FOR AGENDA

EBS/85/283

CONFIDENTIAL

December 17, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Use of Resources of the Special Disbursement Account

Attached for consideration by the Executive Directors is a paper on the use of resources of the Special Disbursement Account (SDA), which is scheduled for Executive Board discussion on Wednesday, January 22, 1986.

Mr. Leddy (ext. 8332), Mr. Boorman (ext. 7858), or Mr. G. G. Johnson (ext. 8779) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Use of Resources of the Special Disbursement Account

Prepared by the Exchange and Trade Relations Department

(In consultation with the Treasurer's, Legal, and Other Departments)

Approved by C. David Finch

December 13, 1985

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Use of Resources of the Special Disbursement Account

I. Introduction

The assets that become available as a result of the termination of the Trust Fund are to be transferred to the Special Disbursement Account (SDA). Of the total of SDR 3.1 million scheduled to accrue to that account by April 1991 from Trust Fund loan repayments and interest, SDR 0.4 billion has been transferred to the Supplementary Financing Facility Subsidy Account. The remaining SDR 2.7 billion is to be used in accordance with the 1980 Executive Board Decision terminating the Trust Fund. 1/

A preliminary discussion on this subject was held on September 13, 1985 (EBM/85/141 and EBM/85/142) on the basis of a staff paper which presented some general considerations relating to the types of new arrangements which could be envisaged in light of the 1980 decision (EBS/85/183, 8/6/85). The Executive Board's deliberations were summarized by the Chairman (Buff 85/167, 9/19/85) and formed the basis for his report to the Interim Committee meeting in Seoul in October 1985.

The Interim Committee provided clear guidelines for the use of these resources in its Communiqué as follows:

a. "The total amount of these resources (about SDR 2.7 billion), which might be supplemented with funds from other sources, should be used to provide additional balance of payments assistance on concessional terms to the low-income countries eligible for IDA resources that are in need of such assistance and face protracted balance of payments problems. In this connection, the Committee welcomed the statements made by the representatives of China and India that they would not avail themselves of the facility in the period 1985-91.

b. This assistance should be made available to countries implementing economic programs designed to promote structural adjustment and growth in a medium-term framework. These economic programs should be reviewed periodically. Given the emphasis on structural adjustment, it was important that the Fund should work in close collaboration with the World Bank, whilst avoiding cross-conditionality.

1/ See Paragraph 3 (b) of Decision No. 6704-(80/185) TR, December 17, 1980 which is reproduced in Annex I. The discussion and references to the Special Disbursement Account in this paper relate only to resources derived from repayment of principal and interest on Trust Fund loans and from income derived from the temporary investment of those reflows.

c. The terms of the use of the resources, such as the rate of interest and the period of repayment, should be similar to those applied to loans from the Trust Fund.

d. Such arrangements would not adversely affect the availability of concessional development finance for low-income countries not utilizing Trust Fund reflows."

In view of the clear need for prompt financial support of appropriate adjustment policies in many of the countries that could be eligible to use these resources, the Executive Board was urged to complete its work on this matter, in light of the guidance provided by the Committee, before the Committee's next meeting.

In accord with the guidelines of the Interim Committee, this paper presents background for the Executive Board to consider decisions to establish specific procedures for use of the resources of the SDA. The following section suggests criteria to be used to determine the presence of a protracted balance of payments problem. These criteria are then applied to the list of IDA-eligible countries to indicate which of these countries, on the basis of information currently available to the staff, appear to be facing such problems. Section III describes a scheme for the commitment and disbursement of SDA resources to eligible countries that qualify for use of these resources. Some uncertainty exists as to both the amount and timing of the receipt of resources by the SDA, as well as to the extent to which members will make use of these resources. Moreover, the aims to be achieved through the use of such resources--especially the intended focus on structural adjustment over the medium term--impose additional constraints on the commitment and disbursement of SDA resources. In this paper, priority is given to a reasonably firm commitment of resources to members for a three-year period and to early initiation of disbursements of available funds to qualifying countries.

Section IV considers the nature of the policy programs to help foster structural adjustment that could be supported by the use of SDA resources. The relationship between the use of these resources and the Fund's general resources under existing facilities is examined in Section V, as is the question of access to these resources by prolonged users and by members with overdue obligations to the Fund. The financial terms to be associated with the use of these resources are also discussed in this section. In Section VI, modalities are suggested for enhancing the collaboration between the World Bank and the Fund in formulating policy programs in countries requesting use of these resources. In this connection, the elements of a proposal by the United States for joint Fund-Bank programs to be supported by the use of SDA resources in conjunction with resources from other sources, including bilateral donors, are described in Section VII. The last section of the paper indicates a possible time schedule under which the facility could begin operations.

The arrangement for the use of resources of the SDA proposed in the following sections may be summarized as follows:

--approximately SDR 2.7 billion would be available to IDA-eligible countries with protracted balance of payments problems; at present, the staff assessment suggests that about 45 of the IDA-eligible countries would qualify for use of these resources;

--use of SDA resources could be requested by countries presenting three-year programs of structural adjustment to be worked out with the Fund in close collaboration with the World Bank; annual financial programs would be agreed within these medium-term adjustment efforts to provide the environment required to foster successful structural and institutional reform;

--an initial minimum commitment of resources (as a percent of quota) would be made to qualifying countries for disbursement over a period of three years; the commitment would be made, subject to the availability of funds, on approval of a program for medium-term structural adjustment and a financial program for the first year; these commitments may be increased as information becomes available regarding inflows to the SDA, the number of members that qualify for use of these resources, and the timing of disbursements;

--one sixth of the initial three-year commitment of resources would be disbursed on approval of an arrangement; subsequent disbursements would occur at approximately six-monthly intervals either on the occasion of successful completion of a review of progress under a program or an agreement on a subsequent annual financial program; and, finally

--as in the case of Trust Fund loans, repayments would be made in ten equal semiannual installments over 5 1/2-10 years and loans would bear interest at 1/2 percent per annum.

With substantive agreement by Executive Directors on the major elements of these proposals, the staff would prepare a further paper elaborating the details of the facility's operations and proposing a decision for consideration by the Board around mid-March 1986. Adoption of such a decision would provide the necessary legal framework for use of SDA resources and a report would be prepared to so inform the Interim Committee. On this basis, it would be possible to begin discussions with eligible member countries that might utilize these resources to more clearly determine that they are facing protracted balance of payments problems. It might be anticipated that some eligible member countries that are already using the Fund's general resources could qualify fairly quickly for use of these resources and, in such cases, disbursements against the first annual commitments--tentatively estimated at about 15 percent of quota for the first year--could begin as early as May 1986.

II. Eligibility for Use of the Resources of the Special Disbursement Account

The Interim Committee has indicated that the resources of the SDA are to be used to provide additional balance of payments assistance to IDA-eligible countries that face protracted balance of payments problems. Currently there are 55 member countries that receive funds from IDA (Table 1). This list could serve to define basic eligibility for the use of SDA resources, but the Board would retain authority to amend this list, independent of action taken by the World Bank.

To qualify for the use of SDA resources, an IDA-eligible country would have to be in need of such resources and to face a protracted balance of payments problem. 1/ The determination of the existence of a protracted balance of payments problem would involve examination of past, current, and prospective balance of payments developments. Such an assessment would need to take into account various aspects of external performance, since a determination of the severity of an external imbalance cannot be based on any single objective indicator. An unsustainably large current account deficit, for example, need not constitute evidence of a protracted problem, if the sources of the deficit can reasonably be expected to be reversed over a relatively short period, given the country's external prospects and its ability to implement timely and effective adjustment policies. A small deficit, on the other hand, may reflect severe constraints imposed by limited availability of external finance or foreign exchange reserves rather than an absence of balance of payments problems.

