

**THE USE OF IMF'S RESOURCES  
— A REVIEW OF LITERATURE**

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**JULY 1989**

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**A Dissertation Submitted to the  
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*BY*

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This dissertation deals with the use of the Fund resources. One of the purposes of the Fund, as stated in its Articles of Agreement is to "give confidence to members by making the Fund's resources temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustment in their balance payments without resorting to measure destructive of national or international prosperity". Three important aspects of this statement are (i) The resources are to be provided in order to give an opportunity to the member to correct a maladjustment in the balance of payments; (ii) the resources are to be made available under "adequate safeguards"; (iii) the use of the Fund's resources is to be temporary. I have, in the present work, reviewed the use of the Fund's resources from its inception to 1988.

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## CHAPTER I

### EVENTS LEADING TO THE BIRTH OF THE IMF

#### Introduction

The world-wide impact of the Great Depression, the failure of gold standard, the currency chaos of the inter-war period, the emergence of practices that strangled the growth of multilateral trade and distorted its pattern, the devastations inflicted by the second world war and a host of other events of great and small significance convinced those responsible for public welfare that nothing short of a truly international system would cure the ills of the modern world.

In international monetary sphere this meant building up a system that would preserve what was worth preserving in the earlier system and embody a new set of principles and practices that would make the system durable and viable.

The lead in this direction was taken by the United States and the United Kingdom. It was but natural that the views of these two important allies in the second world war would play a dominant role. This also meant, inevitably that each with its experience, beliefs and even prejudices tried to build the new system in its own image. Consequently, the compromise product that emerged reflected the thinking of participants. It is necessary to understand the point

of view of the United States and United Kingdom that were largely responsible for framing the new system.

### 1.1 Attempts to Evolve Agreed Principles

The White Plan was embodied in "A Proposal for an International Stabilization Fund of the United and Associated Nations" of July 10, 1943, prepared by Harry D. White represented the American position while the Keyney Plan was embodied in his "Proposals for an International Clearing Union of April 8, 1943" prepared by John Maynard Keynes represented the British position. These two countries along with others were working for the reconstruction of post-war multilateral trade, agreed on certain basic issues which are as follows [Penrose, 1953, pp.39-40];

- (1) There should be an International Organisation with enough resources to preserve exchange stability and to keep numbers to tide over balance of payments difficulties;
- (2) an international organisation to foster long term capital movements, avoiding the abuses in international investment of 1920s advancing the development of poorer areas and meeting needs which are important in the long-run;
- (3) an international supervision of commodity agreements to ensure that they would be used constructively to reduce useless price fluctuations, that they would

- give proper representation to consumer countries;
- (4) international measures to reduce trade barriers drastically and ultimately to remove discrimination;
  - (5) international organisation for relief and reconstruction;
  - (6) measures to maintain full employment.

The next section examine the major areas over which the differences of opinion were sharp and strong.

## 1.2 Resolving the Outstanding Differences

The following points were probably the most important ones on which different provisions were made in the White and Keynes Plans [Horsefield, (1969) Vol.I, pp.28-29].

- (1) The stabilization fund proposed that the fund should operate in what later was to be called "a mixed bag" of currencies - that is, in the currencies of its member countries. The clearing union, on the other hand, would operate in bancor, an international currency which it would create ad hoc.
- (2) The stabilization fund proposed, as an objective to help to correct the maldistribution of gold, but the clearing union proposed to relegate gold to a secondary position in the international monetary mechanism.

- (3) The stabilization fund proposed that exchange rates should be fixed by the fund and changed only with the consent of 80 per cent of the voting power. The clearing Union envisaged exchange rates being agreed between the Union and its members and provided for special consideration to be given to changes proposed in a transitional period.
- (4) The stabilization fund appeared to visualize daily clearing between central banks, but the clearing union specifically contemplated that the union would clear residual balances only after normal transactions between central banks had been completed.
- (5) The stabilization fund contemplated the abolition of exchange control, except when approval by the Fund. The clearing union on the other hand offered no objection to exchange controls and specifically advocated the control by member countries of capital movement.
- (6) The stabilization fund proposed a formula for voting which was deliberately intended as a compromise between a system under which each member would have one vote and a system under which voting power would be weighted in proportion to the contributions made by members. In the clearing union in the other hand, votes would be proportionate to members quota,



which would be based on their international trade alone. But it was also suggested that the effective voting power should in here permanently or at least for five years, in the founder states.

- (7) "The Keynes plan called for an international currency union (clearing union) which was to keep banking accounts for central banks in exactly the same way as central banks in each country kept accounts for commercial banks. These accounts were to be denominated in an international currency to be known as "bancor", which was to be defined in terms of gold, but the union could alter its value. Member countries could obtain bancor in exchange for gold but could not obtain gold in exchange for bancor. Exchange rate were fixed in terms of bancor and were not to be changed without the permission of a Governing Board, within limits member countries tried could run debit balances with the union, such balances taking the form of overdraft rather than specific loans". [IMF Survey, July 2, 1984, p.194].
- (8) "The White Plan covered a number of purposes for the fund were listed, including stabilizing countries exchange rates, encouraging the flow of productive capital among countries, facilitating the settlement and servicing of International debt, lessening the

balance of payments disequilibrium, and reducing exchange controls, bilateral arrangements and trade barriers. The White Plan was contributory one, with countries making subscriptions, partly in gold and the remainder in national currencies, totaling at least \$ 5 billion. Any member might purchase from the Fund the currency of any other member, within certain predetermined limits. The Fund was to be managed by a Board of Directors" (IMF Survey, July 2, 1984, p.195).

- (9) During the course of negotiations, in June 1943, the United States representatives informed the British the minimum conditions for American acceptance of membership in the new organisation were as follows [Scammell, (1957), pp.134-35].
- (a) the United Kingdom should not alter its exchange rate prior to the beginning of fund operations;
  - (b) the fund must be based upon the contributory rather than the overdraft principle;
  - (c) the financial commitment of the United States must be limited and not exceed two or three billion dollars;
  - (d) the United States must have a veto over any change in the gold value of the dollar and over any change in the gold value of the proposed new

currency unit. It becomes clear from the above conditions that the United States would not accept the clearing Union proposal.

### 1.3 Compromise Between Two Plans

With the publication of the White and Keynes Plans in 1943 both sides began to work out an acceptable compromise. In this period some other plans those presented by Canada, France and the Soviet Union were also discussed. Since the United States and the United Kingdom were the dominant members of the international financial system, the crucial decisions continued to be made in bilateral negotiations between Britain and the United States. Some major issues arising out of the White and Keynes Plans were to be settled. The compromise proposals were incorporated in the Articles of Agreement of the International Monetary Fund agreed upon at the Bretton Woods Conference, July-1-22, 1944.

#### 1.3.1 The Liquidity Issue

One of the major differences between the Keynes and White Plans lay in the degree of emphasis they placed on the importance of the liquidity function. One essential condition for the success of the Monetary Plans was that they should adequately fulfil their function as providers of international liquidity. For unless the stabilization fund and clearing union made resources available of

sufficient size and on sufficiently liberal conditions their members could not be expected to give up exchange controls and freedom to vary their exchange rates. From this point of view the first and the most obvious contrast between the two plans was in the amount of resources which the two plans made available, while the total resources of the stabilization fund were limited to \$ 5 billion, the overdraft facilities of the clearing union amounted to about \$ 26 billion. These figures do not indicate the full measure of the differences. The resources of the stabilization fund consisted of contributions from member countries. Its quota represented the maximum liability of members as well as their maximum drawing rights. The clearing union on the other hand, was based on the overdraft principle. The quotas allotted to member countries imposed a limit only on their total drawing rights. The overdraft principle embodied in the Keynes Plan was abandoned in favour of the American. Commitment to a slight enlargement of the contributions contemplated in the White Plan and at Bretton Woods the final agreement was reached on a Fund with resources of \$ 8.8 billion, with an American contribution of \$ 3.175 billion.

### 1.3.2 The Adjustment Issue

We noted earlier that, second condition of success for any compromise plan was agreement on a mechanism for maintaining equilibrium in the balance of payments. As regards,

the exchange rate changes, both Keynes and White plans agreed that a rate stable in the short run but variable in case of need was desirable. In the compromise plan members were entitled to make exchange rate changes which were necessary to correct a "fundamental disequilibrium". But the Fund was now required to concur in change proposed by a member, no matter how large - provided the change could be shown to satisfy that criteria. If a change was less than 10 per cent from the original par value, fund was given no power to object at all. Perhaps most important, it could not object to a change in an exchange rate on the grounds of the "domestic social or political policies of the member proposing the change" [Gardner, (1956), pp.114-115].

### 1.3.3 The Transitional Issue

The third point is the question of the post-war transitional period. As we noted earlier, one of the basic requirements for the success of any compromise plan for financial collaboration was on a comprehensive attack on the post-war reconstruction problem. The British succeeded to persuading Americans to include a clause relating to "Transitional Arrangement" (Art. XIV). It was agreed that the Fund was intended to provide facilities for relief and reconstruction or to deal with international indebtedness arising out of war. This clause gave the members freedom "to maintain and adopt to changing circumstances restrictions on payments and transfer for

current international transactions" [Art. XIV. Sec.(2)]. Member were to pay continuous regard to the purposes of the Fund and to withdraw restrictions as soon as conditions permitted.

#### 1.3.4 Access of the Members to the Resources

In the White Plan the drawing rights of members were very rigidly circumscribed. In the compromise plan, the Articles of Agreement, it was stated that a country "shall be entitled" to buy currency from the fund provided only that the member "desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions" of the Fund [Art. V Sec. 3(a)].

This right of course, was subject to the quantitative limitations on the drawings that could be made [Art. V Sec. 3(b)(iii)].

#### 1.3.5 Scarce-Currency Clause [Art. VII Sec. 3(a)]

In the first place, controls against the scarce currency were authorised only in the event that "the demand for a member's currency seriously threatens the Fund's ability to supply that currency" [Gardner, (1956) p.116].

Suppose a general scarcity developed outside, while at the same time the fund had ample resources of the scarce currency. This could occur if for some reason the fund were restricting its lending operations. In the second

place, even assuming that a currency became scarce inside as well as outside, the fund would spread of direct controls against its export really force the creditor country to make adjustment? It has been noted earlier that the Keynes plan had made very stringent provisions for the creditor countries to force them to accept the responsibility in making adjustment in case of disequilibrium. In view of the strong American creditor position, it was not acceptable to the Americans. The White Plan had made a 'scarce currency' provision which was too mild. Keynes succeeded in making the 'scarce currency' clause potentially more effective, that clause in the Articles of Agreement not only empowered the Fund to ration its supply of scarce currency but authorised members "temporarily to impose limitations on the freedom of exchange operations in the scarce currency". In determining the nature of these limitations each member was to have "complete jurisdiction" [Art. VII Sec. 3(b)].

### 1.3.6 Other Ingredients

"There were also a two other ingredients, making the Bretton Woods conference successful which are following [IMF, Survey, (July 2, 1984), p.197].

#### 1.3.6.1 Broad Objective of Economic Policy

There was a large area of agreement as to the broad objective of economic policy and the type of policies needed

to achieve these objective, on the domestic side, the objective was to achieve full utilization of domestic resources, including labour, it was understood that if necessary, government would use macro-economic policies to achieve full employment. On the international side, policies of free trade, multilateral payments, and stable exchange rates were to be pursued so as to create a large world market to which all countries would have equal access.

#### 1.4 Major Dates of the Fund Agreement

For an understanding of the early history of the Fund and major provisions of the Fund Agreement also the following dates are of special significance [Aufricht, (1964) pp.9-10].

July 1-22, 1944 - The Articles of Agreement of the International Monetary Fund. It was adopted at the United Monetary and Financial Conference at Bretton Woods, New Hampshire, U.S.A.

December 27, 1945 - The Fund Articles of Agreement enter into force upon signature by 29 governments representing 80 per cent of the original quotas.

September 12, 1946 - The day of the fund informed its members in accordance with Art. XXXI. Sec.I of the Fund Agreement that the Fund "will shortly be in a position to begin exchange transaction".



December 18, 1946 - the day Fund published its First  
schedule of par value of the monetary units of members.

March 1, 1947 - the day of the Fund prepared to begin  
exchange operations.

## CHAPTER II

### RESOURCES OF THE FUND

This chapter deals with the resources which the Fund uses for extending balance of payments assistance to member countries. They consist of ordinary and borrowed resources. Ordinary resources, comprise the currencies of members (paid in quota subscriptions) and SDRs held in the General Resources Account.

#### 2.1 Ordinary Resources

##### 2.1.1 Quota Regime

In the IMF system, the member countries quotas are of immense importance in regard to the major decision making processes. A member's quota is the most fundamental element in its financial and organizational relations with the Fund. First, it determines a member's voting power in the Fund. Second, it determines the maximum access to the financial resources of the Fund. Third, it determines a participant's share in the allocation of SDRs. Fourth, it determines the subscription to the Fund.

##### 2.1.1.1 Quotas and Subscription to the Fund (Art. III)

Each member of the Fund has a quota, expressed in SDRs, which is equal to its subscription to the Fund.

