

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**IMMEDIATE
ATTENTION**

EBS/85/168

CONFIDENTIAL

July 15, 1985

To: Members of the Executive Board

From: The Secretary

Subject: SFF Subsidy Account - Proposed Subsidy Payments for the Period
July 1, 1984 through June 30, 1985

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Thursday, July 18, 1985. In the absence of such a request, the draft decision will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Coats (ext. 8249) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

Supplementary Financing Facility Subsidy Account --
Proposed Subsidy Payments for the Period
July 1, 1984 through June 30, 1985

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by David Williams

July 12, 1985

I. Introduction

The Supplementary Financing Facility Subsidy Account was established in December 1980 to reduce the cost to eligible low-income developing members of using the Fund's resources under the Supplementary Financing Facility (SFF) 1/ and the policy on exceptional use of the Fund's resources. 2/ In accordance with the Instrument establishing the SFF Subsidy Account, the determination of the amount of subsidy is to be made annually after the close of each financial year, in the light of the resources available to the Subsidy Account. This paper proposes that eligible members with purchases outstanding under the SFF should receive the maximum permissible subsidies in respect of periodic charges paid by them to the General Resources Account during the period July 1, 1984 through June 30, 1985. It also proposes that subsidy payments be made in U.S. dollars as in the past.

The resources available to the SFF Subsidy Account have been estimated to be sufficient for the Account to make all expected remaining subsidy payments at the maximum permissible rates of subsidy. In May 1985, the Executive Board decided to suspend further transfers to the SFF Subsidy Account of Trust Fund repayments and interest. 3/

1/ Executive Board Decision No. 6683-(80/185)G/TR, adopted December 17, 1980. See Selected Decisions (Tenth Issue), pp. 321-328.

2/ There were no outstanding balances under the policy on exceptional use during the year ended June 30, 1985.

3/ Executive Board Decision No. 7989-(85/81)SBS, adopted May 28, 1985. See "Suspension of Transfers to SFF Subsidy Account and Investment of Balances Retained in the Special Disbursement Account" (EBS/85/127, May 14, 1985, and Supplement 1).

II. Calculation and Payment of Subsidy

The subsidy paid to any member is not to exceed 3 percent per annum of the Fund's holdings of that member's currency outstanding under the SFF and eligible for subsidy. ^{1/} As far as practicable, the Fund seeks to ensure that the percentage at which the subsidy is determined shall be the same over the entire period during which a subsidy is provided from the Subsidy Account. On the occasion of the first four disbursements made in 1981-84, subsidies were paid at the maximum rate of three percent to those beneficiaries eligible to receive subsidies at the full rate, and at the rate of one and one half percent to those beneficiaries eligible to receive subsidies at half the full rate. Subsidies at the maximum rate with respect to the period July 1, 1984 through June 30, 1985 would require payments of SDR 87.3 million.

The instrument establishing the Subsidy Account also requires that the subsidy paid to any member shall not reduce the effective charge below the level of charge that would have been applicable if the holdings had been acquired under the Fund's policies on the regular use of its resources in the credit tranches or under the Extended Fund Facility ("ordinary resources"). The relevant rates of charges since July 1, 1984 have been as follows:

	<u>Ordinary Resources</u>	<u>SFF</u>
July 1, 1984 - December 31, 1984	7.00%	12.325%
January 1, 1985 - June 30, 1985	7.00%	11.075%

Accordingly, subsidy payments at the maximum rate of three percent would not reduce effective charges to a level below the charges that would have resulted from the use of the Fund's ordinary resources.

During the year ended June 30, 1985, 23 eligible members had outstanding balances under the SFF. Eighteen of these members are eligible to receive a subsidy at the maximum rate of three percent per annum, and it is proposed to pay the subsidy to these members at this maximum rate. It is proposed to pay a subsidy at the rate of one and one half percent per annum to the remaining five members, which are eligible to receive a subsidy at half the full rate.