Thus, besides the behavior of the current account deficit, evidence of a protracted balance of payments problem would be sought in the behavior of other current account indicators, such as a stagnant or declining volume of exports, a depressed volume of imports, or a deterioration in the terms of trade; in external finance indicators such as deteriorating access to capital markets or rising costs of debt service; and in declining reserves. Such developments could be expected to be associated with stagnant or declining economic activity. Assessment of the behavior of these indicators would take account of both the magnitude and the duration of any unfavorable developments. Protracted balance of payments problems, moreover, would often be reflected in difficulties in undertaking an orderly process of adjustment, which could be evidenced by tightened exchange restrictions, payments arrears, or prolonged use of Fund resources.

Analysis of these indicators would be both retrospective and prospective, and would take account of other factors that would

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1/ The additional requirement to qualify for use of these resources--presentation and approval of a medium-term program of structural adjustment--is discussed in Section IV of this paper.

Table 1. Low-Income Developing Countries
Eligible for IDA Lending
(December 1985)

Country	Fund Quota	World Bank Status 1/	1983 Per Capita Income
China, P.R. of	2,390.9	Blend	300
India	2,207.7	Blend	260
Pakistan	546.3	Blend	390
Zaire	291.0	IDA	170
Bangladesh	287.5	IDA	130
Zambia	270.3	Blend	580
Sri Lanka	223.1	Blend	330
Ghana	204.5	IDA	310
Viet Nam	176.8	IDA	...
Sudan	169.7	IDA	400
Kenya	142.0	Blend	340
Burma	137.0	IDA	180
Tanzania	107.0	IDA	240
Uganda	99.6	IDA	220
Bolivia	90.7	IDA	510
Afghanistan	86.7	IDA	160
Senegal	85.1	IDA	440
People's Democratic Republic of Yemen	77.2	IDA	520
Liberia	71.3	IDA	480
Ethiopia	70.6	IDA	120
Madagascar	66.4	IDA	310
Mozambique	61.0	IDA	150
Guinea	57.9	IDA	300
Sierra Leone	57.9	IDA	330
Mali	50.8	IDA	160
Guyana	49.2	IDA	520
Somalia	44.2	IDA	250
Haiti	44.1	IDA	300
Rwanda	43.8	IDA	270
Yemen Arab Republic	43.3	IDA	550
Burundi	42.7	IDA	240
Togo	38.4	IDA	280
Nepal	37.3	IDA	160
Malawi	37.2	Blend	210
Mauritania	33.9	IDA	480
Niger	33.7	IDA	240
Burkina Faso	31.6	IDA	180
Benin	31.3	IDA	290
Chad	30.6	IDA	85
Central African Republic	30.4	IDA	280
Lao People's Democratic Republic	29.3	IDA	140

Table 1 (concluded). Low-Income Developing Countries Eligible for IDA Lending

Country	Fund Quota	World Bank Status 1/	1983 Per Capita Income
Kampuchea, Democratic	25.0	IDA	...
Equatorial Guinea	18.4	IDA	200
The Gambia	17.1	IDA	290
Lesotho	15.1	IDA	460
Vanuatu	9.0	IDA	640
Djibouti	8.0	IDA	310
Guinea-Bissau	7.5	IDA	180
Western Samoa	6.0	IDA	620
Solomon Islands	5.0	IDA	640
Cape Verde	4.5	IDA	360
Comoros	4.5	IDA	260
São Tomé and Principe	4.0	IDA	310
Bhutan	2.5	IDA	125
Maldives	2.0	IDA	450
Total	8,758.6		

Sources: World Bank; and IMF staff estimates.

1/ Indicates eligibility for World Bank loans: IDA only or a "blend" of IDA and IBRD lending. These categories are subject to change as countries' circumstances change. "Blend" countries exclude those with blended finance for "enclave" projects, where repayment is guaranteed by an independent entity.

influence a country's path toward external adjustment, as measured, for example, by projected medium-term financing gaps. The analysis would need to allow for the fact that external prospects and the ability to adapt to them vary considerably from country to country. Moreover, the fact that a country's medium-term prospects are relatively favorable because of a determined effort to deal with past protracted problems would not necessarily preclude access to these resources if a continued structural adjustment effort was required that would extend over a number of years, during which economic growth would continue to be constrained to less than its potential.

It is proposed that upon request for use of SDA resources by an IDA-eligible country, the criteria delineated above would be employed to determine if, at the time of that request, the member qualified for use of these resources. Based on information currently available, the staff has conducted a preliminary review of the situation in the 55 IDA-eligible countries which suggests that 45 of those countries show obvious signs of protracted balance of payments problems (some relevant indicators for IDA-eligible countries are shown in Table 2). Typically, among these 45 countries are those that are far from having adjusted to the adverse external developments of the late 1970s and early 1980s; in particular, the worsening of the external terms of trade and the sharp increase in international real interest rates. Although corrective policies have been initiated in some of these countries, sometimes with the support of Fund resources, adequate adjustment has been made particularly difficult by the structural rigidities which characterize many of these economies and by the political constraints to implementation of effective policies. The severity of repeated exogenous shocks (both internal and external in origin) has also played an important role. Unsatisfactory export volume performance and the preemption of foreign exchange receipts by increased debt service payments have imposed severe constraints on imports and on economic growth.

In a large majority of these 45 countries the current account deficit in 1984 exceeded 10 percent of GDP, implying heavy reliance on external financing, including debt relief and other extraordinary financing. In a few of the remaining countries, the deficit was contained by macroeconomic policies, but many relied on restrictive exchange and trade systems. Export volume declined in almost half of the 45 countries between 1977 and 1984, while in most of the others the increase was only marginal and/or inadequate in view of the deterioration in the external environment. External payments arrears at end-1984 were reported for two thirds of these countries, an indication of severe balance of payments strain; wide parallel markets in foreign exchange also existed in almost half of them. The external payments problems of most of these countries, as well as inefficiency in the internal allocation of resources, has also been reflected in disappointing growth performance. While national accounts data are weak in many of these countries, those data that are available indicate that real per capita GDP declined or showed only a marginal increase (below 1 percent per annum) in all but a few of these countries.

Table 2: IDA-Eligible Countries: Selected Economic Indicators 1/

(In percent)