"Prior to the Second Amendment of the Articles effective

April 1, 1978, 75 per cent of the original subscription of a member and subsequent increase was payable in the member's currency and the balance was payable in gold. Following the second Amendment, SDRs have been substituted for the position formerly payable in gold. Consequently, an amount not exceeding 25 per cent of the quota has to be paid in reserve assets specified by the Fund and the balance in the member's own currency" [Chandavarkar, (1984), p.11].

#### 2.1.1.2 Quotas and the Drawing Rights of Members

As a member's subscription is related to its quota, so are its drawing rights. In terms of Article V, Sec.3, a member is entitled to purchase from the Fund in exchange for its own currency.

Drawings are limited by provisions governing both the rate of increase and the total amount of the Fund's holdings of a member's currency expressed as a percentage of its quota without waiver. Drawings are limited to amount that will not cause the Fund's holdings of the members currency to increase by more than 25 per cent in any twelve-month period nor to exceed 200 per cent of its quota [Art. V, sec. 3(b)(iii)].

Since 1952 the drawing within the gold tranche, i.e., drawing which would raise the Fund's holding of its currency to not more than its quota, have become virtually automatic. In 1955 and 1957 the Fund added definitions of its drawing

policies in the credit tranche, i.e., for drawing beyond the 100 per cent point [IMF, Annual Report, 1955, pp.84-85]. The Fund's attitude to requests for drawings within the first credit tranche is a liberal one, provided that the member is making reasonable efforts to solve its problem. Request for drawing beyond the 125 per cent limit require substantial justification. A member can also make drawing under a number of special facilities, such as the compensatory financing facility, Buffer stock financing facility, Extended Fund facility and oil facility, etc.

#### 2.1.1.3 Quotas and the Allocation of Special Drawing Rights

The special drawing rights facility was established in 1969 to give the Fund the capacity to augment international liquidity, if this appeared desirable to prevent inadequacies in the supply of liquidity and to forestall the restrictive measures which such inadequacies might induce. The amount, if any, to be allocated over any period is determined after consideration of the demand and supply of liquidity. Allocation of SDRs in proportions to quotas are made only to participants in the special Drawing Rights Department, participation in voluntary and not all fund members are participants.

#### 2.1.1.4 Quotas and Voting Power (Art. XII, Sec.5)

The voting power of a member in the Fund is the sum (i) a basic number of votes (called basic votes)

which is the same for all members, (ii) a number of votes proportional to the member's quota.

"Each member has 250 votes plus one additional vote for each part of its quota equivalent to one hundred thousand special drawing right." [IMF, Art. XII, Sec.5(a)] The Voting Formula is as follows -

$$\text{Member's vote} = 250 + \frac{X}{100,000}$$

where -

X = Quota of the member

Thus the distribution of Quotas in the Fund is a key to its power structure. The following distribution of voting power in the IMF illustrates the point.

Table 2.1 : Major Countries Share of IMF Votes, as of April 30, 1987

Countries	No. of votes	% Share
U.S.A.	179,433.0	19.31
United Kingdom	62,190.0	6.69
Germany	54,287.0	5.84
France	45,078.0	4.85
Japan	42,483.0	4.57
Canada	29,660.0	3.19
Italy	29,341.0	3.15
Netherlands	22,898.0	2.46
Soudi Arabia	32,274.0	3.47
India	22,327.0	2.40

Source : Raipuria, (1987), pp.361-62.

The some of the special voting majorities required for major financial decisions are shown in Table 2.2.

#### 2.1.1.5 Adjustment of Quotas (Art. III, Sec.2)

The Articles of Agreement provide for periodic adjustment in members quotas. The Board of Governors is required, at intervals not exceeding five years, to conduct a general review of quotas and to propose any adjustment that it believes appropriate. The Board may, at any other time, propose adjustment to the quotas of individual members at their request. 85 per cent majority of the total voting power shall be required for any change in quota and no quota shall be changed without the consent of the member's concerned [Art. III, Sec. 2].

Table 2.2 : Showing some of the special voting majorities required for Major Financial Decisions

Type of financial action	Proportion of Total Voting Power required to implement	Power of Action Conferred on
Adjustment of quotas	85 per cent	Board of Governors
Allocation of SDRs	85 per cent	Board of Governors
Prescription of medium of payment for additional subscription	70 per cent	Board of Governors
Changes in period for repurchases	85 per cent	Executive Board
Determination of charges	70 per cent	Executive Board
Sale of gold	85 per cent	Executive Board

Source : Chandavarkar, (1984), p.10.

### 2.1.1.6 Formula for Determining the Quotas

Initially, the size of a member's quota is calculated so as to reflect its relative economic size in the world economy, taking account of relevant economic factors, such as national income, foreign reserve, the ratio of exports to national income, the variability of exports, and average imports [Chandavarkar (1984) p.11].

"The formula evolved at the time of Bretton Woods on the basis of above variables in determination of quotas was as follows" [Raipuria, (1987), p.342].

2 per cent of national income (in 1940)  
 plus 5 per cent of holdings of gold and U.S. \$  
 (as on July 1, 1943)  
 plus 10 per cent of average imports (1934-38)  
 plus 10 per cent of differential between largest and  
 smallest exporting values (1934-38) all multiplied  
 by  $(1 + X/Y)$

$$\text{That is } Q = [0.02Y + 0.05R + 0.10M + 0.10V] \\ (1 + \frac{X}{Y})$$

Where -

Y = national income

R = gold and dollar holdings,

X = exports

M = imports, and

V = variability of exports.

This formula meant that, countries with higher trade and higher share in world income had larger quotas.

The Bretton Woods formula was revised in 1962/63 by redefining. This procedure was later modified to give smaller countries a larger share in the Fund, by giving greater weight to trade and export variability and less to national income, for each country applying for membership, appropriate data on the economy are gathered and a calculated quota is determined.

Under the Eighth General Review of quotas of 1982/83 saw major change in the way quotas were calculated. The data used in quota formulas were modified. Gross domestic product (GDP) is now used in place of national income in the formulas, and holding of reserves were redefined to include, in addition to gold and foreign exchange, holding of SDRs and reserve position of the Fund was introduced in the place of year-end gold and foreign exchange reserves.

The calculated quota employed in connection with the Eighth Review was defined as the higher of the Bretton Woods calculation or the average of the lowest two of the remaining four calculations. "The five formulas under the Eighth Review are as follows" [Chandavarkar, (1984), p.15].



Reduced Bretton Woods formula:

$$(a) \quad (0.01Y + 0.025R + 0.05P + 0.2276VC) \times (1 + \frac{S}{Y})$$

Other modified formulas:

$$(b) \quad [0.0065Y + 0.0205125R + 0.078P + 0.4082VC] \times (1 + \frac{S}{Y})$$

$$(c) \quad [0.0045Y + 0.0389678R + 0.07P + 0.76976 VC] \times (1 + \frac{C}{Y})$$

$$(d) \quad 0.005Y + 0.042280464R + 0.044 (P + C) + 0.8352VC$$

$$(e) \quad 0.0045Y + 0.05281008R + 0.039 (P + C) + 1.0432VC$$

where  $Y$  = GDP (1980);

$R$  = average monthly reserves (1980);

$P$  = annual average current receipts in 1976-80;

$C$  = annual average current receipts in 1976-80;

$VC$  = variability of current receipts, defined as one standard deviation from the five-year moving average in 1968-80.

Before a calculated quota for each member as defined above can be derived, the results of each of the four modified formulas are first uniformly adjusted so that for each formula the sum of calculations for all members equals that derived from the reduced Bretton Woods formula. The Executive Board's resolution to the Board of Governors proposing an increase of 47.5 per cent in fund quotas from SDR 61.060 billion to SDR 90,035 billion under the Eighth General Review was adopted on March 31, 1983.

### 2.1.1.7 Changes in Quotas

It is provided that "the Fund shall at intervals of five years review, and if it deems it appropriate propose an adjustment of the quotas of the members. A four-fifths majority of the total voting power shall be required for any change in quotas and no quota shall be changed without the consent of the member concerned"[Art. III, Sec. 2].

Accordingly the Fund made Eighth general quinquennial reviews of quotas which are shown in Table 2.3. The Ninth quinquennial review is now under the consideration of the Fund. The Fund's quota position after each of the reviews upto 1983 is shown in Table 2.4.

### 2.1.2 SDRs Holdings

The decision to create SDRs was made at the IMF Annual Meeting in Rio de Janeiro in 1968. The SDR is a composite fiduciary reserve asset created by the Fund (since 1970) as a supplement to existing reserve assets following the First Amendment to the Articles of Agreement in 1969. It is an asset created and allocated by the Fund to its members, in proportion to their quotas in the Fund. Participation in the SDR scheme was left optional but practically all IMF members opted to join.

#### 2.1.2.1 Nature of SDRs

"SDRs are not tangible money such as the shilling or the dollar, there exists no SDRs note or coin. These

Table 2.3 : Showing General Reviews of Fund Quotas

	Board of Governors Adoption of Resolution	General Increase in Quotas (Per cent)	Overall Increase Fund Quotas <sup>1</sup> (Per cent)
First Quinquennial	No increase proposed	-	-
Second Quinquennial 1958/59	No increase proposed  February 2, 1959, <sup>2</sup> Apr. 6, 1959	-  50	-  60.7
Third Quinquennial	No increase proposed	-	-
Fourth Quinquennial	March 31, 1965	25	30.7
Fifth General	Feb. 9, 1970	25	35.4
Sixth General	Mar. 4, 1975 Mar. 22, 1976	Increase were determined on the basis of different groups of countries	33.6
Seventh General	Dec. 11, 1978	50	50.9
Eighth General	Mar. 31, 1983	19	47.5

Source : Chandavarkar, (1984) p.13.

1. Include the effect of special increase for some members as well as the general increase for all members as proposed under the quota review.
2. Provided for a general increase of 50 per cent and special increases for three countries, the resolution adopted in April 1959, provided for special increases for 14 additional countries.

Table 2.4 : Changes in Fund Quotas

				(Quotas in millions of SDRs)			
Fund Membership	Total Fund Quotas	Increase in Fund Quotas from Additions to membership <sup>1</sup>		Quota Increases			
		Number	Initial Quotas	General Reviews <sup>2</sup>	Ad hoc and other	Total change in Fund Quota <sup>3</sup>	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1944 <sup>4</sup>	40	7,514.0	40	7,514.0	-	-	-
1950	49	8,036.5	10 (1)	649.5 (125.0)	-	2.0 <sup>5</sup>	522.5
1955	58	8,750.5	10 (1)	837.0 (125.0)	-	2.0 <sup>5</sup>	714.0
1959	69	14,640.25	11	404.5	5,328.75	156.5 <sup>6</sup>	5,889.75
1965	102	20,932.0	34 (1)	756.75 (50.0)	4,791.75	793.25 <sup>7</sup>	6,291.75
1970	116	28,776.0	14	204.25	7,393.5	246.25 <sup>8</sup>	7,844.0
1976	133	38,976.4	17	445.4	9,755.0	-	10,200.4
1978	141	59,605.5	8	140.1	19,839.0	650.0	20,629.1
1983	146	89,236.3	5	394.4	28,176.5	1,059.9	29,630.8

Source: Chandavarkar, (1984) p.14.

1. Number and quotas of countries which withdrew membership are shown in parentheses.
2. Figures shown are as of the dates of adoption of Board of Governors Resolutions proposing adjustment in members quotas.
3. Summation of columns (4)(6).
4. Excluding Australia, Haiti, Liberia, Newzealand and the U.S.S.R. which did not join the Fund at the time of the Bretton Woods Agreement.
5. The Quotas of Honduras was reduced at its request in 1948, but restored to the original amount in 1951.
6. Include SDRs 121.5 million under small quota policy.
7. Include SDRs 342.5 million under compensatory financing decision.
8. Include SDRs 24.0 million under compensatory financing decision.

units are book entries included in the reserve of member countries alongside gold, reserve currencies and so called IMF reserve tranche accounts" [Ndegwa, (1979) p.3].

SDRs can not be used directly to purchase goods and services anywhere, but first must be converted to internationally accepted currencies. The IMF opens an SDR account for the member when a country utilizes the facility, the account is debited to the extent utilized. These drawing rights are 'special' in the sense that they are created by the mutual agreement of Fund members and not conditional like other drawing facilities of the Fund.

"SDRs held by the Fund are received from its members in the settlement of their financial obligation to the Fund [quota payments, repurchases and charges] and may be used by the Fund in transaction and operations between the Fund and its members (sold to members) in purchase or transferred to members in the settlement of remuneration and interest on its SDR holding at the same rate as all other holders of SDRs" [IMF, Annual Report, 1988, p.172].

#### 2.1.2.2 Allocation of SDRs (Art. XV, Sec.1)

According to Articles XV, Sec.I [IMF, 1978], the Fund is authorised to allocate SDRs to members that are participant in the SDR department to meet the need. The Fund has been trying to make SDR the principle reserve asset:

"Decision to allocate SDRs are made by the Board of Governors, on the basis of a proposal by Managing Directors and require only by an 85 per cent majority of the total voting power, have accepted the proposed amendment" [Art. XXVIII, Sec.(a)].

Through periodic allocation, unconditional liquidity is created for the participant in the SDRs Department (at present all members are the participants in the SDRs department). Allocation of SDRs in proportion to quotas are made only to participants in the special Drawing Rights Department". The following provision will apply to any decision to allocate special drawing rights" [devries, Margaret, (1976) Vol.II, p.48].

