FOR AGENDA

EBS/85/183

CONFIDENTIAL

August 6, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Use of Resources of the Special Disbursement Account Arising from Termination of the Trust Fund - Preliminary Considerations

There is attached for consideration by the Executive Directors a paper on the use of resources of the Special Disbursement Account arising from the termination of the Trust Fund. Topics for discussion appear on pages 19 and 20.

Mr. G. G. Johnson (ext. 8779) or Mr. Coats (ext. 8249) are available to answer technical or factual questions relating to this paper prior to the Board discussion, which is scheduled for Wednesday, September 4, 1985.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Use of Resources of the Special Disbursement Account Arising from Termination of the Trust Fund--Preliminary Considerations

Prepared by the Exchange and Trade Relations, Legal and Treasurer's Departments

(In consultation with other departments)

Approved by C. David Finch, George P. Nicoletopoulos, and David Williams

August 6, 1985

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Use of Resources of the Special Disbursement Account Arising from Termination of the Trust Fund--Preliminary Considerations

I. Introduction

The communiqué following the April 1985 meeting of the Interim Committee reported that "the Committee requested that the Executive Board, in the light of its 1980 decision, consider the use of the resources that will be available following repayment of loans that have been made by the Trust Fund, to help forward the adjustment process by providing assistance to low-income developing countries, and that the Managing Director report to the Committee on this matter by the time of the next meeting of the Committee in Seoul." This paper is intended to serve as a basis for preliminary consideration by the Executive Board of the general issues involved. The Managing Director's report to the Interim Committee on the outcome of the Executive Board's consideration will be discussed at the October 1985 meeting of the Committee. Taking into account the results of that discussion, detailed proposals could be developed for consideration by the Executive Board with a view to decisions and implementation in the course of 1986.

Under the Fund's Articles of Agreement, 1/ the assets that become available as a result of the termination of the Trust Fund (which include the resources derived from repayments of, and interest on, Trust Fund loans) must be transferred to the Special Disbursement Account, which is one of the three Accounts of the Fund's General Department. Acting pursuant to Article V, Section 12(f)ii, the Executive Board decided in 1980 2/ that the assets accruing to the Special Disbursement Account as a result of the termination of the Trust Fund, which are expected to total some SDR 3.1 billion, 3/ should be used for the following purposes:

1. Up to SDR 750 million is to be used for the purposes of the Supplementary Financing Facility Subsidy Account. The resources available to the SFF Subsidy Account are now estimated to be sufficient to meet the account's obligations in full, and transfers of Trust Fund reflows to the account have been terminated. The amount of reflows actually transferred to the account totaled (net) SDR 0.4 billion.

2. SDR 1.5 billion is to 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 of the Trust Fund. To carry out the intentions incorporated in

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1/ See Schedule B, last sentence.
2/ See paragraph 3(b) of Decision No. 6704-(80/185)TR, December 17, 1980, which is reproduced in Annex I.
3/ Trust Fund loans amounted to SDR 2,991 million, and interest on the loans is estimated to amount to SDR 116 million.

Decision No. 6704 (the termination decision), the Executive Board must decide on the precise arrangements under which the use of these assets will take place. If, as envisaged in that decision, these arrangements are "similar" to those of the Trust Fund, the relevant decision of the Board could be taken by a simple majority of the votes cast. 1/

3. The remainder (which in light of the net amount actually transferred to the SFF Subsidy Account is currently estimated at about SDR 1.2 billion) is to be used to provide assistance to low-income developing members in accordance with the second sentence of Article V, Section 12(f)(ii) under a decision of the Fund to be taken not later than June 30, 1986. That clause of the Articles provides that ". . . balance of payments assistance may be made available on special terms to developing members in difficult circumstances, and for this purpose the Fund shall take into account the level of per capita income." If no such decision is taken by June 30, 1986, the "remainder" is to be used on the same terms as the SDR 1.5 billion referred to above. It is evident that the uses and the terms for use of the "remainder" need not, but could be, different from those applying to the SDR 1.5 billion.

Total receipts of Trust Fund repayments and interest that are estimated to become available, after deducting the amount already transferred to the SFF Subsidy Account, amount to SDR 2.7 billion. 2/ These receipts are expected to amount to SDR 231 million by the end of 1985, and to average SDR 535 million per year during the period 1986-89. Repayments are scheduled to be completed in 1991. Annex II provides information on projected receipts on a semiannual basis through the last scheduled payments in April 1991. There is some uncertainty regarding the timing of receipts, in view of the possibility that some members might fail to meet their Trust Fund obligations on time. 3/ As of July 31, 1985, overdue Trust Fund obligations amounted to SDR 39.1 million. This amount is included in the calculations of resources that will be available.

To provide background for the Board's consideration of the issues involved, this paper begins with a brief review of the experience with the Trust Fund. (A more detailed review of that experience is provided

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1/ Otherwise, this decision, like other decisions under subsection (f)(ii), would need a majority of 85 percent of the total voting power. The adoption of rules and regulations for the administration of the Special Disbursement Account requires a 70 percent majority of the total voting power.

2/ This amount does not include earnings on investments of the resources held in the Special Disbursement Account pending their use.

3/ Moreover, the termination decision, provides 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." To date, no rescheduling has been approved.

in Annex III.) It goes on to present some general considerations relating to the types of new arrangements which could be envisaged in light of the 1980 decision. This is followed by consideration in general terms of possible modalities for a new arrangement (framework, eligibility, terms, and issues relating to conditionality).

II. The Experience with the Trust Fund

1. Background and modalities

Concern over the situation of the poorest developing countries led to the establishment of the Trust Fund in 1976. The sharp deterioration in the terms of trade of oil importers associated with the first round of oil price increases and slower growth in the industrial countries meant that most of the poorest developing countries were facing severe balance of payments problems. The prospect at the time of the Trust Fund deliberations was for a somewhat lengthy period of slow growth. Unlike other developing countries, the poorest countries had only very limited access to capital markets and the especially difficult circumstances they faced suggested that the financing they received under a trust-type arrangement should be provided on concessional terms. Moreover, the Fund's oil facilities that had assisted in "recycling" in the period immediately following the 1973-74 increases in oil prices were about to be terminated. To quote from the report of Executive Directors that recommended creation of a Trust Fund, ". . . there is a widespread view among the Executive Directors of the Fund that the low-income developing countries have a need in the next two or three years for additional concessional financing for balance of payments purposes which cannot be met within the existing framework of the Fund." 1/ This purpose was reflected in the decisions taken regarding the form, eligibility, conditionality, and terms for the assistance to be provided by the Trust Fund.

It was agreed at an early stage of the discussions that led to the establishment of the Trust Fund that the new facility would provide balance of payments assistance rather than longer term development financing. A requirement of balance of payments need, identical with that required for the use of the Fund's ordinary resources, was incorporated in the Trust Fund's provisions. The Trust Fund's resources were to be disbursed to qualifying members within each of two periods of two years duration in proportion to qualifying member's quotas as of December 31, 1975, subject to a limitation on disbursements to a particular member to the extent of the member's need. The member's need was assessed at the time the member's program was considered, and the amount of loans received by the member could be reduced on the grounds

1/ "Special Trust Fund," EBD/75/108, (Rev. 3), 5/29/75.

of a reduced balance of payments need only if there were a subsequent re-examination on the grounds that the member's circumstances were determined to have changed substantially.

Assistance was to be provided in the form of ten-year loans bearing an interest rate of 1/2 of one percent. The basic criterion for eligibility was per capita income, 1/ and the income limit chosen was similar to the upper limit for consideration of eligibility for IDA; for the second period of the Trust Fund, in fact, the income limit was exactly that of IDA.

It was also agreed that access to the resources of the Trust Fund would be conditional upon the adoption by a country of a medium-term program of economic adjustment. There was considerable debate about the degree of conditionality to be applied in connection with Trust Fund loans. While a variety of factors influenced the final outcome of the debate, it is important to note that at that time there seemed to be good prospects for an improvement in the global economic situation that would have a favorable effect on the eligible countries in the medium term; given the availability of concessional financing in the mid-1970's, the immediate emphasis thus tended to be more on financing than on adjustment. Insofar as the external environment was not expected to return fully to the favorable configuration of the 1950s and 1960s, however, there was clearly some need for adjustment.

