refinancing the overdue loans.

III. Special Charges: General Considerations

A number of possible objectives for a system of special charges on overdue obligations to the Fund have been distinguished in earlier discussions of the Executive Board, and the principal purposes for which a system of special charges in the Fund is intended would have a bearing on its overall design and operational features. Among the possible purposes are the following: (i) to recover damages to the Fund arising from delays in payment; (ii) to eliminate the concessional element of Fund credit that is in arrears, including the credit implicit in overdue charges (on which no charges are levied in the General Department); (iii) to provide greater financial incentives for members to settle overdue amounts and remain current with the Fund; and (iv) to enhance the effect of the various legal actions (e.g., limitations on a member's use of the Fund's general resources and declarations of a member's ineligibility to use the general resources) that are available to the Fund in connection with overdue financial obligations. These purposes overlap to a considerable extent; for example, any system of special charges on overdue obligations in the Fund would include elements of cost recovery and of strengthened financial incentives for payment to the Fund, and would entail some reduction in the concessional element of Fund credit.

1. Recovery of costs of overdue obligations to the Fund

The incidence of overdue obligations to the Fund gives rise to costs and damages of several kinds, which in the absence of a special recovery from nonperforming members must be borne by the membership at large. At one level, delays in repurchases and payment of charges impose direct financial costs in terms of interest forgone or paid and a rising administrative burden, which are reflected in the Fund's net income. Effects on the Fund's income, and on the levels of the Fund's reserves, charges or rate of remuneration, will be made more apparent by the removal from accrued income of charges due from members that are overdue in meeting obligations to the Fund for six months or more (unless they remain current on their obligations to pay charges). At another level, delays in payment to the Fund affect the Fund's liquidity and could, if substantial amounts were involved, weaken the Fund's ability to extend credit to other members, meet demands for encashment of liquid claims on the Fund, or both. The existence of overdue obligations per se, and their potential effects on the Fund's liquidity, both give rise to less immediately measurable but potentially larger damages to the Fund in terms of perceptions about the quality of its lending programs and the integrity of its financial position. These broader effects may be manifested in various ways, such as the need for the Fund to earn and hold higher reserves than would otherwise be the case, rising costs of future borrowing by the Fund, and greater difficulty in securing agreement on general quota increases.

It has been suggested that, insofar as possible, the costs to the Fund should be borne by the members whose failures to meet their obligations to the Fund give rise to those costs, in effect, alleviating the burden imposed on members in general by the failure of certain members to meet their obligations. As discussed in SM/85/131, the Fund has the express power, under Article V, Section 8(c), to impose special charges on overdue repurchase obligations, and these charges could be set in a way designed to recover costs to the Fund arising from overdue repurchases. The Fund also has the implied power, on the basis of generally accepted principles of law and in accordance with Article XII, Section 2(g), to require members to make good the cost to the Fund arising from their failures to pay charges on time. The techniques for cost recovery discussed in this paper take the form of the levy of a charge, although it is understood that to the extent the cost is recovered under the Fund's implied powers, the recovery does not constitute a levy of charges in the sense of the Articles of Agreement. The term "special charges" as used in this paper covers both the levy of charges on holdings of a member's currency in the sense of the Articles and the recovery of costs under the Fund's implied powers. Measures of the costs involved are discussed further in Section IV below, and systems designed in part to recover damages are illustrated in Section V.

2. Concessionality in Fund credit

It has also been suggested that it would be appropriate that charges imposed on members' overdue obligations to the Fund be at rates that would reduce or eliminate the "concessional element" in Fund credit, including the extension of credit that is implicit in members' failure to pay charges on time. In support of such an approach, it is argued that, as the concessionality of Fund credit reflects the cooperative nature of the institution, its general credit standing and, to a degree, costs that are borne by the membership at large, this special benefit should not continue to accrue to a member with respect to obligations to the institution that it is failing to meet. 1/ Possible measures of the concessionality of Fund credit for the purposes of special charges are discussed in Section IV, and a system that would be designed to reduce the concessional element insofar as possible is illustrated in Section V.

3. Financial incentives to remain current with the Fund

Another major consideration is whether the imposition of special charges on overdue obligations to the Fund would provide an effective incentive for members to become and remain current with the Fund and thereby serve as an effective instrument in the Fund's efforts to contain and resolve the problem of overdue payments. As members are continuously making choices--in the areas of reserve and foreign exchange management, and with respect to needed economic policy measures and the strength of their adjustment efforts--it may be considered that the imposition of suitably high special charges would create financial incentives for countries to give priority to payments to the Fund and possibly to adopt adjustment measures that will better enable them to remain current with the Fund. On the other hand, as has been indicated in earlier discussions, in the great majority of cases obligations to the Fund are settled promptly on their due dates, despite the fact that from a purely financial point of view it may be advantageous for members to delay settlement, and there is little evidence that the level of charges has strongly influenced members' performance in meeting their obligations to the Fund. This is not to say that members are insensitive to financial incentives. In most cases, however, it appears that any such influences have been outweighed by members' strong sense of commitment toward collaborating with and fulfilling their obligations to the Fund.

1/ It is noted that SFF subsidies are payable only if the relevant charges have been paid.

The recent increase in the overall amount of overdue payments to the Fund, and in particular in protracted arrears, has been largely associated with deep-seated problems in the countries concerned. In most cases, problems of protracted late payments to the Fund have been preceded or accompanied by the accumulation of arrears to other creditors. At the same time, however, as indicated in the recent six-monthly report on overdue obligations to the Fund (EBS/85/73, 3/27/85), the number of payments made late increased substantially in 1984 as a proportion of the total number of payments due. Most of these arrears were settled after relatively short delays, suggesting largely technical or administrative problems, or possibly reflecting priorities in reserve management or temporary liquidity shortages. It is not implausible to expect that the imposition of special charges, and perhaps a flat "late fee," could encourage members to overcome the types of problems causing these brief delays. To the extent that special charges provided an incentive for members to avoid the emergence of arrears to the Fund in the first place, they could help to forestall the accumulation of large amounts over extended periods which, as is evident in some recent cases, has led to problems that are particularly difficult for both the members and the Fund.