(1) Special Drawing Rights will be allocated at specified intervals, the period will be normally be five years in length, the first basic period will begin on the effective date of decision to allocate SDRs.

(2) Rate of SDRs allocation will be expressed as a percentages, uniform for all participants, of quotas on the date specified in the decision.

(3) Any decision on the basic period for, timing of or rate of allocation of SDRs will be taken by the Board of Governors on the basic of proposed by the Managing Director concurred in by the Executive Directors.

(4) Decision, to allocate SDRs, on 85 per cent majority of the voting power of participants shall be required. However, the first basic period was of only three years (1970-72) and the allocation were SDRs 9.3 billion. There were no allocation in the second basic period, 1973-77, because the Managing Director was unable to make a proposal for this period. In the third basic period, 1978-81, SDR 12.1 billion was allocated. No decision to allocate in the Fourth Basic period has yet been taken because the requisite support for fresh allocation is lacking. So far the Fund has allocated a total of SDR 21.43 billion [Chandavarkar, (1984) pp.63-64].

## 2.2 Borrowed Resources

The Fund's financial management is predicted on the principle that quota subscription are and should remain the basic source of financing the Fund's policies and facilities. Nevertheless, borrowing provides an important temporary supplement to usable quota resources from time to time. The rationale of fund borrowing is as follows: [Chandavarkar, (1984) pp.16-17]

First, the need for borrowing may arise when the fund liquidity (its stock of SDRs and usable currencies) is inadequate to meet the demand for its resources. The Fund has enlarged its member's access to its resources well beyond the point at which it could be financed from

Table 2.5 : Showing SDRs Allocation, 1970-88

(In billion of SDRs)

Year	Basic period	SDR allocation	Net Cumulative allocation
1970	First	3.4	3.4
1971	First	3.0	6.4
1972	First	3.0	9.4
1973	Second	-	9.4
1974	Second	-	9.4
1975	Second	-	9.4
1976	Second	-	9.4
1977	Second	-	9.4
1978	Third	-	9.4
1979	Third	4.0	13.4
1980	Third	4.0	17.4
1981	Third	4.0	21.4
1982	Fourth	-	21.4
1983	Fourth	-	21.4
1984	Fourth	-	21.4
1985	Fourth	-	21.4
1986	Fifth	-	21.4
1987	Fifth	-	21.4
1988	Fifth	-	21.4

Source : IMF, Annual Reports



quota resources alone.

Second, the national currencies paid in quota subscription do not all have the same degree of usability, quota increases do not therefore result in a proportionate increase in its liquidity.

Third, quotas often do not reflect members relative capacities to finance the Fund at particular times. For instance, balance of payments surpluses and reserves may be concentrated on members with relatively small quotas.

Equally, large purchases by members with relatively large quotas tend to deplete the Fund's liquid assets and thereby reduce the availability of such resources for assistance to members with smaller quotas. After considering all these reasons, the Fund's liquidity can come under strain between quota increases, so the Fund has arranged borrowing in the following ways -

#### 2.2.1 The General Arrangement to Borrow (GAB)

In December 1961 an important decision was taken to enable the International Monetary Fund to fulfil more effectively its role in the international monetary system. It was regarding the General Arrangement to Borrow (GAB), according to which the IMF was authorised to borrow supplementary resources needed to forestall or cope with an impairment of the International Monetary System in the

conditions of widespread convertibility including greater freedom for short-term capital movement (IMF, Annual Report, (1962) p.234). This arrangement which is allowed under Article VII, Sec. 2, of the Fund Agreement, is between the IMF and with ten of its main industrial members, which subsequently became known as the Group of Ten.

#### 2.2.1.1 Purposes

(1) "The purpose of the General Arrangement to Borrow is to provide supplementary resources to the Fund, if needed to forestall or cope with an impairment of the international monetary system" [IMF, Annual Report, (1984), p.81].

(2) To supplement the Fund's resources by financing for the benefit of the participants of the GAB.

The Fund borrowing between 1962-87 are shown in Table 2.6.

#### 2.2.2 Oil Facility (1974 and 1975)

The rise in oil price, the Fund borrowed SDR 6.9 billion from 17 members countries to finance oil facility, is shown in Table 2.7.

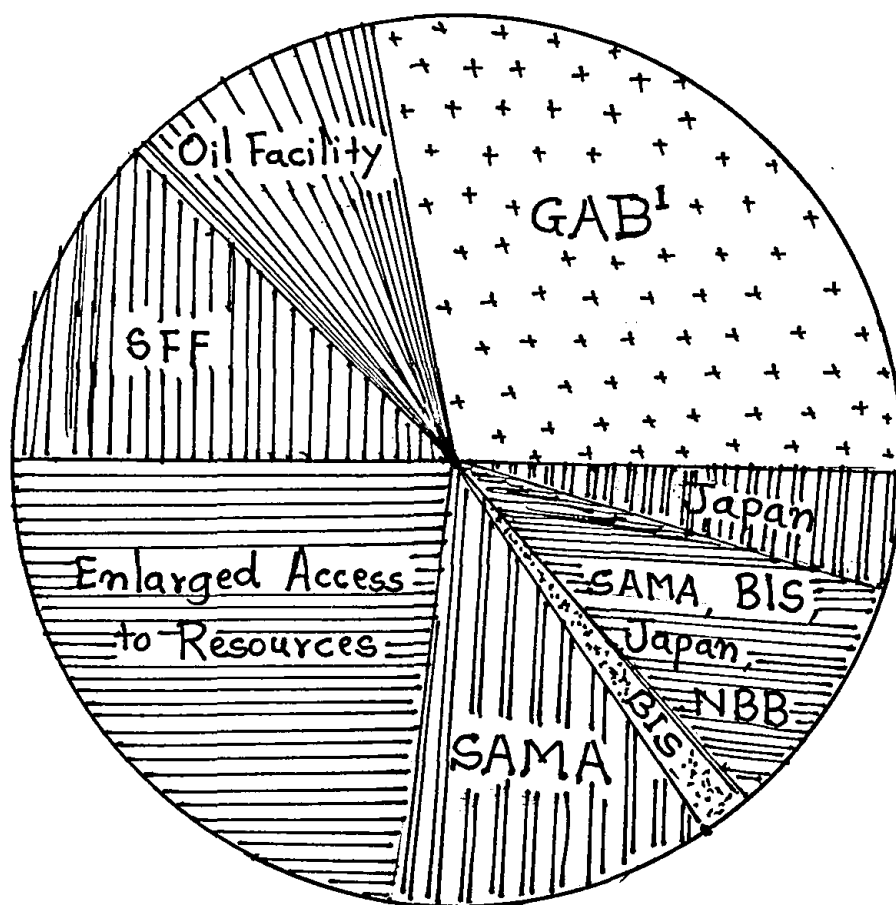
In 1974 and 1975, the Fund entered into borrowing agreement with 17 lenders for a total amount equivalent to SDR 6.9 billion for the purpose of financing transaction under oil facility. The outstanding borrowing were under the 1975 borrowing agreements and carried an interest rate of  $7\frac{1}{4}$  per cent calls made by the Fund under these agreement

Table 2.6 : Fund Borrowing, 1962-87

(Billions of SDRs)			
Borrowing Arrangements	Number of Countries of Central Banks	Agreed Amount	Outstanding Borrowing as of April 1987
General Arrangement to Borrow (1962-63)	10	6.00	-
Revised and enlarged (1983) Arrangement to Borrow	11	17.00	-
Associated Arrangement with Saudi Arabia (1983)	1	1.5	-
Oil facility (1974)	7	2.8	-
Oil facility (1975)	12	3.9	-
Supplementary financing facility (1979-84)	14	7.78	3.381
Enlarged access to resources (1981)	7	15.3	9.304
Medium-term, Saudi Arabian Monetary Agency (1981-87)	1	8.0	-
Short-term, Bank for International Settlement and others (1981-85)	18	1.3	-
Saudi Arabian Monetary Agency, Bank for International Settlements, Japan and National Bank of Belgium	4	6.0	-
Borrowing Agreement with Japan (1986)	1	3.0	.015
Total :			12.700

Source : Chandavarkar, (1984), p.208 IMF Annual Report, 1987.

CHART - 2.1 (Table 2.6) FUND BORROWING  
1962 - 87  
[ In billion of SDRs ]



<sup>1</sup> Including Associated Arrangement With  
Saudi Arabia ( SDR 1.5 billion )

Table 2.7 : Showing Borrowing Agreement with Fund,  
1974-75, for Oil facility transactions

(in million of SDRs)		
Lender	Amount agreed	Currency
Abu Dhabi	100.0	U.S. dollars
Austrian National Bank	100.0	U.S. dollars
National Bank for Belgium	200.0	U.S. dollars
Canada	246.0	Canadian dollars
Deutsche Bundes bank	600.0	U.S. dollars
Bank Markazi of Iran	990.0	Iranian rigals
Central Bank of Kuwait	685.0	Kuwaiti dinars
The Netherlands	350.0	U.S. dollars
Nigeria	300.0	U.S. dollars
Norges Bank	100.0	Norwegian kroner
Central Bank of Oman	20.5	U.S. dollars
Saudi Arabian Monetary Agency	2,250.0	S.A. rigals
Sveriges Risk Bank	50.0	U.S. dollars
Swiss National Bank	100.0	U.S. dollars
Switzerland	150.0	U.S. dollars
Central Bank of Trinidad and Tobago	10.0	U.S. dollars
Central Bank of Venezuela	650.0	Venezuelan bolivares
Total :	6,902.4	

Source : IMF, Finance and Development, September 1976,  
Vol.13, No.3, p.23.

were repayable in instalments beginning not later than three and one-half years and to be completed not later than seven years. The last repayment of borrowing under the oil facility was made in 1983.

### 2.2.3 Supplementary Financing Facility (1979-84)

The supplementary financing facility became operational in May 1979. The Fund entered into borrowing agreements with 14 members, or institutions within their territories, and with the Swiss National Bank, under which the lenders agreed to make resources available in the Fund, at call, upto SDR 7.784 million through February 1984 to finance purchases by members under this facility (See Table 2.8 and Chart 2.1 on page 32). Borrowing by the Fund under these agreements is to be repaid in instalments between three and one-half to seven years after the date of borrowing. Interest paid by the Fund on amounts borrowed under the borrowing agreements is based on the average yield on U.S. Government securities with a constant maturity of five years (IMF, Annual Report, 1987, p.144).

### 2.2.4 Enlarged Access to Resources (1981)

The policy on enlarged access became operational in May 1981. The Fund entered into borrowing agreement with seven members, or institutions within their territories, the Bank for International Settlements, and the Swiss National Bank, under which the lenders have agreed to make resources

Table 2.8 : Showing the Lenders and the Amounts of  
the Borrowing Agreement for Supplementary  
Financing Facility Transactions

(In million of SDRs)		
Lenders	Amount Agreed	Currency
Abu Dhabi	150.0	U.S. dollars
Austrian National Bank	50.0	U.S. dollars
National Bank of Belgium	150.0	Belgium francs
Canada	200.0	U.S. dollars
Deutsche Bundes Bank	1,050.0	U.S. dollars
Bancode Guatemala	30.0	U.S. dollars
Japan	900.0	Japanese yen
Central Bank of Kuwait	400.0	Kuwaiti denars
The Netherland Bank	100.0	U.S. dollars
SAMA	1,934.0	Saudi Arabian riyals
Swiss National Bank	650.0	U.S. dollars
United States	1,450.0	U.S. dollars
Central Bank of Venezuela	500.0	Venezuela bolivares
Central Bank of Nigeria	220.0	U.S. dollars
Total :	7,784.0	

Source : IMF, Annual Report, 1979, p.78.

available to the Fund, upto SDR, 15,305 million, to finance purchases by members under the policy. The maturities of borrowing by the Fund under these agreements vary from three months to seven years. Interest paid by the Fund on amounts borrowed under these agreements is at variable rates of interest which are established periodically, and are related to market interest rates, based on weighted average yields of domestic instrument denominated in the five currencies in the SDR valuation basket (IMF, Annual Report, 1987, p.144)

2.2.5 Saudi Arabian Monetary Agency (Medium-term) (1981-87)

The Fund's policy of enlarged access became operational with the signing of a medium-term borrowing with the Saudi Arabian Monetary Agency (SAMA) for SDR 8.00 billion agreed in May 1981, and the supplementary medium-term borrowing arranged with (SAMA) for SDR 3.0 billion agreed in 1984.

"SAMA will make a lending committed to the Fund of SDR 4 billion in the First year of the agreement and a further SDR 4 billion in the second year. The Saudi Arabian authorities have also indicated their intention to enter into a further commitment for the third year if their Balance of payment and reserve position so permits. Drawing under these borrowing arrangements will be able to continue during a commitment period of six years, each call being subject to a notice period of 90 days. The Fund will undertake



to draw down at least SDR 1 billion in the first year and not more than SDR 4 billion in any one year. The loans will be denominated in SDRs.

#### 2.2.6 Short-term borrowing (1981-85)

Under the agreements concluded in 1981, the Central Banks or official agencies of 18 countries agreed to make available to the Fund the equivalent of SDR 1.3 billion over a commitment period of two years. As of April 30, 1987, borrowing under the 1981 agreement for SDR 1.3 billion had been fully repaid.