	Compound Growth Rates (1977-84)					Ratios to GDP (1984)			Debt Service Ratios (1984) 2/		Official Foreign Reserves (in Weeks of Imports, End-1984)	External Payments Arrears End-1984 3/
	Real GDP	Real GDP per capita	Export volume	Import volume	Terms of trade	Current account	External debt	Debt to official creditors	Scheduled	Actual		
Afghanistan	1.2	-1.4	-0.4	4.4	7.2	-5.9	30.7	30.7	...	...	20.1	*
Bangladesh	3.8	1.5	2.7	3.2	-0.5	-8.3	40.9	39.4	23.6	23.6	7.3	--
Benin	4.3	2.2	-0.1	-5.1	-1.9	-9.0	68.3	27.3	42.8	21.9	0.6	*
Bhutan	5.3	2.5	...	...	...	-30.0	1.0	1.0	1.5	1.5	30.0	--
Bolivia	-2.5	-5.3	-5.2	-7.7	4.2	-2.8	75.8	28.4	147.1	85.6	39.9	*
Burkina Faso	2.5	0.4	2.3	-0.6	-2.6	-20.0	52.3	47.7	13.4	13.4	22.7	*
Burma	6.1	4.0	8.6	11.1	-0.5	-4.5	36.6	30.5	38.9	38.9	4.8	--
Burundi	-0.3	-2.2	10.4	4.9	-17.5	-17.6	37.7	35.0	11.7	11.7	7.4	--
Cape Verde	4.4	3.3	7.8	10.1	3.1	-42.1	97.7	97.7	8.8	8.8	...	--
C.A.R.	1.2	-0.9	2.5 4/	0.3 4/	-6.0 4/	-22.1	51.6	45.4	11.6	7.1	20.2	*
Chad	-3.4	-5.5	-1.5	-5.3	-9.1	-15.1	21.6	25.2	5.0	1.9	21.0	*
China	8.9	7.5	13.1	16.9	1.9	0.7	2.5	1.5	3.9	3.9	23.2	--
Comoros	5.2	2.2	...	...	...	-83.1	...	117.4	5.3	5.3	...	--
Djibouti	2.8	-1.9	...	...	...	-18.8	22.0	9.3	2.8	2.8	...	--
Equatorial Guinea	0.7	-1.7	-0.8	14.1 4/	-3.2 4/	-12.4	132.8	102.1	111.6	47.7	6.1	*
Ethiopia	2.5	-0.1	7.3	7.9	-6.4	-9.0	32.1	27.7	13.5	13.5	3.9	--
Gambia, The	3.6	0.1	1.4	5.8	-4.0	-19.1	133.1	116.7	31.6	22.3	2.8	*
Ghana	-0.2	-3.5	-8.2	-2.2	-5.1	-2.1	...	7.8	83.5	36.7	14.7	*
Guinea	2.0	-0.3	2.9	5.8	1.0	-8.7	60.0	60.0	22.1	17.9	...	*
Guinea-Bissau	9.9	6.4	-1.5	5.1	6.8	-34.4	94.8	74.3	66.7	66.7	...	*
Guyana	-2.6	-5.5	-3.8	-11.9	-9.0	-22.5	188.7	123.0	56.3	17.4	1.2	*
Haiti	2.2	0.1	5.7	0.4	0.9	-3.4	35.0	23.0	8.6	8.6	4.0	*
India	4.6	2.2	--	4.1	-2.5	-1.4	14.1	10.7	15.7	15.7	23.0	--
Kampuchea, Democratic	2.7	...	...	...	...	...	...	...	...	...	...	--
Kenya	3.8	-0.8	-1.9	-4.7	-6.5	-5.2	53.8	34.2	23.3	23.3	14.3	--
Lao P.D.R.	5.3	2.4	...	...	...	-9.2	44.2	43.9	33.2	33.2	3.8	--
Lesotho	1.6	-0.1	10.0	1.6	-3.0	-24.4	51.1	47.9	3.4	3.4	6.7	--
Liberia	-0.4	-3.6	0.5	-7.1	-6.1	-14.0	84.3	62.0	17.3	16.8	0.6	*
Madagascar	-0.3	-3.0	-3.0	-5.6 4/	-1.1 4/	-11.7	87.1	65.3	79.7	24.7	8.8	*
Malawi	3.0	-2.2	5.0	-4.3	-8.1	-8.1	79.7	50.7	26.1	26.1	9.8	--
Maldives	9.0	5.3	17.5	26.4	4.0	-37.1	110.2	55.2	21.7	21.7	4.4	--
Mali	1.2	-1.4	2.2	1.2	-1.0	-20.9	119.9	116.6	13.6	8.8	6.9	*
Mauritania	1.6	-1.3	9.9	-0.2	-5.0	-33.4	175.1	146.5	38.8	38.8	15.0	*
Mozambique	...	...	...	...	...	-23.6	91.6	...	173.1	25.7	1.6	*
Nepal	3.2	0.3	1.1	8.0	-1.8	-7.1	17.6	17.0	4.6	4.6	8.6	--
Niger	0.8	-2.1	11.6	0.1	-6.1	-11.5	65.6	39.6	61.9	46.7	16.7	*
Pakistan	6.5	3.5	7.7	8.0	0.1	-5.4	34.1	32.1	14.3	13.9	9.6	--
Rwanda	4.2	-0.4	3.7	4.5	-8.2	-9.6	17.7	16.9	5.7	5.7	21.0	--
São Tomé and Principe	-5.4	-6.7	-1.0	3.2	-9.8	-59.3	151.0	121.9	27.5	27.5	...	*
Senegal	1.6	-1.6	-5.8	-3.2	0.4	-17.5	88.8	60.9	32.9	23.5	0.3	--
Sierra Leone	2.7	--	-2.5	-6.9	-9.1	-4.7	32.4	33.0	51.0	35.6	2.3	*
Solomon Islands	4.6	1.1	11.4	7.7	-4.2	-5.2	33.0	18.8	6.0	6.0	47.7	--
Somalia	2.6	-3.7	-7.3	5.4	1.2	-34.8	74.1	70.6	53.5	2.1	0.8	*
Sri Lanka	5.7	3.8	4.3	10.9	-3.3	-3.6	52.0	36.2	14.9	14.9	14.7	--
Sudan	1.7	-1.4	-0.7 4/	-7.8 4/	-9.6 4/	-10.9	122.3	103.9	101.5	18.4	0.7	*
Tanzania	0.6	-2.6	-7.1	-8.4	1.4	-10.6	70.5	67.3	43.7	43.7	1.0	*
Togo	0.1	-2.6	-1.6	-4.9	2.3	-16.3	111.4	100.3	52.6	31.0	42.6	*
Uganda	0.9	-1.9	2.5	-5.9	-15.7	-3.1	35.5	24.5	35.0	35.0	...	*
Vanuatu	4.3	1.5	2.6	-6.9	-5.8	-14.3	4.5	...	1.9	1.9	8.2	--
Viet Nam	3.0	0.6	...	...	...	-6.0	37.1	34.8	50.2	24.8	0.5	*
Western Samoa	1.7	0.9	1.5	1.3	-2.6	-11.2	75.6	72.7	20.5	20.5	10.4	*
Yemen Arab Republic	6.2	4.1	...	...	...	-13.5	54.3	54.2	8.6	6.4	11.2	--
Yemen, P.D.R.	3.3	0.3	...	...	...	-23.0	100.9	94.7	4.1	4.1	18.7	--
Zaire	0.2	-4.2	0.7	-8.7	-2.7	-8.9	95.0	76.3	45.6	25.3	15.3	*
Zambia	-0.2	-2.6	-2.1	-7.1	-7.2	-9.7	157.1	139.9	69.5	42.3	4.1	*

Source: Fund staff estimates, based on data provided by country authorities.

1/ Data are not fully comparable across countries. Fiscal year data used in some cases.
2/ Debt service payments in percent of exports of goods, services, and net private transfers.
3/ Existence of external payments arrears at end-1984 is indicated by an asterisk.
4/ 1978-1984.

For most of the 45 countries, achievement of a viable external payments position over the medium term is subject to substantial uncertainty, both because of the size and nature of their external imbalances and because the constraints on economic policies which characterize many of these countries tend to lengthen the adjustment process. A few countries, including Kenya and Malawi, although severely affected by adverse external conditions, have been able to avoid large imbalances in their external accounts largely through the pursuit of prudent financial policies. However, growth in such countries has been adversely affected by exogenous developments, particularly the sharp deterioration in their terms of trade.

Of the other 10 countries, the People's Republic of China and India have indicated that they would not avail themselves of SDA resources during the period of reflow of Trust Fund loans, i.e., between 1985 and 1991. The remaining 8 countries (Bhutan, Burma, Cape Verde, Maldives, Pakistan, Solomon Islands, Sri Lanka, and Yemen Arab Republic) have had increases in per capita income over the period 1978-84, ranging from 1.1 percent annually in the case of Solomon Islands to 5.3 percent in the case of Maldives. With the exception of two countries (Bhutan and Yemen Arab Republic) for which no detailed trade data are available, export volume growth was substantial for all of these countries during the same period, ranging from an annual rate of 4.3 percent for Sri Lanka to 17.5 percent for Maldives. Moreover, these countries have not experienced a compression of imports during this period; import volume rose at an annual rate of over 7 percent in the countries for which data are available. Furthermore, these countries have generally not faced serious external debt problems: although the ratio of external debt to GDP in 1984 was around 100 percent in two of these countries (Cape Verde and Maldives), their debt service ratios were comparatively low. Only in the cases of Burma (whose ratio, at 39 percent, was high) and Maldives did the debt service ratios exceed 15 percent.