Ultimately first credit tranche conditionality was agreed as the minimum standard for Trust Fund loans. Members' programs were not to be reassessed during their 12-month life; however, the Trust Fund Instrument provided that "In considering a request for assistance in the second period . . . the trustee shall take into account the progress made by the member toward strengthening its balance of payments position under a program in the first period." For each of the two periods of the Trust Fund, eligible members could qualify either on the basis of a stand-by or extended arrangement or a credit tranche purchase in support of a program, or on the basis of a 12-month program that met the standards of first credit tranche conditionality. The period covered by such a program had to fall "predominantly" within the relevant period of the Trust Fund, although this requirement was relaxed subsequently to require simply that the program fall "partly" within the second period of the Trust Fund.

2. Operations

The Trust Fund was established in May, 1976 and lent a total of SDR 2,991 million to 55 low-income developing countries between January 1977 and March 1981. Its lending activities were divided into two periods, July 1, 1976 through June 30, 1978 and July 1, 1978 through

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1/ An exception was Guatemala, which was added to the list of eligible countries following a severe earthquake in 1976.

February 28, 1981. Part of the profits from the sale of 12.5 million ounces of gold were available for loan disbursements in each of the two periods. The amounts disbursed were SDR 841 million in the first period and SDR 2,150 million in the second. Disbursements were larger in the second period because of the large increase in available resources following the rise in gold prices during the last 12 months of the gold sales program.

Sixty-one members were eligible in each period, though the composition of the list of eligible members changed slightly between the two periods. A few of the eligible countries (particularly oil exporters) did not meet the basic requirement of balance of payments need, but virtually all the rest were suffering from the serious worsening of their terms of trade noted above, and few had access to capital market finance. In the first period loans were actually disbursed to 43 members, and in the second period to 53 members. Of those that did not make use of the Trust Fund, most had balance of payments surpluses in the relevant periods. Only in a few cases was the member unable to present an acceptable program, and some of these were cases where the Fund did not have any significant contact with the member. Of the 96 programs that qualified during the two periods, 31 did so on the basis of special Trust Fund programs; 65 qualified on the basis of programs for use of the Fund's regular resources, of which 20 related to upper credit tranche stand-by arrangements and 9 to the extended Fund facility.

For all eligible members that qualified, the assessed need at the time the program was agreed was in excess of the amount the country was expected to receive from the Trust Fund in the period concerned. There were no re-examinations of need, and the provision limiting disbursements to the extent of a member's need did not, in practice, constrain the amount received by any member. Thus all funds were disbursed in proportion to qualified members' quotas.

3. Some conclusions

As a result of the rise in the price of gold during the second period of the Trust Fund, the resources of the Trust Fund in that period were larger than had been anticipated, but the second round of oil price increases meant that the need for balance of payments finance was also larger. Given the further deterioration of the terms of trade resulting from the second round of oil price increases and the subsequent sharp and prolonged global recession, the adjustment that was undertaken by most countries that received Trust Fund assistance proved, in retrospect, to have been inadequate.

In the first period, of 21 countries whose programs were reviewed in companion papers to those proposing disbursements, the balance of payments outcome was better in 14 cases, worse in 6 cases, and as projected in 1 case. However, many of the improvements appear to have been short-lived. It was noted in one paper in mid-1978 that most of the 14 countries covered in an earlier discussion had experienced some loss of international reserves or incurred payments arrears in the period subsequent to the end of their first period programs. The paper went on to note that for three of the remaining countries their underlying balance of payments position remained weak, despite lower than projected balance of payments deficits. 1/ In the second period, of 43 programs that were reviewed, 18 showed a better balance of payments outcome than was projected, 21 were worse, and in 4 cases the actual outcome approximately matched the projected outcome.

A few countries, such as China and India, did pursue policies that led to high growth rates and viable payments positions. For some countries at the upper end of the low-income spectrum, such as Morocco and the Philippines, there was a reliance on commercial bank credits that in retrospect (particularly in view of the sharp rise in real interest rates) was clearly excessive. However, adjustment processes are now under way in some of these countries that are expected to lead to viable balance of payments positions within the normal time frame of use of the Fund's regular resources. For most of the poorer Trust Fund recipients, however, resolution of their economic difficulties seems even further away than it was at the time the Trust Fund began operations; this is brought out in the next section. Where the resources of the Trust Fund were used without significant adjustment, in fact, the operations of the Trust Fund have been associated with increased external debt service requirements, but without a commensurate increase in ability to service debt.

III. Use of Resources Accruing to the Special Disbursement Account--General Considerations

As was the case ten years ago, there is a widespread view that many of the poorest members of the Fund are in need of concessional balance of payments financing with maturities considerably longer and charges considerably lower than is compatible with the framework of the Fund's regular resources. There are, however, a number of important differences between present circumstances and those prevailing at that earlier time.

1. The protracted deterioration of the situation of the poorest countries

Most developing countries have experienced serious economic problems in recent years, but for many of the poorest countries the difficulties have been particularly severe. Table 1 presents a variety of economic indicators for indebted developing countries. For illustrative purposes, it classifies countries broadly in line with the World

1/ TR/78/32, "Information Concerning Trust Fund Borrowers," June 12, 1978, p. 1.

Table 1. Indebted Developing Countries: Selected Economic Indicators 1/

	Middle income countries	Low income countries 2/ Total	Less credit-worthy very low income 2/	Other small countries 3/
Number of countries	58	65	45	18
Median per capita income (1983; US$)	1,865	310	280	655
	(Average annual change, 1977-84 (percent))			
Real GDP	3.2	4.7	1.8	2.8
Real GDP per capita	1.1	3.1	-0.2	1.1
Exports				
Value	12.2	7.4	2.8	5.9
Volume	7.1	1.9	0.2	-1.0
Unit value	4.7	5.3	2.6	6.9
Imports				
Value	8.7	9.2	6.0	7.0
Volume	2.7	4.1	1.6	1.7
Unit value	5.9	4.9	4.3	5.2
Terms of Trade	-0.9	0.4	-1.7	1.6
	(In billions of U.S. dollars)			
Current account				
1977	-26.9	-10.1	-5.3	-7.6
1984	-14.4	-24.2	-10.8	-12.7
Capital account 4/				
1977	29.8	13.1	6.1	6.8
1984	18.6	18.3	7.6	9.0
Official transfers				
1977	3.8	4.5	2.7	1.5
1984	7.0	6.8	4.2	2.1
External arrears (end-1984)	21.6	16.9	5.0	11.9
(Number of countries with external arrears)	(11)	(30)	(21)	(9)
	(In Percent)			
External debt/GDP				
1977	28.8	19.3	30.5	31.8
1984	42.0	26.6	49.9	44.2
Debt to official creditors/GDP				
1977	6.0	11.6	22.6	15.8
1984	8.6	15.2	41.3	18.9
Debt service ratio 5/				
1977	15.7	11.3	14.0	11.5
1984	26.9	23.3	36.0	29.6
Gross reserves/imports				
1977	35.3	37.6	32.4	31.2
1984	31.7	29.4	15.4	17.7

Source: World Economic Outlook data base.

1/ Countries included are those in the WEO's category "Indebted Developing Countries."

2/ "Low income" countries are listed in Table 2. "Less-creditworthy very-low-income" countries are those indentified as "IDA" in Table 2, other than Solomon Islands, Vanuatu, and Western Samoa.

3/ Excludes India and China. Note that while these two countries have very low incomes, by most measures their experience since 1977 has been more favorable than that of other low-income countries.

4/ Includes official transfers and excludes exceptional financing (rescheduling and/or external arrears).

5/ In relation to exports of goods and services and private transfers.

Bank's classification in relation to lending by IDA. It thus distinguishes between middle-income and low-income developing countries, with the dividing line set at a per capita income in 1983 of $790. This is the maximum per capita income for a country to be considered for eligibility for IDA lending. Countries that have low incomes by this criterion are listed in Table 2. Within the low-income group, Table 1 further distinguishes between very-low-income countries with no meaningful access to commercial sources of finance, and other countries; "very-low-income" is defined in this context as per capita income in 1983 of less than $550. The former group is almost identical to the World Bank's "IDA-only" group--that is, countries eligible to receive financing only on IDA terms because they do not have meaningful access to private financing and are not considered sufficiently creditworthy to receive even part of their World Bank financing on IBRD terms. "Other" countries are those that have per capita income levels between $550 and $790, plus those very-low-income countries that are considered creditworthy enough to qualify for a "blend" of IBRD and IDA financing. 1/ India and China belong to this subgroup, but because they would dominate the averages they are not included in it in the table.