Whether special charges would be an effective means of dealing with the cases of larger and more protracted arrears to the Fund seems more difficult to judge. In most of these cases, difficulties in remaining current with the Fund have been associated with serious underlying economic and financial problems, and it is not readily evident that the countries involved would be in a position to respond to the financial incentive of special charges by becoming current with the Fund more quickly than would otherwise be the case. In such cases, the imposition of significant special charges, in an effort to provide a strong financial incentive for payment to the Fund, could tend to exacerbate the members' balance of payments and debt problems and complicate their efforts to overcome them, including their efforts to become current with the Fund. The accumulation of special charges which would compound quickly over time risks rendering beyond their grasp the magnitude of the problem facing some particular members. The Board would have to assess such a risk against the potential merits of a special charge decision.

4. Special charges linked to legal actions by the Fund

A system of special charges might be designed to give added emphasis to the various procedural and legal steps available to the Fund in dealing with overdue obligations, in effect accompanying these formal steps with a stronger financial incentive which might also have effects on a member's standing with other creditors. This objective could be combined with others discussed above. For example, special charges could begin to apply at the outset of an overdue obligation and rise in steps keyed to steps in the Fund's legal procedures, in particular, decisions by the Executive Board to limit a member's use of the Fund's general resources and to declare a member ineligible to use those resources. As discussed in the paragraphs above, there would be a question whether added charges would have their intended effects on a member's relations with the Fund. They could complicate settlement of the overdue obligations, and much would depend on the circumstances of the member concerned.

Another possibility, if ineligibility does not cause a member to make every effort to become current with the Fund, would be to impose with a delay a heavy surcharge as a step before the time the Executive Board would consider action to compel the member to withdraw from the Fund. Such action need not be part of a system of special charges but could be considered by the Executive Board on an ad hoc basis in cases in which other available measures had failed to produce desired results.

IV. Operational Considerations

SM/85/131 discusses the options legally available to the Fund in considering whether special charges should be adopted and the form a system of special charges might take. This section briefly discusses some considerations relevant to these options and a number of other operational and technical issues that would need to be resolved in implementing a system of special charges.

1. Considerations regarding legal options

a. General Department

(1) As pointed out in SM/85/131, the Fund has authority under Article V, Section 8(c) to impose special charges in respect of overdue repurchases as it deems appropriate.

(2) Charges cannot be imposed on overdue charges. However, with respect to charges that are overdue in the General Resources Account, a number of possible alternatives are mentioned in SM/85/131.

(a) The Fund may, on the basis of generally accepted principles of law and in accordance with Article XII, Section 2(g), provide that a member is liable to make good damages to the Fund occasioned by the member's failure to pay charges on time. The Executive Board would define the measure of damages. Insofar as a system was directed to the recovery of costs to the Fund, it would appear that the exercise of this authority with respect to overdue charges would have the broadest applicability, as is explained further in the following paragraphs. This authority would not suffice, however, for systems intended to go beyond the recovery of costs to the Fund.

(b) The Fund may, under Section 8(b) of Article V, or under Section 8(c) where that provision is applicable, impose charges on its holdings of a member's currency that are subject to charges in a way that would compensate for its inability to levy charges directly on overdue charges. This technique would permit the imposition of charges corresponding to overdue charges at levels that could exceed those required for recovery of financial costs. Difficulties in the application of this technique would arise, however, if a member were to discharge all repurchase obligations while obligations to pay charges remained outstanding. While this might not be expected to occur frequently, such an approach would not appear to provide a basis for a system that could, with sufficient certainty, be applied in all circumstances.

(c) The Fund may, pursuant to Article V, Section 8(e), decide to permit a member to pay charges to the Fund in its own currency in "exceptional circumstances," and it would then be possible for the Fund to levy special charges on balances in excess of quota arising from such payments. However, this provision was not intended to overcome the Fund's lack of authority to levy charges on overdue charges and could not serve as a basis for a generally applicable system designed to achieve that purpose. Its use in those cases where "exceptional circumstances" were determined to exist would be of little practical value for the general recovery of costs to the Fund.

In sum with respect to the General Resources Account, a system designed to recover costs to the Fund arising from overdue obligations could be based on Article V, Section 8(c) as regards overdue repurchases, and on the Fund's implied powers and in accordance with Article XII, Section 2(g) as regards overdue charges. A system intended to go beyond recovery of costs could be based on Article V, Section 8(c) as regards overdue repurchases. Neither Article V, Section 8(b) or (c) would, however, serve as a basis for the recovery of costs in respect of overdue charges that could, with sufficient certainty, be applied in all circumstances. Accordingly, the systems illustrated in Section V below do not include payments in respect of overdue charges that would go beyond the recovery of financial costs to the Fund. The exercise of the Fund's implied powers to recover the costs arising from overdue charges could be decided by the Executive Board by a majority of the votes cast. The Fund's implied powers to recover costs could not be utilized in connection with overdue repurchases, as the matter is expressly regulated in the Articles. The application of charges on repurchases under Article V, Section 8(c) would require a seventy percent majority of the total voting power. The establishment of a system that covered both overdue repurchases and overdue charges would therefore require a seventy percent majority of the total voting power.

b. SDR Department

No authority exists in the Articles for the imposition of special charges in respect of overdue charges in the SDR Department. However, charges continue to accumulate automatically, at the SDR rate of charge, on members' net SDR charges that fall into arrears. Also, it would be possible for the Fund to recover losses to the General Department arising from delays in payment of the periodic assessments to cover the expenses of conducting the business of the SDR Department, as discussed with respect to charges in the General Resources Account above.

c. Trust Fund

Also as discussed above, the Fund has authority, as Trustee, to recover losses sustained by the Trust Fund because of delays in repayment of Trust Fund loans and in payment of Trust Fund interest.