Although these eight countries have registered satisfactory external performance on the basis of historical indicators, some of them are not free of current or potential balance of payments problems. This is particularly the case for Burma, where the underlying external position is weak, and for Pakistan and the Yemen Arab Republic both of which currently face serious, although not necessarily protracted, balance of payments problems. A determination that these countries in particular face a protracted balance of payments problem would depend on an assessment that, even with a timely introduction of appropriate adjustment policies, the achievement over the medium term of a viable external payments position would still be subject to exceptional uncertainty. The remaining five countries are particularly sensitive to exogenous shocks (both external and internal in origin) and also have relatively narrow production and export bases.

Thus, while the available evidence does not make all of the IDA-eligible countries obvious candidates for use of these resources, this conclusion would have to be confirmed in each individual case as requests for use of such resources are received. Moreover, the balance of payments prospects for some of the countries not obviously facing protracted problems in their external accounts could deteriorate, inviting a reconsideration of their circumstances.

III. Commitment and Disbursement of Resources of the Special Disbursement Account

Resources have already begun to accumulate in the Special Disbursement Account. Inflows from Trust Fund loan repayments and interest on those loans are scheduled to continue until April 1991. Cumulative receipts in the SDA by that date are projected to total SDR 2,687.9 million (Table 3). In addition to these amounts, undisbursed balances in the account will be invested and earnings will add to loanable resources. At the same time, however, delays in payment of Trust Fund obligations would delay or possibly reduce actual receipts of the SDA. As of December 2, 1985 overdue Trust Fund obligations totaled SDR 41.2 million, 6.4 percent of amounts that had fallen due as of that date. 1/ By end-June 1986 balances in the SDA are estimated to be on the order of SDR 500 million, assuming full settlement of overdue Trust Fund obligations.

Disbursements from the SDA will be constrained to amounts actually on hand in the Account. Therefore, the uncertainties associated with inflows--especially the possibility of overdue obligations--suggest caution in the commitment of such funds. Moreover, as it is anticipated that commitments are likely to exceed balances held in the Account at the time those commitments are made, they will need to be made subject to the availability of funds. At the same time, the urgency of the problems facing eligible countries argues for early commitment and initiation of disbursements, so long as safeguards for the effective use of those resources are in place.

Annual commitments of resources to qualifying countries, on the basis of funds actually received, would reduce uncertainties for the Fund in managing the SDA and, to some extent, for members. However, such a short time horizon would create substantial uncertainty for a recipient country attempting to plan and sustain an adjustment effort--including structural reforms--over the medium term. Recipient countries need a relatively assured flow of external resources to facilitate adequate implementation of planned reforms. Despite the relatively small volume of resources available, reasonable confidence in a minimum expected flow of funds over the medium term may increase the commitment of authorities of eligible countries to the policies these resources are intended to support. Moreover, there is a logic to committing funds in concert with the medium-term policy initiatives to be associated with use of SDA resources. This takes on added importance if additional

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1/ Including reflows already transferred to the SFF Subsidy Account.

Table 3. Projected Receipts of Trust Fund Loan Repayments and Interest in the IMF Special Disbursement Account
(As of December 2, 1985)

(In millions of SDRs)

	Interest Payments	Loan Repayments	Cumulative Receipts 1/
Balances held in the Special Disbursement Account			184.6
Overdue obligations	1.0	40.2	225.8
1985			
December	6.3	--	232.1
Total remainder 1985	6.3	--	
1986			
January-June	5.6	262.4	499.8
July-December	4.9	297.9	802.4
Total 1986	10.5	560.3	
1987			
January-June	4.1	297.9	1,104.2
July-December	3.4	294.8	1,402.0
Total 1987	7.5	592.7	
1988			
January-June	2.7	282.6	1,687.2
July-December	2.0	267.9	1,956.8
Total 1988	4.7	550.6	
1989			
January-June	1.5	213.8	2,171.9
July-December	1.0	200.9	2,373.8
Total 1989	2.4	414.8	
1990			
January-June	0.5	161.2	2,535.3
July-December	0.2	104.8	2,640.2
Total 1990	0.7	266.0	
1991			
January-April	0.1	47.6	2,687.9
Total 1991	0.1	47.6	

1/ Including overdue obligations. Figures for cumulative receipts reflect deductions totaling SDR 2 million during 1986-90 for repayment of loans that had been extended to the Trust Fund.

commitments from donors can be secured to associate aid flows with the use of these resources.

These and other considerations suggest a multiyear framework for the commitment and disbursement of SDA resources covering the length of the policy horizon of agreed programs. At the same time, however, there would be a large degree of uncertainty associated with both the formulation of policy programs and projections of the resources potentially available to each qualifying country over the entire period of Trust Fund reflows, i.e., a period that extends as far as 1991. Thus, it may be useful to structure the proposed arrangement in a way which allows a commitment of resources to qualifying countries for a somewhat shorter period, say, three years. The time pattern of projected reflows to the SDA is consistent with consideration of such a shorter period. Moreover, three years may represent a reasonable policy planning horizon for countries making use of these resources and may be a more realistic time frame for bilateral donors in a position to associate aid flows with these arrangements (see below).

As regards amounts to be committed to individual countries, it is suggested that potential commitments be determined initially in relation to members' quotas, subject to balance of payments need, as a means of assuring potential access to each eligible member on a uniform, Fund-related basis. As is discussed further below, such an approach, while providing opportunities for access to all eligible members on a uniform quota-determined basis, would not preclude the possibility of larger access for members that qualified for use of the facility's resources at an early stage and remained qualified to receive disbursements throughout the life of their arrangements.

Several factors make difficult the determination of a precise level of resources which could be committed to qualifying countries from the SDA even over a period of three years. There are substantial uncertainties besides those associated with inflows to the SDA. In particular, the number (and quotas) of eligible countries that will eventually qualify for use of these resources, as well as the timing of approval of qualifying programs, is not known.

The two members with the largest Fund quotas among the IDA-eligible countries have indicated that they will not make use of the resources of the facility during the period 1985-91. Moreover, of the remaining eligible countries it can be expected that some will not qualify immediately for use of these resources. Thus, commitments of resources to member countries will not occur simultaneously and the timing of disbursements will be linked to the timing of the three-year program of the individual member. The longer the delays in approving individual arrangements, the further into the future commitments in support of three-year programs would extend, and the slower the funds available to the SDA would be disbursed. In addition, the possibility that some eligible countries may never qualify raises the possibility that larger amounts would be available for commitment to those that do. The urgency of the problems facing many of these countries would argue for enlargement of the financing made available for those that do qualify at an early stage. On the other hand, it also seems desirable for the facility to retain sufficient flexibility to provide meaningful assistance to members that may qualify only after some, perhaps considerable, delay. This latter consideration would argue that certain minimum amounts should be reserved for potential use by all eligible countries except those that have undertaken not to use the facility.

It is proposed to address these problems and uncertainties through arrangements that would reserve a certain minimum amount for each potential user of the facility's resources pending a general review of the facility's operations, but which would also permit some enlargement of commitments above the minimum over time, in light of actual experience with commitments, disbursements, and inflows to the facility. Approximately midway through the period 1986-91, a general review would be undertaken to assess the facility's operations and to determine whether sufficient resources remained uncommitted to permit a second "round" of lending operations.