#### 2.2.7 Bilateral Arrangement with Japan (1986)

In December 1986, the Fund and the Government of Japan agreed to an arrangement under which Japan will make available to the Fund SDR 3 billion to help finance the Fund's support of adjustment programmes of member countries. Calls under the agreement may be made by the Fund over a period of four years beginning March 31, 1987. This period may be extended for upto two years if an extension is considered to be warranted in the light of the Fund's liquidity and borrowing needs. Each call is for a period of six months and will be renewable at the option of the Fund. The final maturity of each call, including renewals, will be five years from the initial date of the call. Interest on amount borrowed under the arrangement is based

on the weighted average of six-month domestic interest rates in the countries that make up the currency basket of the SDR.

2.2.8 Borrowing Agreement with SAMA, BIS, Japan and NBB

In December 1986, the Fund entered into a new borrowing agreement for a total of SDR 6 billion with SAMA, Bank for International Settlements, Japan and the National Bank of Belgium. Under this arrangements the Fund may make drawings for an amount equivalent to SDR 3 billion during the period of four years, from the date of first drawing. The final maturity of each drawing will be five years, after the date of drawing. Interest rate will be based on the weighted average of six month domestic interest rates for the five currencies comprising the SDR basket.

2.2.9 ESAF Borrowing Agreements (1988)

The Fund, as trustee of the enhanced structural adjustment facility (ESAF), had, concluded borrowing arrangements with four lenders as of July 31, 1988 totaling SDR 3.3 billion, to finance lending under the facility. Drawing can be made by the Fund under these borrowing arrangements until June 30, 1992. Additional loan agreements are in various stages of negotiation. Total commitment by lenders to the ESAF Trust are expected to amount to SDR 6 billion (IMF, Survey, September 1988, p.16).

## CHAPTER III

### USE OF FUND RESOURCES

#### Introduction

We discussed in the previous chapter the resources of the Fund. This chapter reviews how the Fund's financial resources are made available to members from the General Resources Account through a varied range of policies and facilities. These differ mainly in regard to the type of underlying balance of payments problem they seek to address, and in the terms and degree of conditionality attached to them.

In the first place, it is necessary to study the policies of the Fund regarding the use of its resources to get an idea about how the Fund has contributed over the past four decades, to the easing of the liquidity problem. It must be noted that the operations of the Fund in this respect are governed broadly of two categories, (i) tranche policies and (ii) special facilities.

#### 3.1 Member's Drawings Rights

In terms of Article V, Section 3, a member is entitled to purchase from the Fund in exchange for its own currency, the currency of another member upto a maximum of 25 per cent of its quota per annum and only to the extent that the total holdings of the Fund in that currency did not exceed

200 per cent of its quota (Art. V, Sec.3(b)(iii) ).

These drawing rights are, however, not automatic, but are subject, under the Articles to the following conditions [Scammell, (1975) p.113].

(1) The Fund's resources may not be used to meet a large or sustained outflow of capital [Art. VI, Sec. I(a)].

(2) The Fund may deny the use of its resources to any country making an unauthorised change in the par value of its currency [Art. IV, Sec.4];

(3) The Fund shall not have declared the requested currency to be 'scarce' [Art. VII, Sec. 3];

(4) The Fund must be satisfied that the currency requested is presently needed for making payments which are consistent with the provisions of the Fund. Agreement [Art. V, Sec. 3(a)].

(5) A member shall not be entitled without the Fund's permission to acquire currency to hold against forward exchange transactions [Art. V, Sec. 3(b)].

(6) The Fund may postpone exchange transaction with any member if its circumstances are such that in the opinion of the Fund, they would lead to use of the resources of the Fund in manner contrary to the purposes of the Agreement or prejudicial to the Fund or the members.

These are far-reaching conditions and give to the Fund the position of final arbiter upon all requests for accommodation. Throughout the period of its operations the Fund has striven to define the short-term nature of the Fund assistance and the type of conditionality that should govern access to its resources. It has been necessary on the one hand, to give reasonable assurance to members that they would be able to make temporary use of Fund resources in proper circumstances and on the other, to ensure that Fund resources would be used to promote the achievement of the Fund's objectives.

### 3.2 Evaluation of the Fund's Lending Policy

When a member draws on the Fund, it purchases the currencies of other member countries, thus a drawing results in an increase in the Fund's holding of the member's currency and a decrease in the holding of the currencies that are purchased. Let us start from a position where Fund holding of members currency is equivalent to 75 per cent of the member's quota. The member is said to have utilised the gold tranche "if Fund's holdings of the members currency rise to 100 per cent of quota as a result of purchases" [Tew, (1982) p.94]. The following table (Table 3.1) would give an idea about conditional purchase on tranche policies.

Table 3.1 : Showing Limits of Drawing on IMF Tranche Policies

Tranche policy	(as per cent of member's quota)	
	Member's National Currency Stock in the Fund	Purchase Conditional/Unconditional
1) Condition before purchase	Member's quota	75% -
2) Reserve tranche	Member's quota	100% Unconditional
3) First Credit Tranche	Member's quota	125% Conditional
4) Second Credit "	Member's quota	150% Conditional
5) Third Credit Tranche	Member's quota	175% Conditional
6) Fourth Credit "	Member's quota	200% Conditional

Source: IMF, Survey, May 1981, p.8

Each succeeding tranche is credit tranche and is equal to 25 per cent of quota normally, under tranche policies a member may draw under four credit tranches, that is, it may draw until Fund's holding of member's currency are at 200 per cent of quota (See Table 3.8).

### 3.2.1 Reserve Tranche

A member has a reserve tranche position in the Fund (known as the gold tranche prior to the Second Amendment) to the extent that the Fund's holdings of its currency are less than the member's quota. A member may purchase upto the amount of its full reserve tranche at any time. The

reserve tranche is essentially a reserve asset of a member [Chandavarkar, (1984), p.38].

Purchase under the reserve tranche, like purchases under other Fund facilities, are subject to the requirement of balance of payment need. The Fund has no power, however, to challenge the member's representation of need for use of the reserve tranche purchase. "Fund's holding of the member's currency below 100 per cent of quota is termed the reserve tranche" [Crockett, (1977), p.218].

A member may purchase upto the full amount of its reserve tranche at any time. Total purchases under the reserve tranche policy amounted of SDR 21.07 billion during the period of 1947 to 1988 (See Table 3.2). Further purchases are made in four credit tranches each of 25 per cent of the members quota.

### 3.2.2 Credit Tranche

The credit tranche policy is the Fund's regular or basic lending policy. A member can make purchases in four credit tranches, each equivalent to 25 per cent of its quota. A first credit tranche purchase is defined as one that raises the Fund's holding of the purchasing members currency in the credit tranche to no more than 25 per cent of quota (i.e., drawing that raise the Fund's holdings of a members currency above 100 per cent but not over 125 per cent of its quota). A member may use the Fund's

Table 3.2 : Use of Fund's General Resources under various Tranche,  
Policies and Facilities as at April 30, 1947 to 1988

(in billion of SDRs)

Year	Reserve Tranche	Credit Tran- ches	CFE 1963	BSFF 1969	SDRS 1970	EFF 1944	Oil faci- lity 1974- 75	TF 1976	SFF 1979	EAP 1981	SAF 1986
1947	0.398	0.068	-	-	-	-	-	-	-	-	-
1948	0.088	.113	-	-	-	-	-	-	-	-	-
1949	0.056	.044	-	-	-	-	-	-	-	-	-
1950	-	-	-	-	-	-	-	-	-	-	-
1951	0.006	.028	-	-	-	-	-	-	-	-	-
1952	0.013	.071	-	-	-	-	-	-	-	-	-
1953	0.158	.071	-	-	-	-	-	-	-	-	-
1954	0.049	.012	-	-	-	-	-	-	-	-	-
1955	0.012	.015	-	-	-	-	-	-	-	-	-
1956	0.294	.397	-	-	-	-	-	-	-	-	-
1957	0.421	.556	-	-	-	-	-	-	-	-	-
1958	0.054	.283	-	-	-	-	-	-	-	-	-
1959	0.042	.137	-	-	-	-	-	-	-	-	-
1960	0.061	.218	-	-	-	-	-	-	-	-	-
1961	0.720	1.719	-	-	-	-	-	-	-	-	-
1962	0.167	.391	-	-	-	-	-	-	-	-	-
1963	0.006	.314	.22	-	-	-	-	-	-	-	-
1964	0.700	1.250	-	-	-	-	-	-	-	-	-
1965	0.401	2.021	.03	-	-	-	-	-	-	-	-
1966	0.602	2.203	.01	-	-	-	-	-	-	-	-
1967	0.677	.322	.06	-	-	-	-	-	-	-	-
1968	0.639	.489	.21	-	-	-	-	-	-	-	-
1969	0.902	1.924	.01	-	-	-	-	-	-	-	-
1970	0.689	2.297	.009	-	-	-	-	-	-	-	-

Contd....



Table 3.2 (concluded)

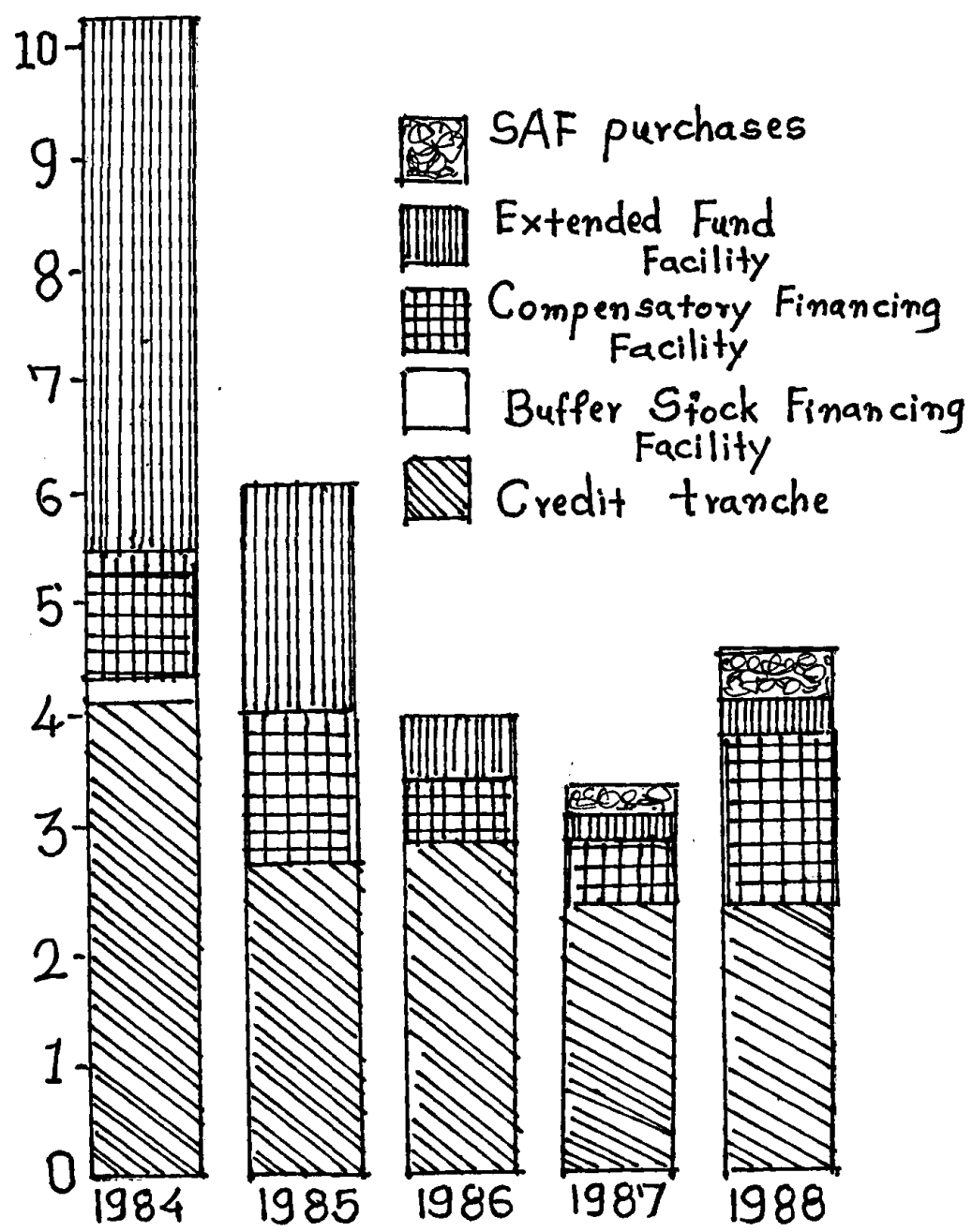
Year	Reserve Tranche	Credit Tranches	CFF 1963	BSFF 1969	SDRS 1969	EFF 1974	Oil facility 1974-75	TF 1976	SFF 1979	EAP 1981	SAF 1986
1971	0.810	.354	.002	-	-	-	-	-	-	-	-
1972	1.576	.264	.16	.02	-	-	-	-	-	-	-
1973	0.641	.323	.20	.005	.292	-	-	-	-	-	-
1974	0.607	.239	.21	-	.007	-	-	-	-	-	-
1975	0.981	1.604	.01	-	.004	-	2.499	-	-	-	-
1976	1.324	.461	.83	(1)*	.443	.01	3.966	-	-	-	-
1977	0.161	2.370	1.75	-	.025	.19	.437	.031	-	-	-
1978	0.136	1.937	.32	-	.662	.11	-	.490	-	-	-
1979	2.480	.485	.46	.05	1.106	.24	-	.740	.047	-	-
1980	0.222	1.106	.86	.03	1.283	.22	-	1.263	.502	-	-
1981	0.474	2.682	.78	-	2.033	.92	-	1.460	1.57	-	-
1982	1.080	2.748	1.63	-	2.033	2.58	-	-	2.05	1.16	-
1983	1.134	3.703	3.74	.35	2.419	2.46	-	-	1.95	1.18	-
1984	1.354	4.164	1.18	.10	3.786	4.71	-	-	1.08	4.03	-
1985	0.229	2.768	1.24	-	2.595	2.04	-	-	-	2.56	-
1986	0.160	2.841	.60	-	1.965	.49	-	-	-	1.46	-
1987	0.517	2.325	.59	-	1.779	.25	-	-	-	.887	.14
1988	0.035	2.313	1.54	-	1.848	.26	-	-	-	1.705	.58
Total:	21.07	47.62	16.65	.55	22.28	14.48	6.902	3.984	7.19	12.98	.72

Source : IMF Annual Reports  
 Fleming, J. Marcus (1964) p.56  
 Tew, Brian (1982) p.217

(1)\* : Less than SDRS 5 million.