2. Other operational issues

In considering a system of special charges, a number of questions would need to be addressed, including uniformity of application, the point at which special charges should be levied, whether they should increase progressively, the system's application to particular obligations, measures of cost or damage to the Fund, the concessionality of Fund credit, and the treatment of receipts from the system in relation to the Fund's income. These questions are discussed briefly below.

a. Uniformity of application

Considerations favoring special charges in order to recover costs to the Fund and to eliminate the concessional element in Fund credit would all seem to support a system which would apply uniformly to all members. The difficulty of reaching a generalized judgment on whether special charges would serve as an effective incentive in all cases for payment to the Fund might, however, suggest a less fully uniform approach. For example, in addition to requiring payments judged adequate to recover costs, to eliminate concessionality, or both, it could be argued that the Executive Board should consider in each case whether, and at what rates, to apply further charges, taking into account all circumstances of the case and reaching a judgment about the effectiveness of further charges in securing payment to the Fund. However, it would obviously be impossible to know in advance the likely response of the country concerned. There would be difficult problems of establishing criteria for making case-by-case determinations and therefore questions about the uniform and equitable treatment of members. On balance, if the Executive Board were to favor the adoption of a system of special charges, the staff would consider that a system applicable uniformly to all members would best serve the interests of even-handed treatment. The adoption of a uniformly applicable system of special charges would not, however, preclude Executive Board consideration and adoption of such further charges as might be deemed appropriate on an ad hoc basis in a particular case. This might apply, for example, to charges that could be imposed after application of the various legal steps available to the Fund.

b. Timing

It would be necessary to determine the point at which special charges on overdue obligations should begin to apply. Several alternatives would be possible, for example, immediately after an obligation has become due, 1/ after a short delay, or after a more substantial delay, perhaps keyed to specific action by the Executive Board (e.g., decisions on limitation and ineligibility). From the point of view of most of the purposes that have been discussed above--i.e., the recovery of costs, elimination of the concessional element of Fund credit, strengthened incentives for payment--it would seem most appropriate for special charges to begin to accrue as soon as an obligation becomes overdue. Such an approach would avoid conveying an impression that the Fund was providing a kind of grace period for the settlement of obligations, which of course is not permitted under the Articles and would not be intended, and could be particularly effective in encouraging members to correct administrative and technical problems of the sort that have led to relatively brief delays in payment. Indeed, if the Fund were to decide to adopt a system of special charges, it would seem preferable, from the point of view of providing effective financial incentives for members to remain current with the Fund, for the charges to apply immediately and at a relatively high level, for example, at a level that would be judged sufficient to eliminate the element of concessionality in Fund credit. True penalty charges at a later stage could be linked, perhaps with some delay, to certain stages of the Board's procedures in dealing with overdue obligations.

It would also be necessary to determine the point at which the system would take effect and the obligations to which it would apply. Special charges would not be applied retroactively. However, the question would arise whether special charges should apply to overdue obligations outstanding at the time the system was introduced or only to obligations arising in the future. A system that applied only to future obligations would, of course, tend to minimize the costs to members already in arrears, but would leave unrecovered the continuing costs associated with the outstanding obligations and would not affect the concessionality of the credit associated with those obligations. It could also create undesirable incentives for settlement of newly

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1/ As noted above, the imposition of special charges on overdue repurchases pursuant to Article V, Section 8(c) requires that the Fund consult with the member on the reduction of the Fund's holdings of its currency. If this provision were used as a basis for a system of special charges on overdue repurchases, it would be possible to satisfy the consultation requirement in a way that would be compatible with the application of special charges from the day the obligation becomes overdue.

arising obligations in preference to outstanding arrears. From these points of view, it would seem preferable for a system of special charges to apply to all the relevant overdue obligations outstanding at the time the system was introduced and arising in the future. As regards the introduction of a system, there might be some basis for delay in order to give members time to take this new factor into account and arrange payment so as to avoid special charges, but it would seem desirable that any such delay be brief, consistent with the Fund's desire to obtain settlement of overdue obligations at the earliest possible time.

c. Increases in special charges

The question whether special charges should increase over time or in relation to the Fund's procedures would depend in part on the principal purposes of the system of charges. For example, in a system intended mainly to recover costs to the Fund or eliminate the concessional element in Fund credit, it would not seem necessary for special charges to rise over time. Increases in special charges would appear to be compatible with gradually strengthening financial incentives for payment to the Fund, although, as pointed out above, a system of charges that applied immediately and at a relatively high level would appear more likely to provide a certain incentive to avoid falling into arrears with the Fund than one which involved gradually raising charges from a relatively low base. A system of the latter type might even seem to invite delay. A system that provided for increasing special charges could on the other hand complement and signal more strongly the various legal steps that are available to the Fund.

d. Structure of charges

The question arises whether special charges should take the form of a surcharge to be added uniformly to the charges normally applying to various types of obligations, or whether they should be differentiated depending on the type of obligation that is overdue. While it is clear that a uniform surcharge (e.g., the normal charge plus x percentage points, which could include the requirement of payments designed to recover costs associated with overdue charges) would be the simplest type of system to operate, several considerations suggest that a somewhat more differentiated system would be better suited to the Fund.