Such arrangements could work in the following way: 1/

1. Initial commitments

At the time the facility begins operations and on the basis of the list of eligible countries, excluding those that have undertaken not to use the facility, the staff would calculate a minimum commitment that could be made to each country for a three-year program using prudent assumptions about reflows to the account and the timing of qualification of eligible countries. For example, it could be assumed that all eligible countries (other than China and India) would qualify immediately following the initiation of operations by the facility, which would imply that disbursements under these initial arrangements would be completed by end-1988 or early 1989. Taking account of the resources projected to be available for disbursement by end-1988 (approximately SDR 1,957 million) and the quotas of eligible members (except China and India) totaling about SDR 4.2 billion, three-year commitments could be made on this basis in amounts equivalent to about 47 percent of member's quotas, slightly over 15 percent of quota on an annual basis.

Alternatively, a somewhat slower pace of qualification by members might be assumed at the outset. For example, it might be assumed that members accounting for half of the quota total mentioned above would

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1/ For illustrative purposes, the discussion in the paragraphs below assumes that disbursements under the facility could begin at about mid-1986. The exact timing for initiation of operations would be fixed at the time of the decision by the Executive Board on the facility's establishment.

qualify at the outset and the remaining members only after a delay of, say, six months. On this basis, it would be possible to take into account reflows to be received up to mid-1989, which would permit a three-year commitment rate of about 52 percent of members' quotas. Assumptions along the lines of this alternative might be used if preliminary discussions with members provided firm information on the possible timing of arrangements. Also, if some countries in addition to China and India were to undertake not to use the facility's resources, the amounts potentially available for other eligible members would be increased. An early indication of this prospect would allow more confident commitments of larger amounts to qualifying countries. 1/

2. Possible enlargements of commitments

The likely delays in approval of arrangements would have two effects. On the one hand, uncommitted and undisbursed funds would accumulate in the SDA. On the other hand, additional reflows would become available to Fund arrangements approved after mid-1986, since disbursements under such arrangements would extend beyond end-1988 or early 1989. In order to encourage members to initiate adjustment programs at an early stage and to reduce the accumulation of uncommitted and undisbursed balances in the SDA, the experience with commitments, disbursements, and inflows to the Account would be reviewed annually by management, with a view to increasing commitments to members actually qualifying for use of the facility. For example, after one year of operations it would be known how many countries had already qualified for use of SDA resources and, of course, what actual inflows and disbursements had been. It would also be known at that point that an additional year's inflow of funds to the SDA would be available to fund the later years of arrangements for member countries qualifying for programs only after the first year of operations. The availability of this additional funding would permit a recalculation and enlargement of the amounts that could be newly committed to qualifying countries, a comparable augmentation of commitments already made, and a higher level of disbursements to all qualified countries in the following years. The same exercise would be repeated after the second year of operations of the facility, taking into account the remaining reflows projected to be received by the facility through 1991.

1/ The need for commitments to be made subject to the availability of funds, in light of the possibility of delays in members' settlement of their Trust Fund obligations, has been mentioned above. It would also need to be recognized that, should the rate of commitment be faster than assumed in the initial calculations, the facility could become overcommitted in relation to projected reflows even without taking account of the possibility of delays in settlement. Members would need to be aware that there would be a possibility of delays or reductions in disbursements for this reason, and the provisions of the facility and the loan agreements with members would need to make allowance for this possibility.

During the three years of an initial arrangement with a member country an upper limit would need to be placed on that country's access to SDA resources, including possible enlargements of commitments, in order to protect the availability of resources for other countries that might be late in qualifying to use these resources. This limit would be equivalent to the country's quota share of the total of reflows projected for the life of the facility (e.g., on the basis of the SDR 4.2 billion quota total mentioned above, about 64 percent of quota).

3. Review of operations

This framework would permit a substantive review of the operations of the facility toward the end of 1988 and determination of the disposition of any uncommitted resources remaining in the Account. If, as would be hoped, the majority of countries had qualified by that point, most resources (even those projected to become available for disbursement only in the fourth or fifth years) would already have been committed and undisbursed balances would be at relatively low levels. If, however, a significant number of countries had not qualified by that time and substantial uncommitted resources remained available, this review would permit a substantive reassessment of the operations of this facility and a second round of lending operations could be considered.

4. Disbursement and release of committed funds

Countries will be expected to present annual programs under their three-year arrangements, with such programs subject to six-monthly reviews and disbursements (see below). Delay in agreement on an annual program or in satisfactory completion of a review would delay disbursement of SDA resources. Delay beyond the end of a six-monthly period specified for a review would require agreement on a new annual program and would lead to a loss of the resources originally designated as available for that six-monthly period. This procedure would, nevertheless, still imply completion of the three-year arrangement within the period originally anticipated. Any resources lost to a country in this fashion would accumulate with other resources in the Special Disbursement Account. Such amounts would become available for recommitment, along with other uncommitted resources, on the basis of the annual recalculations or as a result of the substantive review of the facility.

The arrangements outlined above would attempt to balance the various uncertainties relating to the rate of use of the facility's resources, the merits of providing substantial financing to countries that qualify at an early stage, and the desirability of retaining scope for the facility to respond also to the needs of countries qualifying late. There would be incentives under this design for countries to qualify early and remain in continuous compliance with the conditions established for use of these resources. These incentives would include the possibility that, depending on the availability of uncommitted resources at the time of the substantive review of operations, such countries might qualify for new arrangements in a second round, leading to total financing from the facility for these countries in excess of the amounts in relation to quota indicated above.

IV. Programs to be Supported with Special Disbursement Account Resources

The deep-seated nature of the structural problems confronting many of the poorest countries suggests the need for a comprehensive approach to the resolution of these problems. Measures to restore or preserve financial stability will be necessary elements of such an approach. However, stabilization alone may well be insufficient to bring about a substantial improvement in a country's economy if structural impediments continue to inhibit the supply response in the economy. Adjustment will be the more protracted the weaker the ability of the economy to redirect in a flexible manner currently misallocated resources and to absorb idle resources into productive activities so as to restore growth. Thus, policies must be framed in such a way as to assure that resources are not inhibited in their movement to more productive sectors and that mechanisms exist to signal the appropriate redirection of such resources.

1. Structural adjustment

Efforts to substantially lessen structural impediments to growth are likely to require both strong initial measures, as well as a sustained effort over what may be a rather long period. As described in the previous section, it is proposed that SDA resources be reasonably firmly committed to countries for a period of three years in support of a policy program to extend over the same period. It is envisaged that a program of structural adjustment would be agreed covering the full three years, with the aims of such a program clearly defined and indicative targets--in quantified terms, wherever possible--specified to allow a monitoring of progress toward those aims.

The content of structural adjustment programs would be worked out in close collaboration with the World Bank (see Section VI) and would be expected to contain, inter alia, some of the following elements:

- a schedule for removing or correcting major disincentives or distortions. This might include action on the exchange rate--including, where appropriate, measures aimed at the unification of multiple rates--the introduction of a greater degree of market determination in prices and interest rates, and the liberalization of the exchange or trade system;

- measures aimed at eliminating the drain on the budget from the public sector by rationalizing its structure, including, especially, the reform of public enterprises to ensure that they contribute to the efficient mobilization and allocation of resources;

- specification of an investment program, which ensures its consistency with macroeconomic projections and the availability of financing, and the establishment of mechanisms or procedures for the assessment and approval of projects;

- reform of private investment approval mechanisms, including those related to foreign investment, where such mechanisms are judged to have inhibited the efficient allocation of investment resources.

Of course, programs would have to be tailored to the specific circumstances and problems confronting individual countries and additional elements may be appropriate in certain cases.