- : No purchases.

CHART - 3.1 (Table - 3.2) Use of Funds  
 General Resources, Financial Years  
 Ended April 30, 1984-88  
 [In billion of SDRs]



resources in the first credit tranche ordinarily appropriate when the payments deficit is relatively small - if the member demonstrates that it is making reasonable efforts to overcome its difficulties. The member may request use of the first credit tranche in the form of either a direct purchase or as part of an upper credit tranche arrangement (IMF, Survey, September 1988, p.10).

Subsequent purchases are made in three successive tranches, each equivalent to 25 per cent of the member's quota, which are collectively known as the "upper credit tranches". A member may use the Fund's resources in the upper credit tranches if it adopts policies that provide substantial grounds for expecting that the member's payments difficulties will be resolved within a reasonable period. Such use is almost always made under stand-by or extended arrangements.

"For drawings which carry the Fund's holdings of a member's currency beyond the 100 per cent point, and upto the normal prescribed maximum of 200 per cent of quota is termed the credit tranche" [Crockett, (1977) p.218]. (See Table 3.1) Purchase under the credit tranches is more conditional, required substantial justification. Total purchases under these tranches are shown in the Table 3.2 and Chart 3.1 as at 1947 to 1988, amounting of SDRs 47.62 billion.

### 3.2.3 Stand-by Arrangements (Art. V, Sec. 3)

The evolution of Fund policies and practices continued with the adoption by the Executive Board on October 1952, of a general policy on stand-by arrangements is to give a member having no immediate need for a drawing, an advance assurance that a drawing would be available, if within six to twelve months the need presented itself. A stand-by arrangement would cover that portion of the quota - generally expected to be a maximum of 25 per cent - which a member could draw under Art. V, Sec. 3. "The stand-by arrangement of the Fund are arrangements under which the Fund assures a member that it will be able to use the Fund's resources upto a prescribed amount during a specified period and usually subject to certain conditions" [Gold, (1968) p.59]. Fund's stand-by arrangements are normally for a period of 12-24 months, the access of individual members would vary depending on the severity of their balance of payments needs and the strength of their adjustment efforts [IMF, Survey, August 10, 1987, p.14]. Repayment of the amounts purchased is required to be made not later than three to five years from the date of purchase. Stand-by arrangements are defined in the Second Amendment of the Articles of Agreement as follows:

Stand-by arrangement means a decision of the Fund by which a member is assured that it will be able to make purchase from the General Resources Account in accordance

with the terms of the decision during a specified period and upto a specified amount.

An important decision was taken by the Executive Board of the Fund in 1952 and these further approved stand-by arrangements year by year which are shown in Table 3.3.

The number of stand-by arrangements approved by the Fund during fiscal year ended April 30, 1953-88. Only two were approved each year during the fiscal years 1952-53 to 1955-56. From 1956-57 the number began to increase, rising to 24 in 1961-62, 1964-75, 1965-66, 1979-80 and 1984-85, 25 in 1966-67 and 1983-84 and 32 in 1967-68. Fourteen stand-by arrangements were approved in 1987-88. As many as 624 stand-by arrangements were approved during from the fiscal year ended April 30, 1953 to 1988, and total amount of SDRs 60,479.47 million.

Stand-by arrangements have been approved for a number of countries in order to maintain confidence in the economic policies being followed by them. The monetary authorities of the country often find that the stand-by conditions strengthen their hands against political pressures. Under stand-by arrangements, member is assured and it will be able to make purchase and repurchases from the General Resource Account, during a specified period and specified amount which is shown in (Table 3.4 and Chart 3.2). The Fund provides financial assistance to a member by selling

**Table 3.3 : Summary of Stand-by Arrangement that Became Effective during the Financial Year Ended April 30, 1953-1988**

(In Million of SDRs)					
Year	No. of Stand-by Arrangement Approved	Total amount Approved	Year	No. of Stand-by Arrangement Approved	Total Amount Approved
1953	2	55.00	1971	18	501.70
1954	2	62.50	1972	13	313.75
1955	2	40.50	1973	13	321.85
1956	2	47.50	1974	15	1,394.00
1957	9	1,162.28	1975	14	389.75
1958	11	1,043.78	1976	18	1,188.02
1959	15	1,056.63	1977	19	4,679.64
1960	14	363.88	1978	18	1,285.09
1961	15	459.88	1979	14	507.85
1962	24	1,633.13	1980	24	2,479.36
1963	19	1,531.10	1981	21	5,197.93
1964	19	2,159.85	1982	19	3,106.21
1965	24	2,159.05	1983	27	5,449.98
1966	24	575.35	1984	25	4,287.33
1967	25	591.15	1985	24	3,218.33
1968	32	2,352.36	1986	18	2,123.40
1969	26	541.15	1987	22	4,117.51
1970	23	2,381.28	1988	14	1,701.90
<b>Total:</b>				<b>624</b>	<b>60,479.47</b>

Source: IMF Annual Report, 1988, p.91.

**Table 3.4 : Summary of member's purchases and repurchases**  
 - financial year ended April 30, 1948-88

(in million of SDRs)

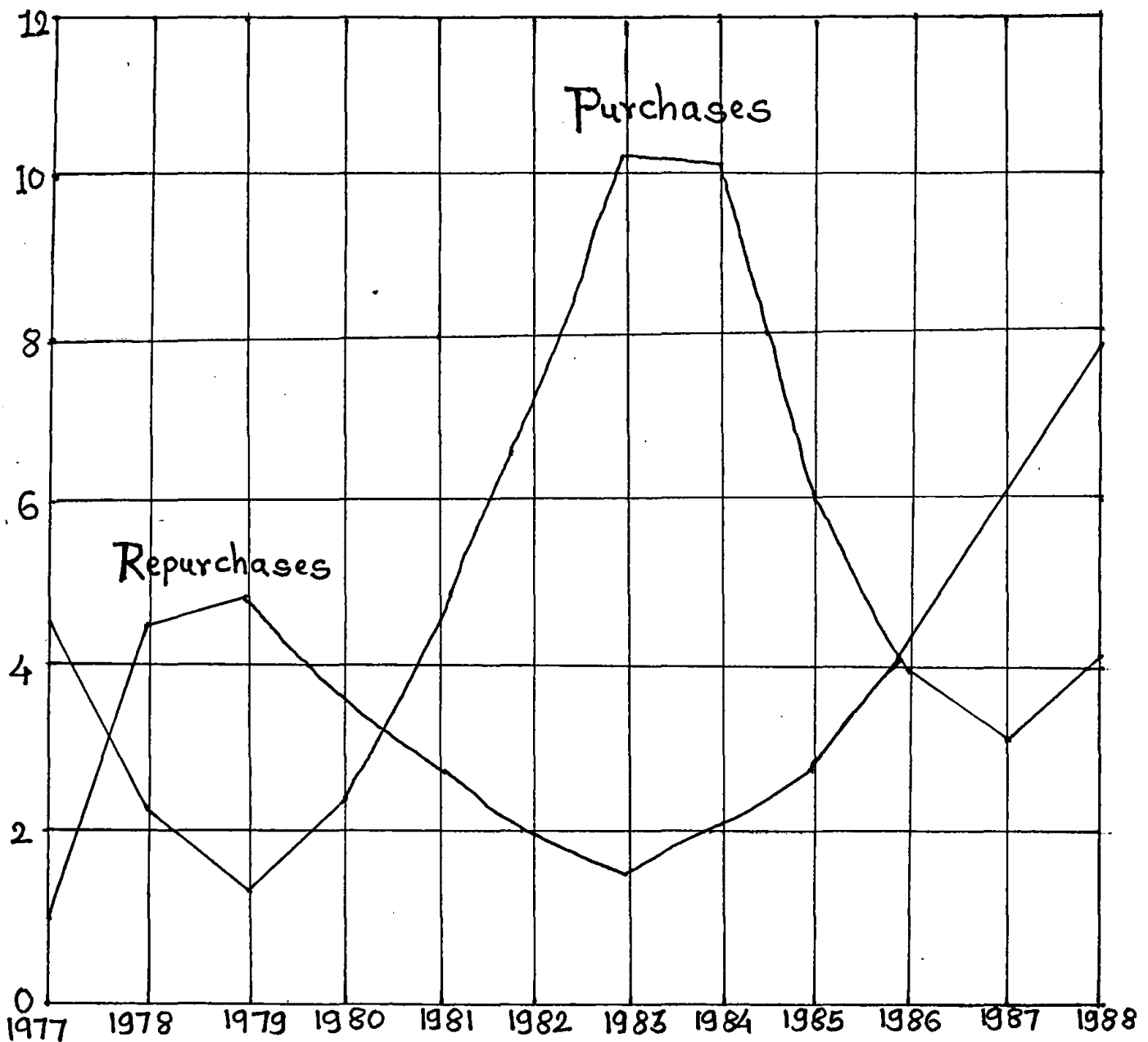
Fiscal year	Total purchases by members	Total re-purchases by members	Fiscal year	Total purchases by members	Total re-purchases by members
1948	606.04	-	1969	2,838.85	1,542.33
1949	119.44	-	1970	2,995.65	1,670.69
1950	51.80	24.21	1971	1,167.41	1,656.86
1961	28.00	19.09	1972	2,028.49	3,122.33
1952	46.25	36.58	1973	1,175.43	540.30
1953	66.12	184.96	1974	1,057.72	672.49
1954	231.29	145.11	1975	5,102.45	518.08
1955	48.75	276.28	1976	6,591.42	960.10
1956	38.75	271.66	1977	4,910.33	868.19
1957	1,114.05	75.04	1978	2,503.01	4,485.18
1958	665.73	86.81	1979	3,719.58	4,859.18
1959	263.52	537.32	1980	2,433.26	3,775.93
1960	165.53	522.41	1981	4,860.01	2,832.93
1961	577.00	658.60	1982	8,040.62	2,009.28
1962	2,243.20	1,260.00	1983	11,391.89	1,555.12
1963	579.97	807.25	1984	11,517.73	2,017.65
1964	625.90	380.41	1985	6,288.87	2,730.39
1965	1,897.44	516.97	1986	4,101.22	4,289.01
1966	2,817.29	406.00	1987	3,684.56	6,169.32
1967	1,061.28	340.12	1988	4,152.56	7,934.57
1968	1,348.25	1,115.51			
<b>Total:</b>				<b>1,05,156.66*</b>	<b>61,894.59*</b>

Source : IMF, Annual Report, 1988, p.91

\* Includes reserve tranche purchases

\* Excludes sales of currency and adjustment that have the effect of repurchase.

CHART - 3.2 (Table 3.4) Purchases and  
Repurchases, Financial Years Ended  
April 30, 1977-88<sup>1</sup>  
( In billion of SDRs )



<sup>1</sup> Purchases Excluding Reserve Tranche



SDRs or the currencies of other members in exchange for its own currency. When making a purchase, a member pays an equivalent amount in its own currency, which it is required to repurchase after specified period of time since Fund resources are available only for temporary use [Chandavarkar, (1984), p.41].

### 3.3 Evolution of the Fund's Lending Facility

We have so far discussed the member's drawing right under tranche policies. Shall now take up a review of a variety of facilities, which are made available to the Fund's members. Table 3.5 summarises the limits of drawings on IMF facilities.

#### 3.3.1 Compensatory Financing Facility (1963)

On February 27, 1963 the Fund took the decision to create a new compensatory financing facility which would broaden its balance of payments support of member countries and particularly those exporting primary products (IMF, Annual Report, 1963, p.17). This facility is accessible to all members, however, its beneficiaries tend to be mostly exporters of primary products, the bulk of whom are developing countries.