In the aggregate, low-income countries have by many measures done as well as or better than middle income countries since 1977. 2/ This generalization is heavily influenced by the strong performance of India and China, but the "other small countries" in Table 1 have also generally done considerably better than the less-creditworthy very-low-income countries. The situation in many of the countries in this latter group has been characterized by protracted imbalances in both external and domestic accounts. 3/ Real output of these countries has grown, on average, by only 1.8 percent per year and has declined in per capita

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1/ In practice, only four countries above the $550 income figure are currently eligible for IDA. Solomon Islands, Vanuatu, and Western Samoa are considered "IDA-only," while Zambia is a "blend" country, eligible to receive part of its financing on IBRD terms. Some very-low-income countries are "blend" rather than "IDA-only": China, India, Kenya, Malawi, Pakistan, and Sri Lanka.

2/ 1977, the first full year of operation of the Trust Fund, was a relatively good year for the indebted developing countries, albeit characterized by unsustainably high current account deficits for many such countries. Economic growth in 1977 for the middle income countries was 7.4 percent, for the low-income countries 5.6 percent, and for the less-creditworthy very-low-income countries 4.4 percent.

3/ This wide diversity of experience contrasts with the experience in the 1970s when the events associated with the first round of oil price increases had a more uniform effect on low-income, non-oil producing countries. There is also considerable diversity of experience within the groups; most of the countries in the less-creditworthy very-low-income group have experienced declines in per capita income, for example, but a few have had substantial increases.

Table 2. Low-income Developing Countries 1/

Country	World Bank Status 2/	1983 Per Capita Income	Fund Quota 3/31/85
Papua New Guinea	IBRD	760	65.9
Nigeria	IBRD	770	849.5
Philippines	IBRD	760	440.4
Morocco	IBRD	760	306.6
Zimbabwe	IBRD	740	191.0
Ivory Coast	IBRD	710	165.5
El Salvador	IBRD	710	89.0
Egypt	IBRD	700	463.4
Honduras	IBRD	670	67.8
Solomon Islands	IDA	640	5.0
Vanuatu	IDA	640	9.0
Western Samoa	IDA	620	6.0
Zambia	Blend	580	270.3
Indonesia	IBRD	560	1,009.7
Guyana	IDA	520	49.2
Bolivia	IDA	510	90.7
Yemen Arab Rep.	IDA	550	43.3
Yemen P.D.R.	IDA	520	77.2
Lesotho	IDA	460	15.1
Liberia	IDA	480	71.3
Maldives	IDA	450	2.0
Mauritania	IDA	480	33.9
Senegal	IDA	440	85.1
Sudan	IDA	400	169.7
Pakistan	Blend	390	546.3
Sierra Leone	IDA	330	57.9
Cape Verde	IDA	360	4.5
Kenya	Blend	340	142.0
Sri Lanka	Blend	330	223.1
Ghana	IDA	310	204.5
Haiti	IDA	300	44.1
Djibouti	IDA	310	8.0
Sao Tome	IDA	310	4.0
Guinea	IDA	300	57.9
Benin	IDA	290	31.3
China, P.R. of	Blend	300	2,390.9
Gambia, The	IDA	290	17.1
Madagascar	IDA	310	66.4
C.A.R.	IDA	280	30.4
Togo	IDA	280	38.4
Rwanda	IDA	270	43.8
Comoros	IDA	260	4.5

Table 2 (concluded). Low-income Developing Countries 1/

Country	World Bank Status 2/	1983 Per Capita Income	Fund Quota 3/31/85
India	Blend	260	2,207.7
Somalia	IDA	250	44.2
Burundi	IDA	240	42.7
Niger	IDA	240	33.7
Tanzania	IDA	240	107.0
Uganda	IDA	220	99.6
Malawi	Blend	210	37.2
Equatorial Guinea	IDA	200	18.4
Burkina Faso	IDA	180	31.6
Burma	IDA	180	137.0
Guinea-Bissau	IDA	180	7.5
Nepal	IDA	160	37.3
Afghanistan	IDA	160	86.7
Zaire	IDA	170	291.0
Mali	IDA	160	50.8
Mozambique	IDA	150	61.0
Lao P.D.R.	IDA	140	29.3
Ethiopia	IDA	120	70.6
Bangladesh	IDA	130	287.5
Bhutan	IDA	125	2.5
Chad	IDA	85	30.6
Kampuchea	IDA	...	25.0
Viet Nam	IDA	...	176.8
Total			12,407.4

Sources: World Bank; and IMF staff estimates.

1/ Countries with per capita incomes in 1983 of $790 or less. Countries with incomes above this figure cannot normally be considered for eligibility for loans from IDA.

2/ Indicates eligibility for World Bank loans: IBRD-only, IDA-only, or blend. 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.

terms. External resources have not increased sufficiently to alleviate the situation--imports have grown in real terms by only 1.6 percent per year. Despite this slow import growth, the stagnation of export volumes and the persistent decline in terms of trade have led to a doubling of the deficit on current account for this group of countries. This has far exceeded the growth in available external financing (more than half of which takes the form of official transfers), with the result that the significant overall surplus enjoyed by such countries in 1977 has been eroded over time and the balance of payments is now in substantial deficit. Many of the countries have undertaken debt restructuring, and at the end of 1984 nearly half had external payments arrears. Despite the fact that most external financing for such countries is on concessional terms, external debt/GDP and debt service ratios have risen sharply over the period to reach, respectively, 50 percent and 36 percent, considerably higher than the corresponding figures for the other groups of countries. Meanwhile, the ratio of reserves to imports of goods and services has declined sharply to 15 percent, or less than two months' imports.

2. The bleak prospects for recovery

The latest World Economic Outlook forecast suggests that in the next two years the recovery in developing countries will be more broadly based than in the last year or two, when it was heavily concentrated in the higher income developing countries. However, the improvement in the situation of the poorest countries is expected to be marginal and, given the depth of their current problems, will leave them in circumstances that are still extremely difficult. 1/ Moreover, the baseline medium-term scenario suggests that in the remaining period up to 1990, the growth of imports, exports, and real GDP will all be substantially lower in such countries than in the others.

In general, there seems to be little prospect that such countries will return to balance of payments viability and satisfactory rates of economic growth in the foreseeable future. These prospects reflect the fact that with rapid population growth, inadequate infrastructure, and limited (for many agricultural countries, deteriorating) resource bases, the continuing economic recovery projected for the rest of the world is not expected to significantly alleviate the difficulties of these countries. In virtually all cases, prospects could be enhanced if strong and effective programs of financial and structural adjustment could be implemented; but the depth and duration of the economic problems have contributed to a fragility of the policymaking framework in some countries that limits the pace at which adjustment can be expected to take place.

1/ See the discussion in the World Economic Outlook of the prospects for the special categories, "small low-income countries" and "sub-Saharan Africa."

3. The severity of the external financing constraint

As noted above, the slow growth of imports by the poorest countries in recent years has reflected not only the weak performance of export receipts, but also the fact that net inflows of external finance have grown little, and in fact have been declining in real terms. The financing constraint is likely to remain severe in the future. Private capital flows to the poorest countries are likely to remain minimal, although for countries that succeed in implementing adjustment policies that put domestic assets on a competitive basis with overseas investments and restore confidence in prospects for the economy, potential inflows from remittances and other private sources, including trade credits, are not inconsequential. Nevertheless, as in the past, a major source of external finance will have to be official grants and loans. However, fiscal problems in industrial countries and in certain oil exporting countries are being reflected in severe limitations on the availability of new aid funds through both bilateral and multilateral channels. Annual commitments by IDA, for example, have declined from some $3.8 billion in 1980 to around $3.0 billion at present. To some extent, the impact of such limitations on the countries most in need of concessional assistance has been mitigated by a greater concentration of assistance on such countries. With respect to IDA, for example, about 15 countries, some of which are well below the IDA income limit, have been "graduated" to IBRD lending since 1975, and a number of other countries, including several of the largest borrowers from IDA, are being gradually shifted to IBRD financing. 1/ On the other hand, the sharp cutback in capital market lending to the higher income countries has resulted in some diversion of bilateral lending to these countries by donor countries, reducing funds available for the less-creditworthy poorer countries.