Under such programs, some reforms may be expected to be carried out at the outset. This could be the case when certain factors, for example the exchange rate or the exchange regime, are seen as so overwhelmingly obstructive to appropriate adjustment that rapid implementation of corrective measures is deemed necessary. In other cases, policy actions to improve structural elements in the economy may be phased to the implementation of necessary complementary measures. It might even be anticipated that some structural reforms--especially those requiring substantial institutional changes--might stretch over the entire program period or even beyond. The somewhat longer time horizon prescribed for use of SDA resources would encourage that priority be given to reducing administrative and institutional constraints that have been found to affect the choice and mix of policies in previous adjustment programs. The nature of such constraints may sometimes argue for a phased implementation of reform only after careful study to determine the preferred path and ultimate aims of such reform.

2. Financial programs

Annual financial programs would be incorporated into arrangements for the use of SDA resources. The aim would be to create a stable financial environment within which decision makers in both the private and public sectors can better plan productive activity. Such an environment would help ensure that economic rewards derive primarily from successful medium- to long-term investment activity, rather than from short-term speculative activity. Similarly, the signals to guide the productive reallocation of resources will be strengthened through policies conducive to financial stability.

Agreed financial programs would incorporate an array of macroeconomic instruments appropriate to the specific circumstances of each country requesting SDA resources, but including, as a minimum, fiscal and monetary measures framed within the context of the broader aims of policies sketched for the full three-year period. On the fiscal side, for example, annual programs would be expected to delineate in a more precise fashion the measures and the path by which the general aims of the comprehensive adjustment effort in the fiscal area were to be achieved. These might include tax reform, withdrawal of budgetary support for state enterprises, deficit reduction targets, and the like. Policy implementation would be monitored as in other Fund arrangements. Benchmarks would be established for major policy instruments and/or targets which would serve as a basis for semiannual reviews of performance under these financial programs. It would be expected that these benchmarks would be quantified to the fullest extent possible. The purpose of such benchmarks would be to provide clear indications to the member country of what would be expected in terms of financial policies to continue to receive semiannual disbursements under an SDA arrangement. It would be necessary to approach the definition and specification of these benchmarks, as well as the assessment of progress measured against them, in a pragmatic fashion. In addition to the financial program, where necessary, a commitment would be sought from the authorities to create or to improve the ongoing institutional capacity within the government for financial programming.

3. The catalytic role of SDA resources

In accord with the medium-term focus of these programs, it would be expected that the authorities would agree with the staff on external sector scenarios covering a period of about five years, with clearly identified financing requirements. In many cases it would be expected that exceptional financing might be required for an extended period before a sustainable external position compatible with acceptable growth rates and minimum restrictions could be achieved. The resources available from the SDA would provide some of the necesssary financing, but they are rather limited. Thus, use of these resources will be fully successful only if they catalyze a substantial flow of other resources on appropriate--most often, highly concessional--terms.

For the authorities and staff to design appropriate adjustment programs over an extended period, information on the financing likely to be available will be required. While recognizing that projected financing gaps will change throughout the course of a program, and that any widening of the projected gap would require either further adjustment measures or additional financing, relatively firm commitments at the start of programs would substantially enhance the policy planning process. As a minimum, projected financing gaps would have to be closed for at least the first year of the arrangement before approval of the use of SDA resources; for each of the subsequent years, financing would have to be confidently secured before approval of the second or third years of the arrangement, respectively.

Since these programs would deal with medium-term adjustment and focus on structural changes, and given the World Bank's importance as a channel of concessionary finance and its involvement in coordinating assistance from other donors in Consultative Groups, it is important for the Fund and the Bank to work together to ensure that overall assistance, including that made available through rescheduling and refinancing, is provided in a longer-term framework. The longer time frame of the arrangements for the use of SDA resources--including, as they will, policy commitments from the authorities and a commitment of resources from the SDA--should encourage donors and creditors to consider, if possible, refinancing, rescheduling, and other forms of debt relief for the full term of such arrangements. Such action on the part of donors and creditors would make a key contribution to the formulation and implementation of growth-oriented adjustment policies within a medium-term framework.

V. Some Operational Considerations

The staff has indicated in Section II of this paper the criteria that would be used to determine the presence of a protracted balance of payments problem in specific cases and has described, in a tentative fashion, the results of its first review of the situation of IDA-eligible countries in light of those criteria. At the time a member indicates an interest in being considered for use of these resources, the staff and management would review its situation in detail in light of the Board's guidance on these general criteria. Management would recommend to the Board approval of an arrangement to use SDA resources only in cases for which a protracted balance of payments problem has been identified and for which a balance of payments need in the usual sense was present. The continued commitment of resources for a period of three years would be contingent on periodic reviews of this need, generally to be carried out during the annual reviews of such arrangements. A significant improvement in a member country's external circumstances would create an expectation that the member might not request further immediate use of these resources.

1. SDA arrangements: members using Fund resources in the upper credit tranches

Some IDA-eligible countries will have arrangements for use of the Fund's general resources in place at the time a decision is taken establishing the terms and conditions for use of SDA resources. In such cases, if a request for access to SDA resources is received, the staff will be prepared to discuss that member's qualification and, if appropriate, the terms and conditions for an arrangement to use SDA resources during the first subsequent mission planned under that upper credit tranche arrangement. In cases for which that mission is a review mission, the financial program already agreed under the upper credit tranche arrangement would generally serve as the basis for that element of the SDA arrangement. The subsequent annual program for the SDA would be negotiated in concert with the next stand-by arrangement or the next annual program under an extended arrangement so as to be concurrent with those programs. In these cases, the performance criteria specified under the stand-by or extended arrangement could serve as the benchmarks for monitoring progress under the financial program component of the SDA arrangement. Upon expiration of arrangements in the upper credit tranches, separate programs for use of SDA resources would have to be agreed.

For those cases in which structural elements have been particularly featured as part of a stand-by arrangement and in which there is a history of deep involvement of the World Bank, the main elements of a program needed to qualify for use of SDA resources may already be in place. In such cases, it may be necessary only to describe in somewhat greater detail the medium-term aims of ongoing structural reforms so as to establish a basis for monitoring progress toward those aims during the period of the SDA arrangement. In many cases, however, a program for use of SDA resources would be expected to feature, somewhat more explicitly than would a program under a stand-by arrangement, certain structural and/or institutional elements that may take a longer period to see to fruition. In such cases, a complementary program describing the structural component of policies will have to be agreed with the member country, in addition to the policies agreed under the upper credit tranche arrangement.

These considerations suggest that separate arrangements would be presented to the Board for its consideration on any request to use SDA resources. This would also be appropriate since the time frame for such a program would likely extend beyond that of an operative stand-by or extended arrangement. For members using resources in the upper credit tranches, it would be expected that the Board would generally consider a request to use SDA resources at the same time that it discussed the upper credit tranche arrangement.

2. SDA arrangements: members not simultaneously using the <u>Fund's general resources in the upper credit tranches</u>

If an eligible country is not likely to request use of the Fund's general resources, or if such use is deemed inappropriate because of uncertainties associated with a restoration of medium-term viability in the external accounts over a time horizon appropriate to the use of such resources, or because of previous prolonged use of those resources, a separate request may be made for use of SDA resources. 1/ In such a case, the request will need to be accompanied by an agreement specific to the use of those resources. All such programs will contain policy commitments to address the critical structural problems confronting the country as well as annual financial programs which are sufficiently quantified to permit the required semiannual reviews of progress under

1/ Among other situations, countries not in a position immediately to satisfy the data requirements for formulating and monitoring a program for use of resources in the upper credit tranches may, for some time, avail themselves of access only to SDA resources.

these programs. It would be expected, however, that the very implementation of such programs may make it feasible, in certain cases, to agree to programs appropriate to the use of the Fund's general resources at some later stage.