##### 3.3.1.1 Origin

The principle purpose of the CFF is to provide timely relief to members with payments difficulties arising from

Table 3.5 : Limits of Drawing on IMF Facilities

(as per cent of Member's quota)

Facility	Limits of Drawing on Facility	Maximum Cumulative Drawing
Reserve Tranche	25	25
First Credit Tranche	25	50
Upper Credit Tranche	75	125
Extended Fund Facility	140	190 <sup>1</sup>
Supplementary Fund Facility/ Enlarged Access policy	140	330 <sup>2</sup>
Compensatory Financing Facility	125 <sup>3</sup>	455
Buffer stock financing facility	50	505

Source : Gulati, (1987), p.312.

1. Purchase under the extended facility are additional to those member may make under the reserves and first credit tranches and are subject to high conditionality, hence the cumulative progress of only 190. In effect, therefor the extended facility raised the access of a member to the Fund's high conditionality resources only by 65 per cent of its quota (140-75).
2. In special circumstances, additional amount may be provided by the Fund and these additional purchases can be made by a member under the supplementary financing facility/enlarged access policy. Present Fund guidelines specify limits of 150 per cent over a 3 year period subject to 600 per cent limit on the cumulative use of Fund resources. Even these limits, it is said, may be exceeded in exceptional circumstances. Furthermore, these limits do not include drawings under the compensatory and Buffer Stock Financing Facilities or outstanding drawing under the oil facilities of 1974-76.
3. Following the decision in mid-1981 to authorise and integrate temporary Fund compensation for excess cost incurred in current imports with shortfalls in exports receipts, the overall limit of drawing from the facility has been raised to 125 per cent of quota.

temporary short-falls in their export earnings due to factors largely outside their control. The CFF is open to all Fund members [Kaibni, (1986), p.24].

In 1979 CFF was extended, in recognition of the relatively high dependence of certain countries on earning from services and the vulnerability of these earnings to sudden changes beyond their control, so the coverage was extended, to give countries the option of including earnings from workers remittances and tourism in the calculation of the earnings export shortfall [Kaibni, (1986), p.24-25].

In May 1981 the facility was further extended to enable the provision of assistance to members experiencing balance of payments difficulties caused by an excess in the cost of specified cereal imports, which include wheat, rice and coarse grains such as maize, barley, sorghum, and millet. Since such cereals account for more than three-fourths of the calorie content of all foods imported by low-income countries and for about 25 per cent of the world trade in agricultural products, this feature of the facility is expected to be particularly beneficial to low-income countries that are also most susceptible to balance of payments problems caused by sharp increases in prices of cereals [Chandavarkar, (1984), p.50].

### 3.3.1.2 Eligibility and Access

The "amended" CFF is, as with other IMF facilities

available to all member countries. The limits of access are expressed as a percentage of quota and are based on the net shortfall defined as the sum of the two following components [Chandavarkar, (1984), p.50].

- i) the export shortfall, which is calculated as the amount by which exports in a given year are below the geometric average of exports for a five-year period centered on the given year;
- ii) the cereal import excess, which is calculated as the amount by which the cost of cereal imports in a given year exceeds the arithmetic average of the cost of cereal imports for the five-year period centered on the given year.

The limits currently applicable to outstanding purchases are as follows:

a.	Exports short-falls	83 per cent of quota
b.	Cereal import excesses	83 per cent of quota
	Total purchases (a + b)	105 per cent of quota.

A member, besides demonstrating a balance of payments need, must represent that it will cooperate with the Fund in finding an appropriate solution for its balance of payments difficulties. When the outstanding purchases under the facility go beyond 50 per cent of its quota, the member must satisfy the Fund that it has been so cooperating.

### 3.3.1.3 Limits of Drawings

The amount of a drawing is constrained by the size

of the calculated shortfall, subject to a limit on outstanding drawings. Following approval of a request by the Fund's Executive Board, a drawing is made in one instalment and normally repaid in eight equal quarterly instalments spread over the fourth and fifth years after the drawing. The "rate of charge" on outstanding CFF drawings is the same as that applied to other drawings from the general (quota) resources of the Fund. The overwhelming use of the CFF has been to compensate for shortfalls in merchandise exports. Before 1979, this was the only item covered by the CFF [Kaibni, (1986), p.24].

The CFF permitted a member to make a drawing of up to 50 per cent of its quota in order to cover a shortfall in export receipts. Two conditions were, however, made first, the shortfall had to be short-term in nature and "largely attributable to circumstances beyond the control of the member". Second, the member concerned had to be prepared to co-operate with the Fund and required appropriate solution for its balance of payments difficulties [Bird, (1982), p.147].

1963 : 25 per cent of quota on outstanding drawings.

1966 : 50 per cent of quota with drawing in any 12 month period limited to 25 per cent of quota, except in emergencies.

1969 : With the introduction of the Buffer stock financing

facility, a limit 50 per cent was set on outstanding drawings under each facility with a joint limit of 75 per cent for drawing under both facilities.

- 1975 : Joint limit removed, outstanding drawing under the CFF raised to 75 per cent of quota. Drawing in any 12-month period not to exceed 50 per cent of quota, except in emergencies.
- 1979 : Limit on outstanding drawings raised to 100 per cent, limit on drawing in 12 month period removed.
- 1981 : With coverage of cereal imports limit set at 100 per cent of quota for cereal import costs joint limit set at 125 per cent of quota.
- 1984 : With general increase in quotas maximum limit reduced from 100/100/125 (export shortfalls/cereal excesses/combined) to 83/83/105 per cent of quota upto now [Kaibni, (1986), p.26].

In theory of, compensatory financing may fully of set export shortfalls and import excesses.

$$\text{If } Cf = \mathcal{L}(x^N - x^A) + \beta(M^A - M^N)$$

- where - Cf = is the size of compensatory financing
- $x^N$  = is the normal value of exports
- $x^A$  = is the actual value of exports
- $\mathcal{L}$  = represents the degree of compensation.
- $M^N$  = is the normal value of imports
- $M^A$  = is the actual value of imports

$\beta$  = represent the degree of compensation.

All this is necessary for perfect compensation is that  $\alpha$  and  $\beta$  both equal one. The only main intrinsic difficulty with respect to compensatory financing is to be found in estimating  $X^N$  and  $M^N$  [Bird, (1982), p.151].

#### 3.3.1.4 Use of CFF

Use of the Cff in the early years of the facility was modest. The level of Cff drawings increased sharply, however, after the facility was modified in December 1975. Total purchases under Cff as at April 30, 1963 - 88, were amounting to SDR 16.65 billion (See Table 3.2). The use of the Cff in the early years of the facility from 1984 to 1988 is shown in (Chart 3.1). Under the present guidelines, outstanding purchases under the facility are subject to an individual ceiling of 83 per cent of quota for export shortfalls or cereal import excesses, and to an overall ceiling of 105 per cent of quota for both export shortfalls and cereal import excesses.

#### 3.3.2 Buffer Stock Financing Facility (1969)

In 1969, the Fund took a decision to establish a Buffer Stock financing facility, to assist member countries in financing their contribution to buffer stock held under commodity arrangements.

The instability of prices of primary commodities is not a new phenomenon. According to the law formulated in 1696 by Gregory King, a noted British writer on social and economic issues, "abundant crops were often more a curse than a blessing for farmers, because the price fall induced by such abundance was usually greater than in increase in the volume sold and, as a result, abundant crops were often associated with a decline in farmer's revenue". In most industrial countries, farmers are now protected to some extent against such dangers by schemes which provide farmers with either guaranteed prices or deficiency payments when their revenues fall below an agreed parity level [Gorex, (1978), p.23].

### 3.3.2.1 Purposes

First, to protect primary product exporting countries against the dangers of price instability; second, to reduce price fluctuations through buffer stock operations in the context of international commodity agreements; third, to provide financial assistance to countries experiencing shortfalls in their export earnings [Gorex, (1978), p.23].

### 3.3.2.2 Provisions

The BSFF is, however, subject to the following provisions: First, finance can be provided only to individual members participating in buffer stock schemes and not the international organisations which control the



buffer stock; Secondly, before a member is permitted to draw from the Fund under the BSFF it must need to do so. For balance of payments reasons; Thirdly, drawing must be repaid within three to five years, or earlier if the buffer stock should reimburse the contributions of its members; Fourth, the member country must agree to cooperate with the Fund in finding solutions, if required to its balance of payments difficulties [Bird, (1982), p.152].

### 3.3.2.3 Operations

Buffer stock operations provide only one way of stabilizing commodity prices. If the financial resources of a buffer stock scheme are close to exhaustion while the price continues to fall. Further price declines may be avoided by restricting supply through the imposition of export quotas. In the short term, this would result in the accumulation of stocks, financed directly by each exporting country. In the medium or long term, it might result in a curtailment of investments in and future production for the commodity concerned. Export quotas may contribute effectively to the defense of the floor price, but they are of no help in defending the ceiling price since all export quotas are normally eliminated long before the ceiling price is reached [Gorex, (1978), p.23]. When a commodity market is faced with a serious surplus problem, the major emphasis may have to be placed on export quotas

in the initial phase of stabilization. However, if the market is broadly in equilibrium and if import demand is fairly responsive to price changes, for example, it may be preferable to place the major emphasis on buffer stocks rather than an export quotas. Export quotas can only support price when these are low, while buffer stocks can also avoid abnormally high prices which would trigger the use of substitutes. The Fund is play a part in the effort to stabilize commodity prices and export earning by providing assistance under its buffer stock financing facility and compensatory financing facility, such assistance is available to those members experiencing balance of payment difficulties, and who are able to demonstrate a balance of payment "need" in terms of the Fund's policies for the use of its resources. Assistance under Buffer Stock Financing Facility is available to members in connection with Tin Agreement [Art. 21,(a)(ii)]. Cocoa and sugar buffer stocks, the Fund Executive Board decided that such assistance could also be provided in connection with stocks to be constituted under the International Sugar Agreement, which entered provisionally into force on January 1, 1978. At present only Rubber Agreement [extended until October 1987] qualifies for Fund Support [Gerex, (1978) pp. 23-24].

#### 3.3.2.4 Use of Fund's Resources

Drawing may be made for buffer stock financing upto the equivalent of 45 per cent of quota, with respect to buffer stock of tin, natural rubber, and sugar. Repurchase provisions are the same as for credit tranche and compensatory financing purchases. Total purchase under BSFF as at April 30, 1969-88 amounted to SDRS .55 billion (See Table 3.2). There is no purchase under BSFF have been made during the last four years, and the BSFF have remained little used up to the present time (See Chart 3.1).

#### 3.3.3 Special Drawing Rights Facility (1970)

The SDR is an international reserve asset created by the Fund and allocated to its member as a supplement to existing reserve assets. The Fund has allocated a total of SDR 21.4 billion in six allocations since the SDR was created in 1970 (See Table 2.5). This section reviews the use of SDRs only.

##### 3.3.3.1 Use of SDRs

Member with a balance of payments need may use SDRs to acquire foreign exchange in a transaction with designation, that is, one in which another member, designated by the Fund, provides freely usable currency in exchange for SDRs. The Fund designates members to provide currencies in exchange for SDRs on the basis of the strength of their balance of payments and reserve positions. Fund members

who have no balance of payments need are also eligible to use SDRs in a variety of voluntary transfers (IMF Survey, September 1988, p.5).

"Participants and prescribed holder can use and receive SDRs in transaction and operation by agreement among themselves. Participant can also use SDRs in operation involving the General Resources Account, such as the repayment of charges and repurchases. In addition, the Fund ensures, by designating participants to provide freely usable currency in Exchange of SDRs (IMF, Annual Report, 1988, p.186). Total purchases of SDRs 22.28 billion from the Fund, financial year ended April 30, 1970 to 1988 are shown in Table 3.2.

### 3.3.3.2 Transactions and Operations of SDRs

Participants and prescribed holders can use and receive SDRs in transaction and operation by agreement among themselves. "Under the IMF rules, a country normally drawn on its SDRs only if it has a balance of payment need, although this is no longer a formal requirement. A country may such position may inform the IMF, which in turn designates another country, usually one with balance of payment surplus or larger reserves, as the partner in the SDRs currency swap" [Ndegwa, (1979), p.4]. A designated country is then obliged to provide the SDRs equivalent in its currency to meet its obligations. The SDRs account

of the designated country is created while that of the deficit country is debited accordingly, at the same time, the deficit country gains an increase in its holdings of foreign currencies in this case, the currency of the designated country which it can use immediately. Transactions by agreement and operations among participants and prescribed holders are following:

First, to obtain any currency in transactions by agreement with other members, provided that the transaction is made at the official exchange rate against the SDR as determined by the Fund.

Second, in swap arrangements, in which a member may transfer SDRs to another member in exchange for an equivalent amount of currency or another monetary asset, except gold, with an agreement to reserve the exchange at a specified future date and at an exchange rate agreed to by the participants;

Third, in forward operations, in which member can buy or sell SDRs for delivery at a future date against, except gold, at an exchange rate agreed to by the members;

Fourth, to make loans of SDRs, at interest rates and maturities agreed to by the parties (repayments of loans and payments of interest may be made with SDRs);

Fifth, to settle financial obligation;

Sixth, as security for the performance of financial obligation, in either of the two ways: (1) members pledging

SDRs, which can be earmarked for the duration of the pledge by being recorded in a special register kept by the Fund, (2) members agreeing that SDRs will be transferred as security for the performance of an obligation under the agreement has been fulfilled;

Seventh, in donations (grants).