Another aspect of the financing constraint is that, unlike the situation when the Trust Fund was established, many of the poorest countries have already made substantial use of Fund resources. Over the last 10 years, 26 of the 45 less-creditworthy very-low-income countries have had upper credit tranche arrangements (Table 3), and several others have undertaken first credit tranche programs. Fund credit outstanding to these countries on June 30, 1985, including special facilities, amounted to 134.9 percent of quota, up from 59.7 percent at the end of 1975. Their repurchase obligations for regular resources and loan repayment obligations to the Trust Fund aggregate to SDR 4.7 billion. Moreover, countries within this group account for most of the arrears to the Fund.

1/ As noted earlier, with few exceptions, countries currently eligible for IDA financing (whether "IDA-only" or "blend") have 1983 per capita incomes below $550, substantially less than the notional upper limit of $790.

Table 3. Indebted Developing Countries: 1/
Fund Relations

	Middle Income Countries	Low Income Countries: Total	Low Income Countries: Less credit-worthy very low income	Low Income Countries: Other countries
Number of countries in group	54	65	45	18
Countries that were eligible for Trust Fund	9	55 2/	37	16
Trust Fund recipients	5	50	34	14
Countries with Fund arrangements in the upper credit tranches since 1976	27	41	26	14
Use of Fund credit as percent of quota				
December 31, 1975	34.8	56.7	59.7	56.9
June 30, 1985	142.9	110.6	134.9	120.0
	(In billions of SDRs; as of June 30, 1985)			
Total Quotas	14.9	12.4	2.9	4.9
Total access under current programs	10.1	1.7	0.6	1.1
Use of Fund credit	21.3	13.7	3.9	5.9
Outstanding under Trust Fund	0.2	2.5	0.8	0.8
Arrears on Fund-related obligations				
Fund	0.03	0.27	0.23	0.04
Trust Fund	--	0.02	0.02	--

Source: IMF Treasurer's Department.

1/ For definitions of country groups, see Table 1, footnotes 1-3.
2/ A number of low-income countries have joined the Fund since the Trust Fund was terminated.

The fact that so few of these countries have progressed toward balance of payments viability even though most have undertaken Fund-supported adjustment programs demonstrates both the intractability of their problems and the need for the Fund to be cautious in additional commitments of its regular resources in such cases. The monetary character of the Fund necessarily limits the commitment of its regular resources to situations in which structural problems are not so overwhelming as to cast serious doubt upon the medium-term viability of the external position of a country. Moreover, the already high and prolonged use of the Fund's resources would limit the Fund's ability to supply financing from its regular resources in a number of cases even if progress were being made toward adjustment. In such cases, the resources of the Special Disbursement Account could be used to encourage further adjustment and, at the same time, to increase both the means and the incentive to remain current with the Fund.

In this connection, however, it should be noted that the funds available from the Special Disbursement Account are considerably smaller in relative terms than the amounts that were disbursed by the Trust Fund. To put the availability of funds in perspective, the total nominal amount available from the Special Disbursement Account will be about 10 percent less than was available from the Trust Fund. Since the Trust Fund was established, however, imports of the low-income countries have almost doubled, while those of the less-creditworthy very-low-income countries have increased by 50 percent.

4. The need for adjustment

The fact that most of the poorest countries face bleak prospects even if the rest of the world experiences steady and relatively rapid growth, combined with the fact that the availability of external financing is likely to remain severely constrained for the foreseeable future, means that such countries cannot expect to achieve balance of payments viability over the medium term without structural adjustment. In conjunction with large amounts of concessional financing, such adjustment could result in more acceptable growth rates and faster progress toward external viability. Given the external financing constraints, however, for most countries the best that can be hoped for is gradual progress. Even that will require a restoration of conditions conducive to capital inflows, and strong financial discipline to constrain the current account deficit within the availability of financial resources in a way that does not further impair the countries' prospects by increasing distortions and diminishing production incentives.

5. Implications for use of the reflows

In contrast to the expectations regarding the prospects for the low-income developing countries at the time the Trust Fund was established, for many of the poorest countries today even a strong global economic recovery may be slow in fostering a return to balance of payments viability and a renewal of economic growth. This outlook suggests the need for a large increase in the flow of concessional assistance to such countries, both now and for the foreseeable future. However, at the present time there is no sign of that taking place.

The reflows from the Trust Fund can make a contribution toward filling the gap and, more importantly, could play a catalytic role in attracting additional concessional aid from other lenders. At the same time, however, the relatively small volume of financial resources available from the reflows from the Trust Fund suggests a need to focus them on the countries most in need of assistance. These resources also need to be focused on situations where they can be used most constructively. Thus, particularly close attention needs to be paid to the question of eligibility, taking into account the availability of other sources of funds to the countries concerned, and to the question of conditionality. At a minimum, prospects must be that there will be significant progress toward structural adjustment, with respect to which the World Bank will need to play a major role, and that financial policies will be consistent with acceptable rates of economic growth and progress toward balance of payments viability. The latter must also be sufficient to provide confidence that repayments to the Special Disbursement Account will take place within the maturity structure established for the new arrangement.

IV. Modalities

The general considerations set out above would seem to suggest that there should be little difference in application of the two types of possible arrangements mentioned in the 1980 decision described in Section I. With respect to the first type, under current circumstances, there is clearly great variation in the extent to which low-income countries need balance of payments assistance on concessional terms. It would be consistent with the spirit of the Trust Fund Instrument to limit its use to those members with the greatest need and the least access to alternative sources of finance. It is also consistent with the Trust Fund instrument to try to ensure that appropriate adjustment is undertaken and that there can be confidence of movement toward a viable balance of payments within the maturity framework of the arrangements. With respect to the second type, the considerations discussed above would also appear to be those most relevant to the question of providing assistance on special terms to developing members in difficult circumstances, taking into account the level of per capita income. It may therefore be appropriate for the Board to consider employing all funds resulting from the termination of the Trust Fund under a single arrangement. As noted, total resource availability would amount to some SDR 2.7 billion. 1/ As some SDR 500 million is expected to have

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1/ Interest earned on undisbursed balances in the Special Disbursement Account would increase this amount.

become available by around the middle of 1986, it would be reasonable to plan to begin making disbursements in the second half of next year.

1. Framework

Given the rapidity with which countries' circumstances change, the allocation of the available resources might most appropriately be based on periodic reviews, perhaps annual, that would consider both the total amount available and the members that were likely to be able to make constructive use of it. On this basis, a figure on maximum access in relation to quota could be determined. As members would qualify on the basis of programs that addressed the structural problems confronting their economy as well as the necessary macroeconomic measures to assure a stable financial environment for such adjustment, it might be appropriate to make a tentative commitment of funds for each member for a period of several years at the time the member qualifies. Actual disbursements would need to be linked to assurances that the resources available continued to be put to constructive use. If, for example, disbursements took place at six-month intervals, they could be linked to the reaching of understandings with the member on annual programs, or on progress with respect to programs. The need to reach such understandings might mean that the intervals between disbursements would sometimes be stretched out. 1/

2. Eligibility

Eligibility would be guided by the need to make sure that resources were directed to the countries most in need of concessional assistance. The first criterion for eligibility would be the level of per capita income, as was the case with the Trust Fund. As noted earlier, with few exceptions countries with per capita income in 1983 of more than $550 do not receive IDA financing, and some such figure might be chosen for the first period of operation. 2/

Among the countries with income levels below the upper limit, consideration could be given to limiting eligibility to countries that had experienced protracted balance of payments problems, that had a continuing need for additional financing on concessional terms and that

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1/ Perhaps delays in reaching understandings in relation to annual programs or reviews should not affect the ultimate amount available to the member under a multiyear arrangement; instead, such an event could result in an extension of the program period to provide further opportunities to secure access to the resources indicated under this arrangement.