3. Prolonged users

In the case of some prolonged users of Fund resources, repeated adjustment programs have not eliminated payments problems. This facility would provide a new Fund-related source of financing in cases where, because of prolonged use of Fund resources, there may be little scope for further use of the Fund's general resources and would thus facilitate a continuation of an active Fund role in supporting these members' adjustment efforts. Many of these members have obligations to the Fund over the next few years that are large relative to quota and are a significant factor in their overall debt service profile. The timely settlement of obligations by these members will be facilitated by the implementation of effective adjustment programs that hold the prospect of restoring growth. This adjustment effort, in turn, needs to be supported by complementary financing on appropriate terms from sources besides the Fund. Thus, it would be hoped that arrangements for the use of SDA resources, whether or not in concert with use of the Fund's general resources, will assist members both in defining and implementing the policies necessary to establish the conditions for a revival of growth, but also in eliciting the support of donors--both financial and technical--required to support these efforts.

4. Members with overdue obligations to the Fund

For countries in arrears to the Fund, it would be particularly important not only to ensure that the arrears were eliminated, but also to structure programs and associated financing in such a way as to assure to the maximum possible extent that the member would remain current in the future. Policies as regards access to SDA resources for countries with overdue obligations to the Fund would follow the lines established for access to the Fund's general resources. While the particular circumstances of each case may differ, in general the resources potentially available under the new arrangement could play an important catalytic role. For example, as in some recent instances of members in arrears to the Fund, the staff would assist the member in formulating policies that could provide a basis for obtaining financing from other sources, which would enable the member to become current with the Fund and open the way for agreement on a program qualifying for use of the resources of the SDA. Particular importance would be attached to the member remaining current during the period of the program. These considerations would influence decisions on the use of the Fund's general resources in concert with SDA resources and would affect the conditionality applied in such cases. Any new arrears would lead to a suspension of disbursements under an arrangement and to consideration being given to the application of more stringent requirements if disbursements were to be renewed.

5. Terms and conditions of SDA funding

The Interim Committee has indicated that SDA resources should be provided on concessional terms similar to those applied to loans from the Trust Fund. In light of this guidance, and the medium-term structural nature of the programs to be supported with such resources, it is proposed that the terms and conditions of loans from the SDA be the same as those on Trust Fund loans. Thus, repayments would be in ten equal semiannual installments, beginning not later than the end of the first six months of the sixth year and completed at the end of the tenth year following disbursement. Interest would be charged at the rate of one half of one percent per annum on the outstanding balance of a loan and would be paid in semiannual installments.

VI. Fund-Bank Collaboration

The use of SDA resources will be in support of comprehensive economic programs designed to restore balance of payments viability through the promotion of structural adjustment and growth in a medium-term framework. The programs will contain macroeconomic elements, such as the reduction of internal and external imbalances through appropriate monetary, credit, fiscal, and exchange rate policies, complemented by supply-side, structural elements including, as appropriate, adequate sectoral pricing policies, rehabilitation of state enterprises, and reduced reliance on protection.

Given the clear need for greater emphasis on structural adjustment in the countries qualifying for use of SDA resources, it is important that in the design of the comprehensive adjustment programs, the Fund collaborate closely with the World Bank in line with the principles laid out by the Executive Board in its last discussion on Fund-Bank collaboration in November 1984. It will be important for development financing plans of all donors and creditors, including the World Bank, to be fully incorporated into the design of programs for structural adjustment. Greater efforts to improve the coordination of such assistance need to be encouraged. Since the Bank is likely to be one of the major creditors in the countries eligible to use SDA resources, detailed information on its loan commitments to a country will be an important element of medium-term financing scenarios.

It is proposed, in the case of members utilizing SDA resources, to further enhance and strengthen existing procedures on collaboration between the two institutions, and to experiment with different modalities of cooperation with a view to more effective utilization of the respective expertise of each institution. The main elements of such a process of increased collaboration for members utilizing SDA resources would include the following:

(a) The process of consultation with the Bank staff--including exchange of information and views--would be on a continual basis beginning at an early stage of program preparation and proceeding through the various stages of program implementation.

(b) The Bank staff would be increasingly involved in Fund staff discussions with the authorities on use of SDA resources. Participation of Bank staff in Fund staff visits and in negotiating and review missions related to the use of SDA resources would be increased and made more systematic. Possibilities would be explored for more frequent Fund staff participation in Bank SAL and economic missions to the relevant members, so that Fund staff enhance their understanding of the various structural issues and the Bank's approaches to these problems.

(c) The Bank staff's advice would be sought, in particular, in the following areas of structural and institutional reform: (1) analysis of the public sector investment program based on assessment of individual projects included in the investment program as well as of potential projects; (2) sector pricing policies; (3) reform of market structures for key products; (4) certain aspects pertinent to the development of financial systems; (5) the system of tariff and nontariff protection; (6) the rehabilitation of public enterprises; and (7) other institutional rigidities in the economy. The two staffs will also cooperate in developing medium-term assessments of financing needs and prospective sources of financing.

(d) The Fund staff would request that the Bank staff provide, at an early stage of program preparation, the Bank's views on problems and issues in the structural areas identified above. To the extent possible, the Bank staff would be asked to specify concrete policy measures and mechanisms for implementing structural reforms that should be given priority in a program to be supported with SDA resources.

(e) The Bank staff views on structural reforms would be examined with a view to their integration within the macro framework developed by the Fund staff in conjunction with the authorities, in a manner which ensures internal consistency of the various components of the program. Thus, for example, the size of the public sector investment program must be consistent with the overall fiscal, credit, and external sector targets, and pricing decisions in major sectors must be formulated in the context of appropriate exchange rate policies. Bank staff would be given an opportunity to see how their views have been taken account of in the formulation of programs to be discussed with the member country. This could be done, when appropriate, through the sharing with Bank staff of draft Fund mission briefing papers. At that stage, an effort would be made to secure agreement from Bank staff on the approach to be taken on the structural issues to be addressed in the program. In certain cases, coordination on this front may be implemented through parallel operations in which the Bank addresses the major structural issues in connection with a SAL or with a sectoral adjustment loan. It would be expected that in such cases the elements of the programs under

Bank and Fund lending operations would be fully consistent and mutually supportive. However, in cases where the Bank does not concurrently have operations of the kind described above in a country that has requested SDA resources, it would be expected that certain structural measures to which the authorities are ready to commit themselves would be incorporated into the SDA arrangement. This would be done to the fullest extent possible with the agreement of the Bank.

(f) The Fund staff may experiment with the inclusion of special sections or annexes on structural policies in the papers associated with requests for use of SDA resources. These would be prepared with the assistance of Bank staff. In any case, the Bank staff would be provided with the opportunity to comment on all draft Fund staff papers for the Board on the member's request for SDA resources so that the Fund Board will be informed of the Bank staff's views on the structural elements of the program. Moreover, consistent with the practice that has evolved in the last year or so, it is expected that a Bank staff representative would normally be invited to attend Fund Board meetings on requests for SDA resources and the periodic reviews of programs under such arrangements.

(g) Given the emphasis on structural adjustment in SDA programs, some overlap in policy focus in the program content of SDA arrangements and the Bank's lending programs is inevitable. In the design of concrete policy measures for SDA programs, in accord with current practice, the staff would take into consideration the specific conditional policy actions already included in the Bank's structural adjustment lending and sectoral lending programs. The aim will be to provide for complementarity and consistency of policy advice and program actions.

Many of these proposals would add new dimensions to collaboration between the Bank and the Fund and would emerge in concrete form only as experience was gained by the two institutions. These proposals are currently being discussed with the Bank to develop operating procedures that will make them effective.