Under the present system of charges, there would appear to be an inherent incentive for settlement of repurchases of borrowed resources (which are most costly) in preference to repurchases of ordinary resources (less costly) or charges (interest-free). While this differentiation may not have influenced members to any great extent to date in the attribution of their payments to the Fund, such differences might begin to have a greater influence if a uniform surcharge were imposed, thus raising costs and possibly strengthening cost considerations, even though the differences would be reduced somewhat in relative terms. It would seem preferable from this point of view for a system of special charges to narrow such differences, in particular as between charges on the one hand and repurchases on the other. This preference would be supported by the further considerations that all of the obligations which fall overdue, including charges, represent, in effect, an extension of credit by the Fund; and that delays in payment of charges (which from a purely financial point of view could be considered advantageous to the borrower) are most costly to the Fund in immediate, direct financial terms and, by extension, to other members. Also, to the extent the system is concerned with the recovery of costs to the Fund or eliminating the "concessional element" in Fund credit in arrears, special charges that tend to equalize the "effective" rates of charge (i.e., regular plus special charges) would appear appropriate to these objectives.

Systems that would narrow differences in effective rates of charge would, in effect, apply lower rates of special charge to the types of overdue obligations bearing higher normal rates of charge. In some cases, depending on the design of the system, this could result in no special charge being applied to overdue repurchases of borrowed resources (or some types of borrowed resources), as is evident in some of the illustrations in Section V below. From the point of view of introducing some added financial incentives from the outset for payment of any overdue obligation, and reflecting the Fund's insistence that all obligations must be settled as they fall due, it might be preferable for a special charge to be applied from the outset in respect of any overdue obligations in the General Department, whether charges, repurchases of ordinary resources, or repurchases of borrowed resources. A system that would be designed to recover costs, but in addition to apply a special charge to any overdue repurchase obligation, is also illustrated in Section V.

e. Costs and damages to the Fund

As discussed above, the incidence of overdue payments gives rise to costs of various kinds which at present must be borne by the membership in general. Some of these costs are measurable with reasonable accuracy. Others are less tangible and less easily measurable.

(1) Direct financial costs

The following paragraphs discuss measures of the direct financial costs arising from delays in the settlement of financial obligations to the Fund, on the assumption that the obligations are ultimately settled. The direct financial cost to the Fund in this context depends on the type of obligation that is overdue.

(a) Repurchase - ordinary resources. When a repurchase is not made on its due date, the Fund continues to pay remuneration or forgo interest at the SDR interest rate (see (c) below) on the ordinary resources that finance the outstanding purchase and to levy charges on the balances of the member's currency corresponding to the purchase. Assuming the repurchase is ultimately made and the relevant charges are paid, the direct financial cost to the Fund for the period the repurchase is overdue thus reflects the difference between the rate of remuneration or the SDR interest rate and the rate of charge.

(b) Repurchase - borrowed resources. In all of the Fund's current operations, the Fund's cost of borrowed resources is fully reflected in the charges applied to purchases financed with those resources. 1/ So long as this remains the case, delayed repurchases are ultimately made and the relevant charges are paid, delays in repurchases involving borrowed resources do not give rise to direct financial costs to the Fund. 2/ They may, however, cause charges on the use of borrowed resources to be higher than would otherwise be the case, if the delays lead to smaller earnings on investments by the Borrowed Resources Suspense Account.

(c) Charges in the General Department. A member's failure to pay charges when due means, in the first instance, that the Fund fails to receive SDRs on which it would otherwise earn interest at the SDR interest rate, and that rate could be taken as an approximation of the interest foregone. It should be noted that so long as the Fund establishes a target level for its holdings of SDRs, any shortfall of receipts of SDRs in payment of charges should ultimately be reflected in changes in the Fund's holdings of currencies, as compensating adjustments are made through the operational budgets to restore the path toward the target level of SDR holdings. Thus, if target SDR holdings were maintained precisely, the rate of remuneration might be considered to reflect more accurately the direct financial cost to the Fund. However, necessary adjustments through the operational budgets could probably not be made to coincide precisely with the non-receipt of payments due to the Fund, with the result that actual direct financial costs to the Fund would likely be greater than indicated by calculations based on the rate of remuneration.

1/ Charges on purchases of borrowed resources include in addition a margin of 0.2 percent on EAR purchases and 0.2-0.325 percent on SFF purchases.

2/ In the event borrowed resources were repaid using ordinary resources while the overdue purchase remained outstanding, the Fund could experience a financial gain arising from the difference between the rate of charge on the overdue repurchase and the cost of the ordinary resources involved.

(d) Net SDR charges and SDR assessment. The failure of members to settle net SDR charges on time does not impose a direct financial cost on the Fund per se, although the damage to confidence in the SDR system may be substantial. SDRs are created to cover the net charges that are not paid, and charges are levied automatically (on the overdue member) at the SDR rate on the SDRs so created. Delays in payment of SDR assessments (which have been very small) give rise to direct financial costs similar to delays in payment of charges in the General Department.

(e) Trust Fund repayments and interest. Members' failures to settle Trust Fund repayments and interest on the due date give rise to a direct financial loss to the Special Disbursement Account, in terms of interest earnings forgone on the investment of balances that are not received when due. Such losses will be reflected in a reduction in the amounts available for use pursuant to the decision liquidating the Trust Fund and could ultimately result in a diminution of balances available for transfer to the General Resources Account pursuant to Article V, Section 12(f)(i).

(2) Other costs and damages

Insofar as the General Resources Account is concerned, the above discussion indicates that a rate close or equal to the SDR rate of interest would be a possible base for measuring the direct financial cost to the Fund associated with delays in repurchases of ordinary resources and in payment of charges. A number of other considerations would suggest, however, that a higher base would be a more realistic and comprehensive measure of the damages sustained by the Fund on account of members' failures to meet their obligations on time.