2/ As may be seen in Table 3, the total quota of the less-creditworthy very-low-income countries is SDR 2.9 billion, slightly more than the prospective availability of resources from the Special Disbursement Account. For all low-income countries, the total quota is SDR 12.4 billion.

faced serious limitations on access to other sources of financing. This would imply both a lack of creditworthiness for external finance on commercial terms, and, of course, balance of payments need in the usual sense employed by the Fund. In terms of the classification used by the World Bank, this concept would limit eligibility to very-low-income countries that were "IDA-only."

Eligibility would need to be reviewed periodically. In this connection, the Board may want to consider whether provision should be made to allow consideration for countries in emergency circumstances to gain access to these resources even if not eligible by the criteria enumerated above.

3. Adjustment programs

As countries eligible for the new arrangements would be in need of structural adjustment, it would be appropriate for annual programs to be developed within a more extended framework of structural adjustment. Three years might be a suitable time frame. The Fund has particular expertise in some areas of structural adjustment, such as exchange rate and monetary policies, fiscal adjustment, and pricing policy (prices of food crops would be particularly important in many of these cases). The overall framework for structural adjustment would of course need to be developed in close coordination with the World Bank, which would, as usual, provide guidance on the appropriateness of, for example, the country's investment program.

To ensure steady progress in the direction of a viable balance of payments within the structural adjustment framework, supporting financial policies would need to be developed. In view of the severity of the adjustment problems involved, progress toward balance of payments viability might in some cases take somewhat more time than under programs for use of regular resources. The financial programs involved, however, would be broadly similar to those developed for use of the Fund's regular resources. This might imply linking the first disbursement each year to approval of an annual program and subsequent disbursements during the year to observance of performance criteria. Alternatively, the more gradual adjustment involved and the degree of uncertainty regarding the response of the economy to more substantive structural adjustment measures required in the particular circumstances of eligible countries might suggest linking the subsequent disbursements to program reviews rather than to performance criteria. Under this alternative, disbursements could take place semiannually. In the middle of each program year, progress under the program would be reviewed in relation to the objectives and policy intentions set forth in the program, both of which would be quantified to the extent possible. The possibility of varying the nature of program monitoring according to the circumstances of the country is discussed below.

Besides coordination with the World Bank on the structural adjustment framework, it clearly would also be desirable to work jointly on the provision of financial assistance to the member country. Given the limited amount of resources available from the Special Disbursement Account, financial support by the Bank for the country's process of structural adjustment would be important, and, in general, additional infusions of financial resources from programs under IDA or the Sub-Saharan African facility would be helpful. Other lenders, both multilateral agencies and bilateral donors, could also be encouraged to provide financing to complement disbursements under the new arrangements.

4. Relationship to use of the Fund's regular resources

Members that qualified for use of the resources of the Special Disbursement Account would, prima facie, have the balance of payments need that is a requirement for use of the Fund's regular resources. Those members that can fully meet the standards that apply to use of the Fund's regular resources in the upper credit tranches should be encouraged to do so. Where the guidelines on access implied that a member could still have substantial access to the Fund's regular resources, the new arrangements could thus be seen as additional to those resources. The availability of funds from the Special Disbursement Account and from associated lenders would enhance the chances for success of a stand-by or extended arrangement, which in turn would help to ensure, and in fact accelerate, the process of structural adjustment. Provided the stand-by arrangement was developed within an acceptable framework of structural adjustment, approval of an annual program or completion of a midterm review could automatically qualify the member for disbursements under the new arrangement.

For prolonged users, however, there may be little or no scope for use of the Fund's general resources if their previous record of adjustment is such as to call into question the temporary nature of their use of additional resources from that source. In these cases, resources from the new facility could provide a means for the Fund to support the member's adjustment efforts at a time when its access to the Fund's regular resources is constrained. As the need to ensure the revolving character of the Fund's resources could well require stronger assurance of rapid progress toward balance of payments viability than in other cases, consideration might be given to requiring performance criteria in such cases, whether or not they were applied more generally.

In the case of members in arrears to the Fund, it would be particularly important not only to ensure that the arrears were eliminated but also to obtain assurances that the member would remain current in future. While the particular circumstances of each case may differ, in general the resources potentially available under the new arrangement could play a particularly important catalytic role. For example, as in some recent instances of members in arrears to the Fund, it could be envisaged that 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 Special Disbursement Account. Particular importance would be attached to the member remaining current during the period of the program, and this would shape the conditionality applied in such cases. Moreover, any new arrears would lead to a suspension of disbursements under an arrangement and, possibly, to consideration being given to the application of more stringent requirements if disbursements were to be renewed.

5. Terms

In keeping with the 1980 decision terminating the Trust Fund, terms would presumably be similar to those on Trust Fund loans, which provided for an interest rate of one half of 1 percent and repurchases with respect to each purchase in ten semiannual installments following a grace period of 5 1/2 years.

V. Topics for Discussion

Consideration of the use of the resources of the Special Disbursement Account is taking place following a period during which many of the poorest members of the Fund have experienced protracted economic difficulties. In contrast to the situation of other developing countries, continuing recovery of the world economy is not expected to result in significant alleviation of the situation facing these countries. There is thus a clear need for structural adjustment in these economies; however, for most of these countries such adjustment is likely to take place only gradually. In the meantime, they need large amounts of concessional external finance, the availability of which is becoming increasingly constrained.

Executive Directors will wish to discuss the implications of these fundamental considerations (which are developed in Section III of the paper) for the use of the resources of the Special Disbursement Account, particularly with respect to the issues of eligibility and conditionality. The experience with the Trust Fund, reviewed in Section II and in Annex III, provides important background to the discussion.

Executive Directors may also wish to explore, in a preliminary fashion, the issues relating to the modalities of the arrangements for use of the resources of the Special Disbursement Account that are discussed in Section IV. Broad issues on which the Executive Board's guidance is needed at this point include:

(1) the appropriateness of consolidating the amounts referred to in the 1980 decision terminating the Trust Fund for use in connection with a single new arrangement;

(2) the desirability of focusing resources on very low-income countries in need of concessional assistance that face serious limitations on access to other sources of financing;

(3) the appropriateness of emphasizing structural adjustment and the scope for coordination with the World Bank, with respect to both program design and the provision of finance;

(4) the appropriateness of monitoring progress under a member's adjustment program through reviews or performance criteria and of associating disbursements with such a monitoring mechanism; and

(5) the appropriateness of the modalities suggested in Section IV.4 for the relationship of the new arrangement to use of the Fund's regular resources.

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

Projected Receipts of Trust Fund Loan Repayments
and Interest in the IMF Special Disbursement Account
(As of July 31, 1985)

(In millions of SDRs)

	Interest Payments	Loan Repayments	Cumulative Receipts
Balances held in the Special Disbursement Account			122.7
Overdue obligations	1.0	38.1	161.8
1985			
August-December	6.3	63.3	231.4
Total 1985	6.3	63.3	
1986			
January-June	5.6	262.4	499.4
July-December	4.9	297.9	802.2
Total 1986	10.5	560.3	
1987			
January-June	4.1	297.9	1,104.2
July-December	3.4	294.8	1,402.4
Total 1987	7.5	592.7	
1988			
January-June	2.7	282.6	1,687.7
July-December	2.0	267.9	1,957.7
Total 1988	4.7	550.6	
1989			
January-June	1.5	213.8	2,173.0
July-December	1.0	200.9	2,374.9
Total 1989	2.4	414.8	
1990			
January-June	0.5	161.2	2,536.6
July-December	0.2	104.8	2,641.6
Total 1990	0.7	266.0	
1991			
January-April	0.1	47.6	2,689.3
Total 1991	0.1	47.6	

Summary of Experience with the Trust Fund

Purpose of the Trust Fund

Against a background of large current account deficits of many non-oil exporting developing countries, occasioned by the sharp rise in oil prices, the prevailing high prices of food grains, and recessionary conditions in industrial countries, the Development Committee in January 1975 asked the Executive Boards of the Fund and Bank "to study the desirability of creating a Special Trust Fund that would provide, for the period immediately ahead, additional highly concessionary resources to meet the requirements of the most seriously affected countries and the possible modalities of such a fund."