VII. The U.S. Proposal for Joint Fund-Bank Programs

1. The main elements of the U.S. proposal

On the occasion of the Executive Board discussion on the use of resources of the Special Disbursement Account arising from the termination of the Trust Fund, the U.S. Executive Director proposed development of joint Fund-Bank programs to be supported by the use of SDA resources and funds from the World Bank (Buff 85/161, 9/13/85). Subsequently, at the Interim Committee meeting in Seoul on October 6, the U.S. Treasury Secretary called for a joint approach by the Fund and the Bank to address the difficulties of the poorest countries confronting protracted balance of payments problems. 1/ The U.S. Treasury Secretary's statement indicated that the United States would be prepared to consider a bolder approach involving more intensive IMF and World Bank collaboration to provide a framework for development of unified, comprehensive economic programs, and to catalyze additional financing in support of such programs. This approach was suggested to help ensure that the institutions provide sound, mutually consistent advice on the full range of policies that can be used to attack poverty and promote growth. It was recognized that some members may have reservations about such an approach on grounds that it could be complicated and difficult to implement. While agreeing that it would not be an easy approach to put into place, the U.S. Treasury Secretary felt that it should be explored as it offered substantial possibilities for helping the poorest countries and for strengthening the ties between the Fund and the Bank, and hoped that further consideration could be given to it in the months ahead.

The U.S. proposal envisaged the provision of resources over the period 1986-1991 aimed at the poorest (IDA-eligible) countries which are confronting protracted balance of payments problems and are willing to implement a comprehensive growth-oriented economic program. The resources would come from (a) the Fund's Special Disbursement Account (initial estimate of SDR 2.7 billion); (b) IDA VII and IDA VIII nonproject lending; and (c) IBRD net income and lending. In addition, it is envisioned to associate existing bilateral aid as well as new, additional bilateral funds with the above Fund and Bank resources. The United States was prepared to consider seeking additional bilateral funds if other donors are also prepared to make equitable contributions.

The above resources would be in support of comprehensive economic programs containing both macroeconomic and structural elements similar to the program policy content envisaged by Fund staff in the case of use of SDA resources. The macroeconomic elements would be those typically included in Fund programs plus some increased Fund emphasis on structural and institutional reforms. The structural elements would include such matters as appropriate sectoral pricing policies, growth-oriented tax reform, financial reform to mobilize domestic savings and stimulate investment, reduced government intervention in the economy, promotion of the private sector and improvement of efficiency of state enterprises, trade liberalization, and measures to make foreign direct investment more attractive.

The United States, under this proposal, envisaged that the macro and structural elements would be contained in a single program developed and negotiated by joint Fund-Bank staff teams with the concerned member. Fund and Bank staff would prepare a single, joint document for nearly simultaneous consideration and endorsement by the Fund and Bank

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1/ Statement by Secretary of Treasury, James A. Baker, III at the IMF Interim Committee meeting on Use of Trust Fund Reflows, October 6, 1985.

Boards. Each Board would approve use of the resources under its own jurisdiction. Disbursements would be phased in line with program implementation which would be spread over several years. To monitor progress in implementation, quantitative targets and qualitative objectives would be specified in the joint program, which would be evaluated in a flexible and qualitative way in the context of semiannual reviews by both Boards. Approval of the joint program and/or successful completion of the review by the two Boards would trigger disbursements of Fund and Bank resources and associated bilateral aid.

2. Some implications of the U.S. States proposal

Implementation of the U.S. proposal would require decisions and the adoption of certain procedures at the Board and staff operational levels. The two Boards would need to endorse the concept of joint programs, determine the form and extent of linking of resources, and the disbursement and other mechanisms to achieve this. Within the total pool of resources, for resources under their respective jurisdiction, each Board would need to decide upon the amount, purposes, time period, and criteria for eligibility and use of the relevant resources, and the potential access of individual members. The phased disbursements of resources from the two institutions presumably would be linked in some fashion specified in the joint program document. There would need to be mutual agreement between the two institutions on a common list of potential users based on similar and mutually consistent criteria. Consideration of joint programs and reviews of the implementation of these programs by the two Boards would need to be scheduled simultaneously or at least very closely together. Procedures would need to be instituted to deal with the eventuality that the joint program is endorsed by one Board but not by the other. Joint programs imply that collaboration must also increase between Bank and Fund Executive Directors for purposes of harmonized and consistent views.

Decisions on disbursements of bilateral aid associated with the joint programs would be a matter for individual donors rather than for the Bank or the Fund. However, since the joint program would be formulated on the basis of an assessment of balance of payments needs and the prospective availability of financing, it would be expected that donors would make every effort to live up to commitments in order to avoid the emergence of unfilled financing gaps which could jeopardize program implementation. The Boards of the Bank and the Fund might want to consider whether other mechanisms to assure disbursement of bilateral assistance in concert with resources committed by the Bank and the Fund may be desirable.

At the staff and management levels, there would need to be a close association between the two institutions at each stage of program formulation and follow-up. While this principle is also envisaged by the staff in the formulation of SDA programs, the U.S. proposal on joint programs would go considerably further and would imply a significant extension of present procedures and practices on collaboration. It would require the two staffs to share responsibility on the determination of the size, composition, and timing of joint missions, and of the selection of the mission chief(s). It would presumably also entail preparation of joint briefs and joint debriefs to Fund and Bank management, the joint preparation and negotiation of the letter of intent with the authorities, and the joint drafting of the staff report for the two Boards. To make such arrangements feasible, the authorities would need to be willing to share highly confidential information with both staffs and accept wider circulation and discussion of the program documents.

VIII. Subsequent Procedures

On the basis of guidance provided by the Board on the major elements of the proposals contained in this paper, the staff would proceed to draft the necessary decision. It would be expected that such a draft, together with a paper elaborating details of the facility's operations, could be put before the Board for its consideration by mid-March 1986. Adoption of a decision at that time would permit operation of the facility to begin shortly thereafter.

Trust Fund: Termination and Transfer of Resources to Special Disbursement Account

1. Having conducted the review specified in Section II, paragraph 4(d) of the Instrument to establish the Trust Fund attached to Decision No. 5069-(76/72), of May 5, 1976 (hereinafter called the Trust Instrument), the Fund, as Trustee, decides with effect from the date disbursements under loans from the Trust Fund are completed, that the payment terms of such loans from the Trust Fund will not be changed, provided, however, that if the Trustee finds that repayment of an installment on the due date would result in serious hardship for the borrower the Trustee may reschedule the repayment to a date not later than two years after the date such repayment was originally due.

2. (a) The Fund, as Trustee, decides that the Trust Fund shall be terminated as of April 30, 1981 or the date on which disbursements under Trust Fund loans are finally completed, whichever is the later. After that date, the activities of the Trust shall be confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs.

(b) The resources of the Trust Fund held on the termination date or subsequently received by the Trustee, except those resources still being held for distribution to members or required to satisfy the liabilities specified in Section V, Paragraph 2 of the Trust Instrument, shall be transferred, as expeditiously as possible, to the special disbursement account in accordance with Section V, Paragraph 2 of the Trust Instrument.

(c) Nothing in this paragraph 2 shall limit the authority of the Trustee, either before or during the winding up of the Trust Fund, to reschedule loan repayments in cases of serious hardship as provided in paragraph 1 above.

3. (a) From the resources received in the special disbursement account of the Fund pursuant to paragraph 2(b) above, the Fund shall make available an amount equivalent to SDR 750 million for use in the Supplementary Financing Facility Subsidy Account (hereinafter called the Subsidy Account). Such amount shall be transferred to the Subsidy Account as provided in Section 4 of the Instrument establishing the Subsidy Account.

(b) 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.

Decision No. 6704-(80/185)TR
December 17, 1980