(a) Any delay in payment is reflected in a reduction of the Fund's liquidity as compared with the position if the payment were made on time. If the Fund were to attempt to recover that loss of liquidity, it would need to borrow in order to do so. This consideration would suggest that a rate based on the cost of borrowing by the Fund might be a more appropriate measure than the SDR rate of interest of the marginal financial cost of overdue payments to the Fund. In addition, as overdue obligations to the Fund could adversely affect the Fund's standing as a preferred creditor, and thus lead to higher borrowing costs in the future, some spread above the Fund's borrowing costs as determined on the basis of actual borrowings might be warranted.

(b) None of the measures discussed above include any provision for administrative costs to the Fund associated with the problem of overdue obligations. In light of the considerable Executive Board and staff time that has had to be devoted to the issue, it is likely that several million SDRs of the Fund's administrative costs in 1984 and 1985 is properly attributable to the problem of overdue obligations. 1/ Such costs should in principle be included in the measure of costs to the Fund to be recovered through a system of special charges, although it is not possible to predict with confidence either the level of administrative costs attributable to overdue payments or the amount of overdue obligations that would be outstanding and subject to special charges in the future.

(c) When income due from a member is placed in non-accrual status, this will directly affect the Fund's income by the full amount that is not accrued so long as the charges due remain in non-accrual status. It may be argued that in this case the appropriate measure of the financial cost is the full amount of the charges due but not accrued, plus the earnings forgone on the charges due but not paid.

(d) Finally, none of the measures discussed above captures the damages that may be sustained by the Fund on account of overdue obligations in terms of the perceptions of members and the public at large about the quality of the adjustment programs supported by the Fund and the integrity and strength of its financial position. Such costs may be manifested in a need for the Fund to increase the rate at which it earns reserves, increases in the cost of future borrowing to the Fund, a weakening of confidence in the SDR system, and, ultimately, greater difficulty in securing consent to increases in Fund quotas. While the part played by overdue obligations in giving rise to these effects may be difficult to distinguish clearly or to measure precisely in financial terms, the damages are nonetheless real and are of potentially much greater importance to the Fund than the direct financial costs that may be attributable to delays in payment of specific obligations.

While a system of special charges might in principle be based on a rate in excess of the SDR rate of interest, in order to attempt to capture at least some of the added administrative costs and other damages associated with overdue payments discussed above, it is difficult to measure some of these damages with precision or to attribute them unambiguously to the incidence of arrears to the Fund. In the view of the staff, if the Board were to decide to adopt a system of special charges, the foregoing considerations on balance would suggest that the

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1/ It should be noted that a substantial part of the Fund's work on the issue in 1984 was related to the development of general policies and procedures for dealing with the problem. Considerable time is being devoted to such general issues so far in 1985 as well, but this will not necessarily be the case in the future.

SDR rate of interest, perhaps plus a reasonable margin intended to cover added administrative costs, would be an appropriate basis for a system designed to recover the financial costs to the Fund associated with members' failures to meet their financial obligations. Such a basis would be compatible with the Fund's authority to recover costs arising from overdue charges under the Fund's implied powers and in accordance with Article XII, Section 2(g); the appropriate special charges on overdue repurchases would be applied under Article V, Section 8(c). A system of special charges designed to recover financial costs to the Fund is illustrated on the basis of the SDR interest rate in Section V below.

f. Concessionality. In a system intended to reduce or eliminate the concessionality of Fund credit represented by overdue obligations, it would be necessary to determine an appropriate basis for measuring the concessional element. The size of the concessional element and, indeed, the need for concessionality, have been discussed in the past, without clear conclusions as to the appropriate measure or measures. 1/ Several alternative bases for measuring concessionality might be considered, relating, for example, to the cost of financing to the Fund, to the cost to creditor members of providing financing to the Fund, or to the cost to the borrowing member of obtaining financing from the market. As the purpose of the system under discussion would be to reduce or eliminate any special financial benefit accruing to a member by virtue of its arrears to the Fund, the most relevant standard would appear to be one that relates to the cost to that member of obtaining alternative financing.

From the point of view of the individual member in arrears to the Fund, a relevant standard might be the cost of comparable private credit as represented, for example, by a market reference rate plus a suitable margin to reflect the member's creditworthiness. However, such margins might need to be very large in the case of a member that had fallen into arrears with the Fund, and in some cases credit might not be available commercially at any rate. It could prove difficult to determine at any point what a margin appropriate to a particular member would be, and the margins would be expected to vary over time. Attempts to measure the concessional element on a case-by-case basis would therefore involve considerable judgment and guesswork and could raise questions of the equitable treatment of members.

As an alternative, it would be possible to utilize as a basis a cost of borrowing by the Fund, which is market-related, adjusted by a margin that would recognize the Fund's standing as a preferred creditor and could be regarded as a minimum that would likely to be applied by the market in extending credit to members facing extremely difficult external financing problems. As credit extended by the Fund is SDR-denominated, and purchases may remain outstanding from three up to ten

1/ See, for example, "The Role of Remuneration and the Fund's Income Position" (EBS/83/237, 11/2/83).