In addition to these operations, SDRs may be used under special arrangement in operations under the supplementary financing facility subsidy account. Trust fund, structural adjustment facility, and enhanced structural adjustment facility (ESAF). Special arrangements are needed for these operations because the Fund's Special Disbursement Account and accounts administered by the Fund may not hold SDRs directly (IMF Survey, September 1988, p.5).

#### 3.3.4 Extended Fund Facility (1974)

Extended Fund Facility was established in September 1974. Under this facility the Fund may provide assistance to members to meet their balance of payments deficits for longer periods and in amounts larger in relation to quotas than under the credit tranche policies (IMF Survey, May 1981, p.9).

For example, a member might apply for assistance under the facility if an economy suffering serious payments imbalances relating to structural maladjustment in

production and trade where price and cost distortions have been wide spread, an economy characterised slow growth and an inherently weak balance of payments position which prevents pursuit of an active development policy [IMF, Annual Report, (1975) p.88].

#### 3.3.4.1 Key Features

The key features of EFF are as follows: First, request for drawing on this facility will be met only if it felt by the Fund that longer-term policies which cannot be supported by ordinary tranche drawing are appropriate; Second, a member's drawing on the EFF is expected to present an economic programme setting out objective and policies for the duration of the extended arrangement, and more detailed statement of proposed policy action for the first twelve months of the arrangement and twelve month period thereafter. Drawing on the EFF are arranged on an instalment basis, so that the granting of later instalments depends on satisfactory performance in terms of implementing previously agreed policies. Third, the EFF allows drawing on the Fund to be spread over a three-year period, as compared with a maximum of one year under the more conventional stand-by arrangements. Fourth, drawing under the EFF may reach a maximum of 140 per cent of a member's quota over the three-year period, subject to the constraint that the Fund's holdings of the member's

currency should not rise above 265 per cent of the members quota (excluding holdings contracted under the EFF, BSFF or oil facility). This makes the EFF the largest single source to finance available through the IMF. Ordinary drawing are limited to 25 per cent of quota in any one year and a ceiling of 200 per cent of quota. A fifth and final feature of the EFF is that, whereas with the other Fund facilities members are expected to make repurchase within a period of between  $4\frac{1}{2}$  - 10 years after each drawings. Repurchase of purchases financed by borrowed resources are made over a period of  $3\frac{1}{2}$  - 7 years at present [Bird, (1982), pp.153-54].

In addition the period of an EFF arrangement over which purchases are phased normally three years - may be lengthened, where appropriate and the request of the member, to four years (IMF, Survey, September 1988, p.12). Total use of fund resources under EFF as at April 30, 1974 - 1988 were amounting to SDRs 14.48 billion (See Table 3.2 and Chart 3.1).

### 3.3.5 Oil Facility (1974)

The oil facility (OF) was established by the IMF in June 1974 with a lifetime of approximately two years and with the objective of helping countries to cope with the balance-of-payments implications of the rise in the price of oil [Bird, (1982), p.154].



The International Monetary Fund deems it appropriate in accordance with Article VII, Sec. 2(i) to replenish its holdings of currencies by borrowing to the extent that resources are needed in respect of purchases under the facility established by the Executive Board Decision adopted June 13, 1974 [IMF Annual Report, (1974), p.124].

With the oil facility the IMF now attempted in some way to insulate economies from balance of payment implications of a rise in the price of imports, or specifically one particular import. Oil facility existed on an approximately yearly basis. To begin with and in the case of the 1974 OF (Oil Facility), purchase were in the main based on the increase in the cost of the members net imports of petroleum and petroleum products over and above the cost of similar imports in 1972. Purchase under oil facility were not permitted to exceed 75 per cent of quota. Access to the oil facility, 1975 version, was not permitted to exceed 125 per cent of a member's quota. The conditionality applying to repurchase was not all drawings had to be repurchased within three to seven years after the date of drawing whereas the interest rate on outstanding drawings had under the 1974, oil facility was been 7 per cent under the 1975 oil facility is centered around  $7\frac{3}{4}$  per cent [Bird, (1982) pp.154-55].

The oil price has caused problems for oil-importing LDCs in terms of both their balance of payments and their

development with regard to the balance of payments, the rise in the price of oil has served to increase the price of many, if not all imports. Certainly the price of petroleum, petroleum products such as fertilisers, and manufactured goods and capital goods have risen. The United Nations Emergency operation (UNEO) defined as the most seriously affected countries those which have a per capita national income less than \$ 400 years, and which face severe balance of payments problems on the basis of projected import and export performance [Bird, (1982), pp.156-57].

#### 3.3.5.1 Resources Available

The resources made available to IMF members under the oil facility (OF) were supplementary in nature. Between August 1974 and March 31, 1976 the Fund concluded borrowing agreements with 17 lenders for a total amount equivalent to SDR 6.9 billion (See Table 2.7) for the purpose of financing transactions under oil facility, while the bulk of the loans was made by some of the major oil exporting countries, a number of industrial countries in comparatively strong payments and reserve positions also made substantial loans for the oil facility [Williams, David, (1976), p.23].

#### 3.3.6 The Trust Fund (May 1976 - March 1981)

Under the Second Amendment a Trust Fund was established

in the IMF financed by the sale of a part of the Fund's gold. In May 1976 the IMF announced the establishment of a Trust Fund which was adopted by the Executive Board of the International Monetary Fund (IMF). The objective of the Trust Fund is to provide additional assistance on concessional terms to eligible developing member countries to support their balance of payments adjustment. Its resources derive largely from the sale of gold [Gupta, (1978), p.37]. The scheme is thereby related to the IMF's objective of reducing the role of gold in the International Monetary System.

#### 3.3.6.1 Major Features

First, assistance will be available to eligible members of IMF, it will take the form of 'additional balance of payments assistance on concessional terms to support the efforts of eligible members that qualify for assistance to carry out programmes of balance of payments adjustment. Second, the Trust Fund will partly be financed through loans, contributions and income from investment, but in the main it will be financed from the profits which the IMF will make by selling at market price one-sixth (25 million ounces) of its holding of gold over a period of four years. Third, members of the IMF eligible for assistance from the Trust Fund are those LDCs with the lowest per capita national incomes, and in the most difficult economic positions. Fourth, eligible members, basically the least-developed

countries, will have access to financial assistance from the Trust Fund only and reasonable efforts is required for access. Fifth, repayment of Trust Fund loans are to be made not later than between six and ten years after the date of the disbursement. Sixth, the maximum access to eligible members to Trust Fund loans will be fixed as a percentage of their quota as the end of 1975. Seventh, the Trust Fund may invest currency balances in international financial organisation or directly in member countries [Bird, (1982), p.158].

#### 3.3.6.2 Resources

The resources of the Trust Fund are derived mainly from the profit realised on the sale of the Fund's gold over four years for the benefit of the developing member countries. Profits from the gold sale program, which was completed with auction in May 1980, totalled U.S. \$ 4.6 billion. Of which U.S. \$ 1.3 billion was paid directly to 104 developing countries on the basis of their share of quotas at August 31, 1975.

#### 3.3.6.3 Terms and Conditions

The terms and conditions of a loan to a member shall prescribe that it shall repay each disbursement under the loan in ten equal semiannual instalments starting after 5½ years from the date of the disbursement and completed by the end of the tenth year after disbursement. Interest

rate shall be charged at the one half of one per cent per annum on the outstanding balance of loan and shall be paid in semiannual instalments. The loans were denominated in SDRs but the disbursement were made in U.S. dollars.

#### 3.3.6.4 Eligibility

Balance of payments assistance shall be provided to eligible members that qualify for assistance for the first period [July 1, 1976 through June 30, 1978], or for the second period [July 1, 1978 to June 30, 1980] or for both [IMF Annual Report, (1976), p.112].

The second period was subsequently extended to February 28, 1981. The determination of eligibility posed a problem in the absence of a definition of "developing countries" in the Articles. It was decided to use per capita income as a criteria. During the first period 61 members were listed as eligible for Trust Fund assistance, these countries were Fund members on August 31, 1975 and had per capita income of less than SDR 300 in 1973. For the second period, the cut off point was a per capita income of less than U.S. \$ 520 in 1975 and on that basis a total 61 members were eligible. This was the first time in the history of the Fund that per capita income was invoked as an eligibility criterion [Chandavarkar, (1984), pp.71-72].

### 3.3.6.5 Qualification

An eligible member applying for assistance had, first to demonstrate a balance of payment need. Second, a member had had to make a reasonable effort to improve its balance of payments position. Third, an eligible member shall consult the Managing Director of the Trustee before making a request for assistance. Fourth, the need of a member shall be assessed on the basis of the member's balance of payments position.

### 3.3.6.6 Operations

Balance of payments assistance shall be provided to eligible members that qualify for assistance for the first period July 1, 1976 through June 30, 1978 or the second period July 1, 1978 through June 30, 1980. The second period was subsequently extended to February 28, 1981. During the first period 61 members were listed as eligible for Trust Fund assistance on the basis of low per capita income for Trust assistance, among the 61 eligible members 43 members qualified for Trust Fund assistance. The resources available to the Trust Fund for loan operations during the first period amounted to SDR 841 million and were obtained principally through net profits from the sale of gold, available resources were distributed in proportion to qualified members quota. The second period (July 1, 1978 to June 30, 1980) the executive Board has

selected a list of 59 members with per capita income in 1975 of up to \$ 520 to be eligible for assistance from the Trust, total amount of SDR 3.75 billion available resources were distributed in proportion to qualified members quotas, of which total amount of SDR 2.150 million was provided by the Trust Fund as concessional loans to 53 qualified members, near about total amount of SDR 4 billion disbursed by the Trust Fund to qualified developing countries (See Table 3.2). "The Trust Fund was terminated as of April 30, 1981 and since then the responsibility of the Fund as Trustee are confined to the receipt and disposition of interest and loan repayments, amounts accruing to the Trust Fund from interest and loan repayments are transferred to the special disbursement account; and the Executive Board decided to commit upto SDR 750 million of these assets to the supplementary financing facility subsidy account [Chandavarkar, (1984), p.72].

### 3.3.7 Supplementary Financing Facility (1979-84)

From the late 1970 a number of members began to face serious payments imbalances that were large in relation to their quota. The Fund therefore established, with effect from February 23, 1979, a special policy, the Supplementary financing facility, financed by borrowing from surplus countries.

#### 3.3.7.1 Main Features

The main features of the Supplementary Financing

Facility are as follows: (IMF Annual Report, 1978, p.67)

- (1) Member will use the facility only under a stand-by or extended arrangement reaching into the upper credit tranches and subject, therefore, to the usual policy conditions, phasing and performance criteria.
- (2) A stand-by arrangement will normally cover a period of more than one year and could be extended upto three years.
- (3) The amount available to a member under a stand-by or extended arrangement will be apportioned between ordinary resources and supplementary financing as follows: (a) a member will be able to draw under the supplementary financing facility the equivalent of 12.5 per cent of its quota along with the unused portion of its first credit tranche, and 30 per cent of its quota along with each of the upper credit tranches; (b) purchase may be made beyond the upper credit tranches wholly with supplementary financing in special circumstances; (c) under an extended arrangement, which permits drawing upto 140 per cent of quota, an equivalent amount of supplementary finance will be available.
- (4) Purchases made with supplementary financing will be subject to repurchase in equal semiannual instalments that begin not later than three and one-half years, and one to be completed not later than seven years, after the purchase.



(5) The Fund may approve a stand-by or extended arrangement that provides the supplementary financing within two years from the effective date of decision establishing the supplementary financing facility.

### 3.3.7.2 Resources Available

The supplementary financing facility of the Fund entered into force effective Friday, February 23, 1979, when the Austrian National Bank joined 12 other members or institutions in making resources available for the facility. The agreement of the Austrian National Bank raises the total amount of SDR 7:754 billion [The minimum required for the facility to become operational was SDR 7.75 billion].

"A fourteenth Agreement was concluded on April 16, 1979 with the Banco de Guatemala (Central Bank of Guatemala) for SDR 30 billion. This raised the total amount available for the facility to SDR 7.784 billion" [IMF Annual Report, 1979, p.74]. (See Table 2.8)

By April 30, 1979, a total of 13 Fund members and Swiss National Bank had concluded agreements to lend the Fund a total SDR 7,784 million to financing transaction under the facility. Participation in the financing of the facility remains open to other lenders whose extended positions are strong, total use of the Fund's resources under stand-by and Extended arrangements as of April 30, 1979 to 1984 was amounting to SDR 7.19 billion (See Table 3.2). There were

no purchases under SFF have been made during the last four years.

### 3.3.8 Enlarged Access Policy (1981)

The Executive Board approved the policy on enlarged access on March 1, 1981 which became operational on May 7, 1981.

#### 3.3.8.1 Purpose

The purpose of the enlarged access policy is to enable the Fund to provide additional financing from borrowed resources, to members facing serious payments imbalances that are large in relation to their quota (IMF Survey, September 1988, p.12).

#### 3.3.8.2 Period

The period of a stand-by or extended arrangement under the enlarged access policy will be normally exceeded one year and extended upto three years in appropriate cases, although the period of an extended Fund arrangement may be lengthened where appropriate and at the request of the member to four years.