It was agreed at an early stage, in discussing the Development Committee's request, that the Trust Fund would provide balance of payments assistance rather than longer term development financing, and that the financing of the Trust Fund should not divert resources from other vehicles of assistance to low income countries such as the IBRD's proposed "third window." As part of a general settlement of unresolved questions concerning gold reached in August 1975 it was agreed that one sixth of the Fund's gold holdings would be sold in world markets with the profits distributed to "developing members" via a Trust Fund. The provision of interest-free resources for the Trust Fund in the form of profits from gold sales allowed the possibility of highly concessional loan terms.

It was also agreed in discussing the Development Committee's request that access to the resources of the Trust Fund would be conditional upon the adoption by a country of a medium-term program of economic adjustment. First credit tranche conditionality was agreed as the standard, but Section II, Paragraph 3(g) of the instrument provided that "In considering a program in support of a request for assistance in the second period . . .the Trustee shall take into account the progress made by the member toward strengthening its balance of payments position under a program in the first period." 1/

The question whether Trust Fund assistance would be provided in the form of grants or loans remained open well into 1976, when it was agreed that it would take the form of ten-year loans with an interest rate of one half percent per annum, a grace period of five years, with repayments in semiannual installments over the next five years.

The Trust Fund was established in May 1976 to provide balance of payments assistance on concessional terms to support the efforts of low-income developing member countries to carry out programs of balance

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1/ Selected Decisions, Tenth Issue, p. 307.

of payments adjustments. The Instrument establishing the Trust Fund is in Selected Decisions, Tenth Issue, pp. 302-312. Its loan activities were divided into two periods, namely July 1, 1976 through June 30, 1978 and July 1, 1978 through February 28, 1981. Its principal features and operations are briefly reviewed in the following sections.

Eligibility

It was generally accepted that the criteria for selecting "poor developing members" for purposes of the Trust Fund should be something other than the concept of Most Seriously Affected (MSA) countries that the Fund had used for the oil facility subsidy account. The MSA concept was understood as indicating a short-run emergency; the Trust Fund was intended for the period after the emergency. It was readily agreed also that per capita income should be used as the primary criterion for determining which developing members should be eligible and that the figures for per capita income compiled by the World Bank were the most authoritative. The World Bank had developed a methodology for determining the national income and per capita income statistics of all its members and it regularly issued a booklet, the World Bank Atlas, giving full data on member's income.

Members were eligible to receive Trust Fund loans in the first period if their per capita income in 1973 was SDR 300 or less, a cutoff figure that was close, though not identical, to the IDA cutoff level at that time. Although its per capita income was above this point, Guatemala was added to the list on account of a severe earthquake it suffered in February 1976. 1/ The addition of Guatemala brought the total of eligible countries to 61. The Fund quotas of these countries amounted to SDR 3,760 million, which was equivalent to 13 percent of total Fund quotas at the time and to 52 percent of the quotas of non-oil developing countries.

At the time of the review of the eligibility list for the second period, Directors expressed the view that "insofar as feasible, efforts should be made to avoid the use by international organizations of different lists of eligibility criteria for assistance to lower-income countries." A decision was taken to continue to base eligibility on per capita income and to adopt the IDA cutoff level for 1975, which was US$520. 2/ This resulted in a list of 59 countries, with Guatemala, Mauritius, and Paraguay dropped from the previous list, and Zambia added. On the basis of newly available information on per capita income in 1975, it was subsequently decided to add China and Guyana to

1/ See SM/76/35, Revision 3 (5/4/76) and Decision No. 5069-(76/72), adopted May 5, 1976.
2/ See TR/77/39 (10/17/77); and Decision No. 5563-(77/150)TR, adopted October 28, 1977.

the list of eligible countries, bringing the total again to 61. 1/ After revised quotas became effective in late 1980, the quotas of these countries amounted to SDR 9,520 million, 16 percent of the total and 57 percent of the quotas of the non-oil developing countries.

Sources and uses of resources

The resources of the Trust Fund were derived mainly from the profits realized on the sale at auctions of 25 million ounces of the Fund's gold over four years. The proceeds of the gold auctions amounted to US$5,713 million, of which the equivalent of US$1,073 million, SDR 874.9 million, represented the capital value and was added to the currency holdings of the General Resources Account. The balance, amounting to the equivalent of US$4,640 million represented profits of which the part corresponding to the shares of developing countries in the Fund, or US$1,289 million, was distributed directly to 104 developing countries. The remainder, plus income earned on the temporary investments of the profits, was used to make long-term, low-interest loans to low-income developing countries.

While 104 developing members were eligible to participate in the direct distribution of profits from gold sales, 7 members of the Organization of Petroleum Countries (OPEC)--Iraq, Kuwait, Libyan Arab Jamahiriya, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela--made irrevocable transfers of the full amounts of their profit shares to the Trust Fund to add to the resources available for loan assistance; the last such transfer was made by Libyan Arab Jamahiriya in November 1980. In addition, Yugoslavia transferred one third of its share of profits, and Romania made a loan of 10 percent of its share, to the Trust Fund. The total value of the amounts transferred to the Trust by these members was SDR 96 million.

Loans were extended by the Trust Fund to 55 member countries for a total amount equivalent to SDR 2,991 million, of which SDR 841 million in the first period and SDR 2,150 million in the second period. Disbursements in the first period amounted to 43 percent of qualifying members' quotas on December 31, 1975; and in the second period to 46 percent of qualified members' quotas that were in effect from April 1978 to December 1980. Table 1 summarizes the receipts and uses of funds by the Trust Fund, and Tables 2a and 2b provide data on loans to individual members.

Requirements for qualifying to receive loans by eligible members

(a) Balance of payments need

Since the Trust Fund was intended to provide balance of payments assistance, a requirement of balance of payments need, identical

1/ See Decision No. 6676-(80/168)TR, adopted November 19, 1980.

Table 1. Trust Fund Receipts and Uses of Funds:
May 1976 - April 1981

(In millions of SDRs)

Receipts	
Net proceeds from sale of gold	3,697
Interest on investments	249
Contributions	94
Loan interest income	24
Distribution of profits pending disbursement	3
Borrowing	2
Total	4,069
Uses	
Loans	2,991
Distribution of profits	997
Exchange valuation loss	69
Accrued interest on loans	5
Administrative expense	4
Term deposits	3
Total	4,069

Table 2a. Trust Fund Loans and Related Data
July 1, 1976-June 30, 1978

(In millions of SDRs)