years depending on the type of purchase, the five-year SDR combined rate, which is the rate at which most of the Fund's borrowing is presently conducted, might be considered an appropriate base. As regards the margin to be applied, spreads on medium-term international bank credit commitments to non-oil developing countries have generally averaged in the range of 1-2 percent over the past several years. Such averages, of course, include lower spreads charged countries that are judged by the market to be highly creditworthy. It would be expected that countries facing balance of payments difficulties serious enough to give rise to arrears to the Fund would be charged spreads toward the higher end of, or above, the average ranges. In addition, data reported on banks' lending margins are an imprecise measure of the cost of market financing as they do not reflect other fees and charges, which in the case of less creditworthy borrowers may be quite high. Taking these considerations into account, the five-year combined rate plus a margin on the order of 1 percent (approximately one-tenth of the average combined rate in 1984) would seem to provide a reasonable standard if a system of special charges intended to reduce or eliminate the concessional element of Fund credit in arrears were to be considered.

g. <u>Effects on Fund income and reserves</u>

Consideration would need to be given to the way in which the recent decision on nonaccrual of charges would be applied to special charges. It is suggested that, for the purposes of accounting for the Fund's income, special charges should be treated in the same way as other charges as regards accrual or nonaccrual. That is, special charges would be accrued from a member that did not have overdue obligations outstanding for six months or more. Special charges would be placed in nonaccrual status and recorded as deferred income if a member had such obligations (unless it remained current with respect to charges including special charges), and would be reflected in income only when actually received by the Fund.

Questions would also arise as to the inclusion of special charges in the Fund's income projections and their treatment when paid. The staff would not suggest that receipts from special charges should be estimated for the purposes of the income projections for the periodic reviews of the Fund's income position and the determination of the rate of charge. This would avoid both the need for an assumption that members will remain or become overdue on their obligations to the Fund and the difficulties of predicting the amount, nature and duration of any arrears that might be outstanding during the projection period. As regards receipts, the proceeds from special charges actually received would, like the payment of normal charges or the settlement of deferred income, be reflected in and raise realized income above what it would otherwise have been. However, as the collection of special charges would not be reflected in income projections, a question arises similar to the discharge of projected deferred income, of the treatment of income in excess of target. This matter will be discussed in a paper discussing factors bearing on the Fund's reserves which is to be issued shortly.

V. Illustrations of Systems of Special Charges

On the basis of the foregoing discussion, four alternative types of systems are illustrated below. In each case, it is assumed that special charges would be imposed from the day following the due date of the obligation in question.

a. The first system would be designed to recover the financial costs to the Fund arising from delays in payments of charges and repurchases, as discussed in Section IV above. Costs would be recovered in respect of overdue charges at the SDR rate of interest. Special charges on overdue repurchases of ordinary resources would be imposed at a rate equivalent to the difference between the SDR rate of interest and the rate of charge on use of ordinary resources. (In both cases, the "effective" rate--i.e., the total rate applying to the overdue obligation, whether overdue charges or overdue repurchases of ordinary resources--would then be the same, namely equal to the SDR interest rate. The SDR interest rate in 1984 averaged 8.85 percent and the rate of charge 6.87 percent. On this basis, the rate in respect of overdue charges would have averaged 8.85 percent and that on overdue repurchases of ordinary resources 1.98 percent.) In this illustration, no special charges would apply to overdue repurchases of borrowed resources. 1/ The rates for the purpose of recovering financial costs would vary only as a result of variations in the SDR interest rate or the normal rate of charge--they would not be graduated over time or rise in relation to the Fund's legal procedures. A system of this type could be based (i) with respect to overdue charges, on the Fund's implied powers and the authority of Article XII, Section 2(g); and (ii) with respect to overdue repurchases, on Article V, Section 8(c).

b. A second system would be designed to go beyond the recovery of costs to the Fund and to eliminate, insofar as possible, the concessional element in Fund credit in arrears. For the purposes of this illustration, the combined SDR five-year interest rate (10.80 percent on average in 1984) plus 10 percent of that rate (for a total of 11.88 percent in 1984) is taken to be an appropriate base. (This base rate would change over time with changes in the underlying interest rates.) At rates of charge prevailing on average in 1984, this would have called for special charges to be levied at the following rates on overdue repurchases on average: ordinary repurchases, 5.01 percent; EAR repurchases, 1.06 percent; and SFF repurchases, zero percent. 2/ The rates of special charge and the resulting effective rates (which combine the normal and special rates of charge) in this illustration

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1/ As noted above, however, a margin could be added to cover estimated administrative costs attributable to overdue obligations, and this margin could be applied to overdue repurchase of borrowed resources as well.

2/ The zero special charge in the illustration reflects the fact that the average SFF interest rate exceeded the illustrative base rate in 1984. This relationship could, of course, change.

are shown in columns (2) and (3) of the table below. The application of special charges on overdue repurchases would be based on Article V, Section 8(c). The rates applied in respect of overdue charges would remain as under system (a) above, based on the Fund's implied powers and in accordance with Article XII, Section 2(g).

c. A third system would extend the system described in (b) above, providing in addition for increases in special charges on overdue repurchases, say, by 10 percent of the base rate (i) at the time of a decision to limit a member's use of the Fund's general resources and (ii) at the time of a decision to declare a member ineligible to use the Fund's general resources. Under this illustrative system, the schedule of rates of special charge (on the basis of average 1984 rates) and the resulting effective rates would be as follows:

Special Charges in Respect of Overdue Obligations: Illustrations (b) and (c)

(Average during 1984, in percent per annum)

Type of overdue obligation	Normal rates of charge (1)	Illustrative Special and Effective Charges					
		Initial		Following limitation		Following ineligibility	
		Special 1/ (2)	Effective (3)	Special 2/ (4)	Effective (5)	Special 2/ (6)	Effective (7)
Charges	0.00	8.85	8.85	8.85	8.85	8.85	8.85
Repurchases							
Ordinary	6.87	5.01	11.88	6.20	13.07	7.39	14.26
EAR	10.82	1.06	11.88	2.25	13.07	3.44	14.26
SFF	12.51	0.00	12.51	0.56	13.07	1.75	14.26

1/ The SDR interest rate with respect to charges; the base rate of 11.88 percent minus the normal rate of charge with respect to repurchases.