Subsidies are payable only after the member has paid the relevant

^{1/} Only outstanding currency holdings that are subject to the repurchase provisions of the SFF are taken into account in making the calculation that determines the amount of the subsidy payment. These balances are referred to as "eligible holdings." No subsidy is paid with respect to charges that accrue after repurchase should have been made.

charges. Two eligible members have not yet completed payment of these charges for the first half-yearly period covered by the proposed payment. The other members have paid the charges for the first six months of the year, and charges for the second six months are due on July 12, 1985. It is proposed to pay the subsidy on July 24, 1985 to each eligible member that by that date has paid the amount of charges due for the period July 1, 1984 through June 30, 1985. A member that has not paid the charges by that date will receive the subsidy payment when it pays the amount due.

Details of the recipients of subsidies and the amounts it is proposed to disburse in respect of the year ended June 30, 1985 are shown in the table on page 4.

III. Recommended Decision

In the light of the above, the following draft decision is recommended for adoption by the Executive Board, acting in its capacity as Trustee of the SFF Subsidy Account:

1. In accordance with the Instrument establishing the Supplementary Financing Facility Subsidy Account, subsidy payment shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period July 1, 1984 through June 30, 1985, in the amount indicated to each of the eligible members as listed in the table of EBS/85/168.

2. The subsidy payment shall be made in U.S. dollars to each eligible member on July 24, 1985, or as soon thereafter as the member has paid all overdue charges, if any, on balances eligible for the subsidy, on the basis of the SDR/U.S. dollar exchange rate in effect three business days before the payment date.

1/ Loan repayments made to Belgium and Luxembourg. All loans have been repaid.

2/ Excluding amounts retransferred to the Special Disbursement Account pursuant to Executive Board Decision No. 7989-(85/81) SBS.

Subsidy Payments - Disbursed and Proposed Amounts

(In SDRs)

	Cumulative Disbursed Subsidies in Period 1981 - 1984 (1)	Proposed Amounts for Disbursement 1/		Total (4)
		July - December 1984 (2)	January - June 1985 (3)	
(a) At 3%:				
Bangladesh	11,165,047	1,496,952	1,272,806	2,769,758
Bolivia	3,087,764	276,004	224,555	500,559
Dominica	251,077	67,087	64,498	131,585
Gambia, The	227,713	72,229	71,246	143,475
Guyana	3,492,049	360,200	299,025	659,225
India	46,838,649	18,098,361	17,852,055	35,950,416
Kenya	8,358,029	1,333,745	1,222,231	2,555,976
Liberia	3,749,015	608,403	556,722	1,165,125
Madagascar	2,218,604	306,513	260,929	567,442
Malawi	2,871,115	376,062	320,696	696,758
Mauritania	1,388,237	224,541	207,574	432,115
Pakistan	38,179,706	7,916,688	7,464,208	15,380,896
Philippines	32,534,776	4,540,607	3,988,235	8,528,842
Senegal	4,349,652	766,918	714,293	1,481,211
Sierra Leone	1,650,743	246,591	211,133	457,724
Sri Lanka	591,705	--	--	--
Sudan	16,786,290	2,272,507	2,003,787	4,276,294
Tanzania	1,814,739	199,543	166,462	366,005
Togo	719,540	100,950	85,808	186,758
Zambia	3,520,127	--	--	--
Subtotal	183,794,577	39,263,901	36,986,263	76,250,164
(b) At 1.5% :				
Ivory Coast	7,562,625	2,146,800	2,064,949	4,211,749
Jamaica	11,068,279	1,423,126	1,277,335	2,700,461
Mauritius	3,457,464	435,248	377,832	813,080
Morocco	7,065,054	923,141	782,030	1,705,171
Peru	12,621,874	904,159	710,628	1,614,787
Subtotal	41,775,296	5,832,474	5,212,774	11,045,248
Total	225,569,873	45,096,375	42,199,037	87,295,412

1/ Subject to the full payment by members of their charges.