Member	Quota as of Dec. 31, 1975	Projected b.o.p. deficit plus repurchases 1/	Total loan assistance 2/	Total purchases during 12-month program period	Reserve tranche	Credit tranches: First credit tranche	Credit tranches: Higher credit tranche	Compensatory financing	Oil facility	Extended facility
Bangladesh (March 1978)	125	71.5	51.8	--	--	--	--	--	--	--
Benin (November 1978)	13	5.6	5.4	--	--	--	--	--	--	--
Bolivia (April 1979)	37	31.0	15.3	--	--	--	--	--	--	--
Burkina Faso (November 1978)	13	7.0	5.4	--	--	--	--	--	--	--
Burma (March 1978)	60	49.2	24.9	35.00	--	4.98	30.11	--	--	--
Burundi (December 1976)	19	12.1	7.9	--	--	--	--	--	--	--
Cameroon (December 1978)	35	25.5	14.5	--	--	--	--	--	--	--
C.A.R. (December 1978)	13	8.7	5.4	--	--	--	--	--	--	--
Chad (December 1978)	13	9.6	5.4	--	--	--	--	--	--	--
Congo, P.R. (December 1977)	13	10.2	5.4	13.23	2.03	4.70	--	6.50	--	--
Egypt (March 1978)	188	1,228.0	77.9	105.00	--	63.00	--	--	--	--
Ethiopia (May 1979)	27	79.0	11.2	--	--	--	42.00	--	--	--
Gambia, The (May 1978)	7	3.0	2.9	2.53	--	1.72	--	--	--	--
Grenada (December 1977)	2	*N.A.	0.8	0.41	--	0.23	0.81	--	0.18	--
Guinea (June 1976)	24	12.4	9.9	8.70	--	8.70	--	--	--	--
Haiti (June 1977)	19	*N.A.	7.9	3.00	--	3.00	--	--	--	--
Ivory Coast (March 1979)	52	55.9	21.6	--	--	--	--	--	--	--
Kenya (June 1977)	48	62.4	19.9	24.00	--	--	--	24.00	--	--
Lao P.D.R. (May 1979)	13	13.25	5.4	--	--	--	--	--	--	--
Lesotho (March 1978)	5	*N.A.	2.1	--	--	--	--	--	--	--
Liberia (January 1977)	29	*N.A.	12.0	4.56	4.56	--	--	--	--	--
Madagascar (December 1978)	26	16.5	10.8	9.43 5/	--	9.43	--	--	--	--
Malawi (March 1978)	15	9.5	6.2	5.43	--	5.43	--	--	--	--
Mali (September 1978)	22	N.A.	9.1	--	--	--	--	--	--	--
Mauritania (December 1977)	13	20.0	5.4	4.71	--	4.71	--	--	--	--
Mauritius (December 1978)	22	10.8	9.1	16.49	5.49	--	--	--	11.00	--
Morocco (December 1976)	113	115.0	46.8	143.70	28.24	40.96	--	56.50	18.00	--
Nepal (January 1977)	14 3/	12.0	5.8	7.61	3.11	4.50	--	--	--	--
Niger (March 1979)	13	5.9	5.4	--	--	--	--	--	--	--
Pakistan (March 1978)	235	146.0	97.4	107.00	--	--	80.00	27.00	--	--
Papua New Guinea (April 1979)	20	25.0	8.3	--	--	--	--	--	--	--
Philippines (December 1976)	155	268.7	64.2	222.66	--	--	--	77.50	55.16	90.00
Senegal (September 1978)	34	17.0	14.1	--	--	--	--	--	--	--
Sierra Leone (June 1976)	25	14.0	10.4	7.00	--	7.00	--	--	--	--
Sri Lanka (November 1978)	98	134.6	40.6	55.00	--	21.93	33.07	--	--	--
Sudan (May 1979)	72	197.5	29.8	4.70						
Tanzania (December 1977)	42	N.A.	17.4	--	--	4.70	--	--	--	--
Thailand (June 1978)	134	160.0	55.5	--	--	--	--	--	--	--
Togo (November 1978)	15	15.5	6.2	--	--	--	--	--	--	--
Vietnam (May 1979)	62	8.3	25.7	--	--	--	--	--	--	--
Western Samoa (December 1977)	2	1.4	0.8	0.50	--	--	--	0.50	--	--
Yemen, PDR (March 1977)	29	32.5	12.1	13.18	--	5.76	--	--	7.42	--
Zaire (December 1976)	113	107.9	46.8	129.49	--	40.96	--	56.00	32.53	--
Total	2,029		841.0 4/	923.33	43.43	231.62	185.99	259.00	113.29	90.00

Note: For members marked with an asterisk(*) need was established on the basis of low reserves and an overall deficit in the balance of payments and the member was deemed to have unlimited need.

1/ Projected balance of payments deficit when program presented to Fund excluding possible financing by the Fund plus repurchases due in program period as provided in Section II, paragraph 3(i) of Trust Instrument.

2/ The loans were in proportion to members' quotas at December 31, 1975.

3/ Amount to which Nepal had consented as at December 31, 1975.

4/ Total resources available for loan assistance in the first period.

5/ Just prior to beginning of program period.

Table 2b. Trust Fund Loans and Related Data
July 1, 1978-February 28, 1981

(In millions of SDRs)

Member	Projected b.o.p. deficit plus repurchases 1/	Total loan assistance 2/	Total purchases during 12-month program period	Reserve tranche	Credit tranches: First credit tranche	Credit tranches: Higher credit tranche	Compensatory financing	Extended facility
Bangladesh (May 1980)	162	70.347	57.0	--	--	57.0	--	--
Benin (December 1980)	10	7.316	1.9	1.9	--	--	--	--
Bolivia (December 1980)	*78	20.823	53.4	--	--	53.4	--	--
Burkina Faso (June 1980)	28	7.316	--	--	--	--	--	--
Burma (June 1979)	29	33.767	30.0	--	--	30.0	--	--
Burundi (September 1980)	12	10.693	9.5	--	--	--	9.5	--
Cameroon (June 1980)	30	19.697	--	--	--	--	--	--
C.A.R. (December 1980)	11	7.316	5.9	1.9	--	4.0	--	--
China (December 1981)	847.1	309.527	600.0	150.0	--	450.0	--	--
Congo (December 1979)	*15.7	7.316	2.0	--	--	2.0	--	--
Egypt (June 1979)	603.3	105.802	75.0	--	--	--	--	75.0
El Salvador (May 1981)	50	19.697	10.8	--	--	10.8	--	--
Eq. Guinea (June 1981)	25	4.502	16.7	.1	--	5.5	11.1	--
Ethiopia (June 1980)	56	15.195	36.0	--	--	--	36.0	--
Gambia, The (June 1980)	11	3.939	1.6	--	--	1.6	--	--
Ghana (December 1979)	*75.9	48.961	44.6	12.6	--	32.0	--	--
Grenada (December 1980)	* 7	1.126	.2	.2	--	--	--	--
Guinea (December 1980)	*N.A.	13.507	3.0	--	3.0	--	--	--
Guyana (June 1981)	*N.A.	11.256	35.6	--	--	--	--	35.6
Haiti (September 1979)	10.8	10.693	--	--	--	--	--	--
Honduras (December 1980)	*N.A.	14.069	21.9	5.9	--	--	--	16.0
India (March 1981)	907.3	529.009	266.0	--	--	--	266.0	--
Ivory Coast (December 1980)	29	29.264	12.2	12.2	--	--	--	--
Kenya (June 1979)	95.5	27.013	23.9	6.7	--	17.2	--	--
Lao P.D.R. (May 1980)	15	7.316	--	--	--	--	--	--
Lesotho (March 1980)	*N.A.	2.814	--	--	--	--	--	--
Liberia (December 1979)	*7.6	16.320	29.8	--	--	9.3	20.5	--
Madagascar (March 1981)	86.8	14.632	39.2	--	--	10.0	29.2	--
Malawi (June 1980)	36	8.442	24.5	--	--	5.5	19.0	--
Mali (May 1980)	* 9	12.381	5.1	--	--	--	5.1	--
Mauritania (May 1979)	18.2	7.316	--	--	--	--	--	--
Morocco (December 1979)	87.2	63.594	--	--	--	--	--	--
Nepal (January 1979)	9.0	7.879	9.5	--	--	--	9.5	--
Niger (March 1981)	13	7.316	--	--	--	--	--	--
Pakistan (June 1980)	138	132.252	21.2	--	21.2	--	--	--
Papua New Guinea (April 1981)	39.5	11.256	4.9	4.9	--	--	--	--
Philippines (December 1979)	118.7	87.230	135.5	--	--	91.3	44.2	--
Rwanda (June 1980)	14	10.693	--	--	--	--	--	--
Senegal (December 1979)	*16.7	19.134	14.8	4.3	--	10.5	--	--
Sierra Leone (June 1980)	39	14.069	15.0	--	--	15.0	--	--
Somalia (December 1980)	16	10.693	6.0	--	--	6.0	--	--
Sri Lanka (December 1979)	89.2	55.152	80.0	--	--	--	--	80.0
Sudan (June 1980)	120	40.520	113.2	--	17.2	--	36.0	60.0
Swaziland (March 1980)	10	4.502	--	--	--	--	--	--
Tanzania (December 1979)	33.1	23.637	34.0	--	13.8	--	20.2	--
Thailand (June 1979)	266.0	75.412	146.5	32.5	--	45.3	68.7	--
Togo (December 1980)	* 9	8.442	16.6	3.3	--	13.3	--	--
Uganda (December 1980)	12	22.511	37.5	--	--	12.5	25.0	--
Vietnam (Septebmer 1981)	51.5	34.892	28.4	--	28.4	--	--	--
Western Samoa (January 1979)	1.2	1.126	1.6	.4	--	--	1.2	--
Yemen, PDR (December 1979)	46.1	16.320	--	--	--	--	--	--
Zaire (December 1980)	31.3	63.594	78.4	--	--	78.4	--	--
Zambia (March 1979)	101.2	42.771	148.8	--	--	100.0	48.8	--
Total	4,549.9	2,150.366 3/	2,297.7	236.9	83.6	1,060.6	650.0	266.6

Note: For members marked with an asterisk(*) need was established on the basis of low reserves and an overall deficit in the balance of payments and the member was deemed to have unlimited need.