2/ With respect to repurchases following limitation and ineligibility, the rate of special charge is determined by multiplying the base rate (11.88 percent) by 1.1 (limitation) or 1.2 (ineligibility) and subtracting the normal rate of charge.

d. A fourth system would be designed to recover costs associated with overdue charges and to apply a special charge to all overdue repurchases, in order to provide financial incentives for settlement of all of these obligations from the outset. Under this system, payments in respect of overdue charges would be required at the SDR interest rate (perhaps plus a margin), as in the previous illustrations, on the basis of the Fund's implied powers and in accordance with Article XII, Section 2(g). A special charge on the order of, say, 2 percentage points, would be applied to all overdue repurchase obligations, under Article V, Section 8(c). (The special charges on overdue repurchases could increase over time or in connection with decisions regarding limitation and ineligibility, as illustrated in (c) above). On the basis of average rates prevailing in 1984, the rates of special and effective charges under this illustrative system would be as follows:

Special Charges in Respect of Overdue Obligations:
Illustration (d)

(Average during 1984, in percent per annum)

Type of overdue obligation	Normal rates of charge	Illustrative Special and Effective Charges	
		Special	Effective
Charges	0.00	8.85	8.85
Repurchases			
Ordinary	6.87	2.00	8.87
EAR	10.82	2.00	12.82
SFF	12.51	2.00	14.51

The staff has simulated the four alternative systems illustrated above, on the basis that they would have applied to the Fund's actual experience with respect to overdue obligations (including, for the third system, decisions on limitations and ineligibility) during calendar year 1984. In each case, special charges are assumed to apply as soon as the relevant obligation become overdue, and no attempt has been made to reflect any possible changes in the timing of payments to the Fund that might have occurred as a result of special charges. To simplify the calculations, the simulations were based on monthly averages of outstanding overdue amounts and of the relevant rates of interest and charges. On this basis, the alternative systems would have yielded the following in special charges during 1984:

	Yield		
Illustrative System	In SDR Millions	As Percent of Average Overdue Obligations Outstanding in General Dept.	As Percent of Fund Reserves (end-1984)
a	4.3	4.1	0.40
b	6.2	5.8	0.58
c	6.6	6.2	0.61
d	4.6	4.3	0.43

The staff has also simulated the application of a system to overdue Trust Fund obligations in a manner designed, assuming ultimate settlement of all Trust Fund obligations, to recoup the interest earnings forgone by virtue of delays in repayments and payments of interest on Trust Fund loans. The base rate used in the simulation for this purpose was 9.80 percent, the average yield on investments in 12-month deposits by the Fund with the Bank for International Settlements in 1984. Accordingly, the rates applied to overdue Trust Fund obligations were 9.80 percent in the case of overdue interest and 9.30 percent (i.e., 9.80 percent less interest of 0.5 percent which continues to accumulate) in the case of overdue repayments. Application of these rates to overdue Trust Fund obligations in 1984 would have yielded SDR 0.7 million in special charges.

The following table shows the calculation of special charges under each of the illustrations discussed above.

Calculation of Illustrative Special Charges

System	Type of overdue obligation	Calculation
a	Repurchase (OR)	SDR interest rate - Rate of charge
	Repurchase (BR)	--
	Charges	SDR interest rate
b	Repurchase (OR)	Combined interest rate x 1.1 - Rate of charge
	Repurchase (BR)	
	SFF	Combined interest rate x 1.1 - SFF rate of charge
	EAR	Combined interest rate x 1.1 - EAR rate of charge
	Charges	SDR interest rate
c	Repurchase (OR)	Combined interest rate x 1.1 (x 1.1 or 1.2) - Rate of charge
	Repurchase (BR)	
	SFF	Combined interest rate x 1.1 (x 1.1 or 1.2) - SFF rate of charge
	EAR	Combined interest rate x 1.1 (x 1.1 or 1.2) - EAR rate of charge
	Charges	SDR interest rate
d	Repurchase (OR)	Rate of charge + 2.0 percent
	Repurchase (BR)	
	SFF	SFF rate of charge + 2.0 percent
	EAR	EAR rate of charge + 2.0 percent
	Charges	SDR interest rate
Trust Fund	Repayment	BIS deposit rate - TF interest rate
	Interest	BIS deposit rate

VI. Summary and Conclusions

1. As requested by Executive Directors, this paper has discussed a number of general and operational considerations bearing on the questions whether the Fund should adopt special charges in respect of overdue obligations and, if so, the characteristics that a system of special charges could have.

2. While special charges on overdue repurchases have not been applied by the Fund in recent years, they have been applied in several instances in the past, and the Fund possesses sufficient legal authority for the application of special charges under the present Articles of Agreement, including the power to require members to make good the loss arising from nonpayment of charges. The introduction of a system that would apply both to overdue repurchases and to overdue charges would require a seventy percent majority of the total voting power.

3. As has been mentioned in earlier discussions of the Executive Board, a system of special charges in the Fund could have various objectives, including the recovery of costs to the Fund, the elimination of concessionality in Fund credit in arrears, the strengthening of financial incentives for payment to the Fund, and reinforcement of the various legal steps available to the Fund in dealing with overdue obligations. These objectives overlap to a considerable extent, but the emphasis given to each would help define the nature and characteristics of a system of special charges.

4. The number and amount of overdue obligations to the Fund have increased rapidly in the recent past. The various procedures that have been adopted by the Fund to deal with the problem have not so far contained or reversed the rising trend; a further deterioration cannot be precluded in the future, though some protracted arrears have been successfully eliminated. Moreover, the failure of certain members to meet their obligations to the Fund gives rise to damages of various kinds which are borne by other members. These damages range from direct, measurable financial costs arising from delays in payment, to adverse effects on the Fund's liquidity, to less easily measurable but potentially more important effects in terms of damage to perceptions about the credibility of adjustment programs supported by the Fund and about the institution's financial integrity. Damages of the latter type may be manifested in a need for the Fund to hold higher reserves, in higher costs to the Fund on future borrowing, and in greater difficulty in securing agreement on increases in Fund quotas.

5. It is difficult, however, to predict the effectiveness of special charges, in particular their effectiveness in helping to secure the prompt settlement of financial obligations to the Fund. The objectives of the recovery of financial costs and reduction of the concessionality of Fund credit in arrears would appear to be reasonably well served by special charges, on the presumption that these charges and the underlying obligations would ultimately be settled. While it would not be

implausible to expect that special charges could encourage members to overcome problems of a more technical or administrative character which could lead to brief delays in payment, it is more difficult to judge whether they would be effective in dealing with the problem of larger and more protracted arrears. In the cases of members facing severe and deep-seated balance of payments problems, in particular, their application and increasing cost could risk exacerbating these problems and complicating the members' efforts to become current with the Fund. Such risks would need to be assessed against the potential merits of special charges.

6. If the Board, in light of the various arguments decided to move in the direction of special charges, it could consider the adoption of a system with two principal purposes in view: to recover (and to forestall) insofar as possible the costs to the Fund arising from certain members' failures to fulfill their financial obligations to the Fund, which are now borne by members in general, and to increase the policy instruments available to the Fund in its efforts to deal with the problem of overdue obligations. A system designed to recover costs has been illustated as System (a) in Section V above.

7. The Executive Board might wish to consider the possible merits or disadvantages of a system which would go further toward eliminating the concessional element in overdue repurchases as illustrated in System (b), or toward applying financial incentives for settlement to all overdue repurchases from the outset, as illustrated in System (d).

8. If a system of one of the latter types were favored, the question arises whether, in addition, provision should be made for increases in special charges over time, as has been illustrated as System (c). Such increases could be supported by several considerations, including the damage to the Fund caused by protracted arrears, the longer effective maturities of Fund credit reflected in protracted arrears, a desire to apply increasingly strong financial incentives for payment, and a desire to complement the legal steps available to the Fund with stronger financial incentives and signals.

9. If the Board were to move in this direction, it might also consider the adoption of a heavy surcharge or penalty in circumstances in which a member has been declared ineligible to use the Fund's general resources and before the Executive Board would consider action to compel the member to withdraw from the Fund. Such action need not be a part of a generally applicable system of charges but could be considered on an ad hoc basis, taking into account the Fund's judgment as to whether the member was making its best efforts to become current and all other circumstances of the individual case.

10. It would be for consideration whether such a system should be applied to overdue Trust Fund obligations. While overdue obligations to the Trust Fund do not necessarily give rise to all of the kinds of damages and potential problems posed by overdue obligations in the

General Resources Account and the SDR Department, they do give rise to financial costs that will ultimately be reflected in a reduction of funds available to low-income beneficiaries and, potentially, the General Resources Account. As Trustee, the Fund has the duty to attempt to assure timely payment of obligations to the Trust Fund and the authority to require members to make good the loss associated with delays in payments to the Trust Fund.

11. If desired by the Executive Board, the staff would prepare a further paper elaborating a system of special charges in full detail and proposing necessary decisions for early consideration by the Executive Board. If it is desired that such a paper be prepared, it would be most helpful to the staff to know Executive Directors' views on the main objectives of such a system and on the operational issues that arise. As regards operational questions, the discussion in this paper has suggested the following points on which Directors may wish to comment.

(i) If a system of special charges were to be decided, it should apply uniformly to members in arrears to the Fund. The existence of a generally applicable system of special charges would not preclude decisions by the Executive Board to apply further charges on an ad hoc basis in particular cases of members that are not current in their financial obligations to the Fund (Section IV(2)(a)).

(ii) Special charges designed to recover costs or to reduce or eliminate concessionality should begin to apply as soon as an obligation becomes overdue, and immediate application would also appear to offer the most effective financial incentive for members to become and remain current with the Fund. If it is decided to adopt a system of special charges, the system should apply to outstanding and newly arising overdue obligations and should be introduced promptly or after only a brief delay following the Board's decision (Section IV(2)(b)).

(iii) Provision could be made for increases in special charges over time, perhaps linked to the steps in the Fund's legal procedures (Section IV(2)(c)).

(iv) It would be preferable for a system of special charges, particularly insofar as it is intended to recover costs or reduce the concessional element of Fund credit in arrears, to narrow differences between the rates of charge that apply to various overdue obligations to the Fund. Considerations favoring special charges to apply financial incentives for payment to the Fund would tend to argue for a system that would apply from the outset to all overdue obligations in the General Department (Section IV(2)(d)).

(v) A system intended to recover costs to the Fund could reasonably utilize, as a standard for measuring costs, the SDR interest rate, perhaps plus some margin intended to cover administrative costs (Section IV(2)(e)).

(vi) It is suggested that the Fund's combined five-year interest rate plus a spread on the order of one tenth of that rate could reasonably serve as a standard for a system intended to substantially reduce or eliminate the concessionality of Fund credit in arrears (Section IV(2)(f)).

(vii) As regards accrual and nonaccrual of special charges, it is suggested that these charges should be treated in the same way as other charges. Estimates of special charges would not be made as part of the projections of the Fund's income for the purpose of determination of charges. As regards actual receipts of special charges, it is not proposed that these should be treated differently from receipts of any other charges (Section IV(2)(g)).