1/ Projected balance of payments deficit when program presented to Fund excluding possible financing by the Fund plus repurchases due in program period as provided in Section II, paragraph 3(f) of Trust Instrument.

2/ The loans were in proportion to members' quotas as at December 31, 1975.

3/ Total resources available for loan assistance in the second period.

with that required for the use of the Fund's ordinary resources, was incorporated. Need was established by means of a staff projection of a balance of payments deficit over the duration of the program qualifying the member for a Trust Fund loan (see subsection (b) below) and an assessment of the adequacy of the level of its reserves and of developments in its reserves. A finding of a balance of payments need was subject to a re-examination during the remainder of the Trust Fund period during which it was made only if the member's circumstances were determined to have changed substantially in that period. However, in any re-examination the Trustee was to give the member the benefit of any reasonable doubt in arriving at a new assessment of need. In no case did such a re-examination take place.

Section II, Paragraph 5 of the Instrument establishing the Trust Fund provided for a limitation on disbursements to a particular member to the extent of the member's need. As the actual amounts that would be made available to members would not be known until the end of the basic periods, the relationship between the balance of payments need during the program period, and the amount actually disbursed within the program period was highly tenuous. Programs thus defined very generalized balance of payments needs and the Executive Board made no attempt at a more rigorous definition. The extent of the need was measured by the extent of the projected balance of payments deficit, except for those members that qualified on the basis of low reserves and their overall balance of payments deficit. In these cases, the need to increase existing reserve holdings was implicitly added to the balance of payments deficit. In all cases, the assessed need at the time the program was agreed was in excess of the amount the country was expected to receive from the Trust Fund in the period concerned; Trust Fund loan disbursements amounted to about one half or more of assessed need in program periods for almost three fourths of qualified members. The figure for assessed need was not, however, incorporated in the text of the decision qualifying a country for a Trust Fund loan. Hence, it could not be used as a limit on the amount of loans received during a period. The amount of loans received by a member could subsequently be limited on the grounds of a reduced balance of payments need only if there were a subsequent re-examination, i.e., the member's circumstances were determined to have changed substantially. As noted above, there were no such re-examinations. Hence, the provision limiting disbursements to the extent of a member's need did not, in practice, constrain the amount received by any member, and thus all funds were disbursed in proportion to qualified members' quotas.

(b) Conditionality

An eligible country wishing to receive a loan was required to show that it was making a reasonable effort to strengthen its balance of payments position. It could meet this requirement by means of a program presented to the Fund in connection with a stand-by or extended arrangement or a purchase in the credit tranches. Members not making use of regular Fund resources could present a program that met the criteria applied by the Fund to a purchase in the first credit tranche. As in the case of balance of payments need, the finding, made when a program was presented, that a country was making reasonable efforts to strengthen its balance of payments was subject to a re-examination only if the member's circumstances had changed substantially, with the member receiving the benefit of any reasonable doubt. In determining whether the requirements of conditionality were met by the program presented for the second period, the Fund was authorized to take into account progress made by the member toward strengthening its balance of payments position under a program in the first period. No member was disqualified from receiving a loan in the second period on the grounds of poor performance in the first period.

Of the 43 members that qualified for loans in the first period, 15 countries qualified on the basis of 12-month programs presented specifically for the purpose of qualifying for Trust Fund loans, 12 countries qualified on the basis of first credit tranche stand-by programs, 8 members qualified on the basis of programs presented in support of a request for a purchase in the first credit tranche, 6 members qualified on the basis of upper credit tranche stand-by programs and 2 on the basis of EFF programs. For the second period, 53 members qualified by the following means: Trust Fund program, 16; first credit tranche stand-by, 12; first credit tranche purchase, 4; upper credit tranche stand-by, 14; EFF, 7 (see Table 3).

Timing

Within each period, the timing of the interim and final disbursements was arranged to coincide with the expected availability of resources and was not integrated either with members' requirements or with program reviews. Disbursements in the first period were made semiannually, beginning on January 27, 1977 and ending on July 27, 1978. Disbursements in the second period began on January 31, 1979 and the final disbursement was made on March 31, 1981. Disbursements were made on a quarterly basis beginning in October 1979. Final disbursements in each period were made so as to equalize the ratio of total loans received during the period to recipients' quotas on December 31, 1975.

It was initially required that adjustment programs presented in support of Trust Fund loans fall predominantly within the period (i.e., for the first period of July 1, 1976 through June 30, 1978, programs were initially required to begin not later than December 1, 1977). On this basis, approximately 39 out of 61 eligible members would have qualified for loans in the first period. In order to allow more countries to qualify, particularly certain countries for which lower commodity prices could result in revised assessments of the need for assistance, countries were subsequently allowed to qualify for

Table 3. Types of Programs Qualifying Members for Trust Fund Loans

(Number of members)

	First Period	Second Period
Eligible	61	61
Qualifying of which:	43	53
Special Trust Fund program	15	16
First credit tranche stand-by	12	12
First credit tranche program	8	4
Upper credit tranche stand-by	6	14
Extended Fund facility	2	7

loans in the first period on the basis of programs beginning no later than June 1, 1978. 1/

In the light of the large amount of resources likely to be available for Trust Fund loans because of the sharp rise in gold prices during the last 12 months of the gold sales program, and to give the maximum opportunity for qualification by as many low-income countries as possible, the limit for the beginning of a qualifying program for the second period was extended on three occasions and the duration of the second period was extended on two occasions. The balance of payments outlook for most low-income countries had worsened considerably, and it deteriorated further on account of oil price increases in 1979. The second period ultimately ended February 28, 1981 and the final cutoff date for the beginning of qualifying programs was January 1, 1981. 2/

As a result of these modalities, members qualifying early in the basic periods could be provided assistance well beyond the conclusion of their programs, and, on occasion, well beyond the point at which a reasonable balance of payments need could be demonstrated. For example, in the second period a member could qualify with a one-year program in January 1978 and continue to receive assistance until March 1981. For members coming very late in the basic period, e.g., in late December 1980 in the case of the second period, the total disbursements they had qualified for were made almost immediately and without an opportunity to judge whether any adjustment effort had taken place.

1/ Decision No. 5563-(77/150)TR, October 28, 1977. See TR/77/39, "Trust Fund-Review of Instrument and List of Eligible Members", October 17, 1977. The language in the Instrument requiring an acceptable adjustment program falling "predominantly" within the disbursement period was changed to require that a program fall "partly" within the period. See Decision No. 6202-(79/121)TR.

2/ Decision No. 6202-(79/121)TR, July 23, 1979; Decision No. 6466-(80/68)TR, April 9, 1980; and Decision No. 6676-(80-168)TR, November 19, 1980. In connection with the second extension for qualifying a program, some eligible members had not qualified during the second period because of the absence of balance of payments need. The economic situations of several of these members had recently deteriorated, however, reflecting to a large extent the serious effects of sharp increases in import prices, and the problems of these countries had been compounded by the relatively sluggish growth in industrial countries and by the impact of world inflation. As a result of these trends, the balance of payments prospects of several eligible members had changed to the extent that some of the countries were developing balance of payments needs and some others were expected encounter payments pressures in the months ahead. The final extension facilitated the inclusion of the People's Republic of China.

Terms

Trust Fund loans are repayable in ten equal semiannual installments, beginnning 5 1/2 years after the date of disbursement and ending ten years thereafter, except that the final loan disbursements, made on March 31, 1981, are to be repaid in one installment on March 31, 1991. Interest is payable at the rate of 0.5 percent per annum. Repayment of an installment may be postponed for up to two years if the Fund finds that repayment on the due date would result in serious hardship for the borrower. 1/ No repayments have been postponed.

Trust Fund loans and the interest thereon are denominated in SDRs. By virtue of a series of Board decisions, disbursements were made in U.S. dollars, and repayments and interest payments are received in U.S. dollars. 2/

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

2/ Decision No. 6358-(79/188)TR, December 19, 1979 and Decision No. 7142-(82/85)TR, June 18, 1982.