#### 3.3.8.3 Main Features

The main features of the decision on enlarged access, which are broadly similar to those of the supplementary financing facility are as following (IMF Annual Report, 1981, p.87).

(1) Members problem requires a relatively long period of adjustment and a maximum period for repurchases longer than the three to five years specified under normal stand-by arrangement. (2) Under the enlarged access policy, the amount available to it in the four credit tranches, (3) The proportion of ordinary and borrowed resources under the enlarged access to resources are as following [Chandavarkar (1984), p.48]. (a) Under a stand-by arrangement, purchases will be made with ordinary and borrowed resources in the ratio of 2:1 in the first credit tranche and 1:1 in the next three credit tranches, thereafter the purchases will be made with borrowed resources only. (b) Under an extended arrangement, purchases will be made with ordinary and borrowed resources in the ratio of 1:1 until the outstanding use of the upper credit tranches and the extended Fund facility equals 140 per cent of quota. Thereafter purchases will be made with borrowed resources.

#### 3.3.8.4 Access Limits

Under the enlarged access policy adopted in 1981, a member could draw upto 90 or 110 per cent of quota annually, 270 or 330 per cent of quota over a three years period, and a cumulative limit of 400 or 440 per cent of quota. These limits, which may be exceeded in exceptional circumstances, exclude drawing under the compensatory and contingency financing and BSFF. Borrowed resources available to the

Fund under the enlarged access policy is amounting to SDR 15.3 billion (See Table 2.6). Members purchases under stand-by and an extended arrangements as of April 30, 1981 to 1988 were amounting to SDR 12.98 billion (See Table 3.2).

### 3.3.9 Structural Adjustment Facility (1986)

The Executive Board approved a structural adjustment facility (SAF) in March 1986. The facility is designed to assist low-income member countries with protracted balance of payments problems adopt medium term macro-economic and structural adjustment programmes to help correct distortions in their economies, restore viable payments positions and promote faster economic growth.

#### 3.3.9.1 Purpose

"The Structural Adjustment Facility within the special Disbursement Account shall provide balance of payments assistance on concessional terms, on a uniform basis, to low-income developing members of the Fund in need of such assistance in accordance with these regulations" (IMF Annual Report, 1986, p.95).

Some major features of the new facility are as following:

#### 3.3.9.2 Terms

The SAF provides, like the Trust Fund before it, ten years loans at an interest rate of one half per cent. Each

of the annual programme loans will have five and a half year grace period, after which "repayment of SAF will be made in 10 semi-annual instalment, being 5½ years and ending 10 years from the date of disbursement" (IMF Survey, September 1988, p.13). The SDR is the unit of account for all loans and operations, although loans will normally be disbursed and repaid in dollars. (Arrangement may also be made for disbursement and repayment in SDRs.)

#### 3.3.9.3 Eligibility

The structural adjustment facility broadly follows the Trust Fund precedent: eligibility is extended to all low-income IMF member countries that now qualify for IDA Funds. Both China and India, which are eligible to use IDA Funds and whose quotas represent over half of the total quotas of all IDA eligible members, have elected to make use of the new facility. Their decision ensures that the bulk of the new facility's Funds will be available for the low income countries experiencing acute balance of payments problems, particularly sub-Saharan African countries [Kaibni, (1986), p.39].

#### 3.3.9.4 Qualification

A eligible member country may qualify for a structural adjustment facility loan by demonstrating that it has a need for the resources, that it faces protracted balance of payments problems, and that it prepared to implement to a

programme designed to promote macroeconomic structural adjustment and growth in the medium term [Kaibni, (1986), p.39].

#### 3.3.9.5 Disbursements

Disbursements under the SAF are made in proportion to a members quota in the Fund. For the benefit of other eligible countries with lower quotas, the two eligible countries with the largest quotas, China and India, have indicated that they do not intend to avail themselves of the facility because they do not anticipate an acute or persistent balance of payments need, thereby making more resources available to other eligible countries. As a result, the Executive Board was able at the time the SAF was established to authorise SAF loans equivalent to 47 per cent of countries quota. The loans would be made over three-years period of a SAF arrangement, with 20 per cent of quota to be disbursed in the first year and 3.5 per cent in each of these second and third years. Recently, the Board reviewed the first year's experience with the SAF, and decided to enlarge the three-year total access to 63.5 per cent of quota and to raise the amount available to a member during the second year of the three-year arrangement to 30 per cent of quota [Gardner, (1987), p.6].

#### 3.3.9.6 Operations

"The Managing Director of the Fund, Michael Camdessus, has proposed a tripling in SAF resources for the years

1988-90 to a total of SDR 9 billion". In their economic summit meeting in Venice

"The aims of SAF is that to provide additional concessional balance of payments assistance (at an interest rate of  $\frac{1}{2}$  of 1 per cent per annum repayable in ten equal semi-annual instalments over  $5\frac{1}{2}$  - 10 years to low income countries that qualify for loans under the facility. As of April 30, 1987, ten member countries had three-year arrangements under the facility for a total amount of SDR 327.45 million, of which SDR 139.34 million had been disbursed, leaving undrawn balances under these arrangements of SDR 188.11 million" [IMF Annual Report, 1987, pp. 65-66]. As of April 30, 1987 to 1988, total amount of SDR 0.72 billion had been disbursed (See Table 3.2 and Chart 3.1) under structural Adjustment facility.

### 3.3.10 Enhanced Structural Adjustment Facility (1987)

In December 1987, the Executive Board established the Enhanced Structural Adjustment Facility (ESAF). The new facility become operational in April 1988, and the first loan were approved by the Executive Board in mid 1988.

#### 3.3.10.1 Purposes

"The Trust shall assist in fulfilling the purposes of the Fund by providing loans on concessional terms to low income developing members that qualify for assistance under

this instrument, in order to support programmes to strengthen substantially and in sustainable manner their balance of payments position and to foster growth" (IMF Annual Report, 1988, p.120).

#### 3.3.10.2 Terms of Loans

"The ESAF provides, like the Trust Fund loan shall be charged at the rate of one half of one per cent per annum" (IMF Annual Report, 1988, p.121). Each of the annual programme loans will have a five and a half year grace period, after which repayment are made in  $5\frac{1}{2}$  - 10 years. The SDR shall be unit of account for all loans and operations although loans will normally be disbursed and repaid in dollars (Arrangement may also be made for disbursement and repayments in SDRs).

#### 3.3.10.3 Eligibility

Any member eligible for assistance from the Structural Adjustment Facility shall be eligible for assistance from the Trust. Before approving a three-year arrangement, the Trustee shall be satisfied that the member is making an effort to strengthen substantially and in a sustainable manner its balance of payments position [IMF, Annual Report, (1988), pp.120-121].

#### 3.3.10.4 Qualification

An eligible member country may qualify for a ESAF loan by demonstrating that it has a need for the resources,



that it faces protracted balance of payment problem and to foster growth, low-income developing members that qualify for assistance under this facility.

#### 3.3.10.5 Access Limits

An initial maximum limit on access to the resources of the Trust shall be established by the Trustee as a proportion of member's quota in the Fund (IMF, Annual Report, 1988, p.121). Access to ESAF resources is differentiated according to member's balance of payments need and the strength of their adjustment efforts. Access is subject to a maximum of 250 per cent of quota under three-year arrangement, with a provision that this limit may be exceeded under exceptional circumstances upto a maximum of 350 per cent of quota. It is expected that access will average about 150 per cent of quota [IMF Survey, Sept. 1988, p.13].

#### 3.3.10.6 Operations

Total resources of the ESAF are expected to amount to approximately SDR 6 billion in addition to the resources of the SAF. It is the Fund's intention to extend ESAF loans at the same highly concessional interest rate of  $\frac{1}{2}$  of 1 per cent as for the SAF [IMF, Annual Report, 1968, p.76].

By the end of July 1988, ESAF arrangement had been approved for two countries - Bolivia and Malawir for a

total of SDR 191.9 million. Of this, SDR 55.8 million was approved for Malawi and SDR 136.1 million for Bolivia. During the month Malawi made its drawing under the ESAF of SDR 9.3 billion and the total disbursed was SDR 32 million (IMF Surveys, Sept. 1988, p.13, August 29, 1988, p.273).

### 3.3.11 Compensatory and Contingency Financing Facility (1988)

On August 23, 1988, the Fund's Executive Board established the compensatory and contingency financing facility.

#### 3.3.11.1 Purpose

"CCFF will provide financial assistance to member countries that encounter balance of payments difficulties that arise out of (a) temporary export shortfalls, (b) adverse external contingencies, (c) excess costs of cereal imports" (IMF, Survey, August 29, 1988, p.275).

#### 3.3.11.2 Access limits

The amount of financing available is 40 per cent of quota each on account of the export shortfall and the external contingency elements, and 17 per cent of quota for the cereal import cost element. In addition, member may choose to apply for an optional tranche of 25 per cent of quota to supplement any one of these elements, where a member has a satisfactory balance of payments position, except for the effect of an export shortfall or an excess in

cereal import costs, the limit of 83 per cent of quota has been retained for either of these elements. In addition, there is combined limit of 105 per cent of quota on the use of any two of the three elements of the CCFF, and a combined limit of 122 per cent of quota on the use of all three elements. (IMF Survey, September 1988, pp.10-11).

The use of Fund resources to compensate shortfalls in export receipts or excesses in cereal import costs that are largely beyond the control of the member will remain subject to the test of the member's cooperation with the Fund in addressing the balance of payments difficulties underlying the request for financial assistance, purchase will be phased to coincide with drawings under the associated arrangement, for a purchase to take place, the member's performance criteria (IMF Survey, August 29, 1988, p.275). Repurchases under the CCFF are made in equal instalment, beginning three years and ending five years after the purchases (IMF Survey, September 1988, p.11).

## CHAPTER IV

### CONDITIONALITY REGARDING FUND'S RESOURCES

#### Introduction

The conditionality attached to the use of Fund resources has been an evolving concept which grew and developed through the practice of the IMF.

In providing financing support to its member countries, the Fund needs to be assured that the member's policies are consistent with the provisions of the Fund's Articles. This requirement is known as "conditionality". A major principle of conditionality is that, in solving a balance of payments problem, adjustment and financing must go hand in hand (IMF, Survey, September 1988, p.1).

#### 4.1 Prehistory

At the Bretton Woods Monetary and Financial Conference in 1944, there was little discussion of the issue of conditionality. The revised version of the American proposal issued by the U.S. Treasury Department and entitled, "preliminary Draft outline of a proposal for an International Stabilization Fund of the United and Associated Nations (revised July 10, 1943, i.e., one year before the Conference) contained certain provisions implying specific policy conditionality. Its preamble stated that "the resources of

the Fund would not be used to prolong a basically unbalanced international position" [Diz, (1984), p.215].

The Fund could sell to any member the currency of any other member provided that there was a balance of payment need [predominantly on current account] and Fund holdings of the member's currency were below 100 per cent of quota during the first year or below 200 per cent of quota thereafter.

Almost at the same time of publication of the original American version, the British Government published its proposal for an International clearing union through the BIS (the British Information Service). This proposal was basically nonconditional. Its preface stated:

There should be the least possible inferences with international policies. Nevertheless, in the realm of internal policy, the authority of the governing board of the proposed institution should be limited to recommendations, or at most, to imposing conditions for more extended enjoyment of the facility with the institution offers.

The "tentative Draft proposals of Canadian Experts for an International Exchange Union" appeared in June 1943 and contained provisions which were the more similar to those of the American proposal. An interesting remark with respect to these proposals to the following:

.... "both plans provide that foreign credits are to be available under certain conditions to countries having need of them, and that shall be made available through an International Monetary Organization rather than through bilateral arrangements between pairs of countries" [Diz, (1984), pp. 216-17].

Once those different proposals were discussed by experts of more than 30 countries, a "Joint statement" was issued in April 1944, almost one year late. In this proposal for the establishment of an International Monetary Fund, "provided that a member shall be entitled to buy another members currency from the Fund in exchange of its own currency on the following conditions:

The member represent that the currency demanded is presently needed for making payments in that currency which are consistent with the purpose of the Fund" [Horsefield, ed., (1969), Vol. III, p.132].

## 4.2 History

The history of the Fund policies on the use of its resources, can probably best be divided according to the four periods.

### 4.2.1 The Period 1946-1952

"The Executive Board's decision of February 13, 1952 (adopting the principle of conditionality) was intended to

reinvigorate the Fund by encouraging member's to believe that they would be able to use its resources" [Horsefield, ed. (1969) Vol.2, p.524]. Among the main points of this decision were the following:

- (a) The Fund's attitude towards the request of a member for assistance would turn on "whether the problem to be met of a temporary nature and whether the policies the member will pursue will be adequate to overcome the problem within such a period;
- (b) drawing should be for periods "within an outside range of three to five years";
- (c) "a member can count on receiving the overwhelming benefit of any doubt" respecting drawing in the gold tranche;
- (d) "Stand-by arrangement might be envisaged, whereby a member would enter into discussion with the Fund not for an immediate drawing" but in order to ensure that it would be able to draw if, within a period of any 6 to 12 months. the need presented itself [Dell, (1981), p.10].

In the first (1952) decision there was a statement by the Managing Director with a reference to "a period of relative inactivity of the Fund".

In the early years of the Fund there were totally unconditional transactions, within the limits established by the Articles. In fact many drawing of relatively small

amount in terms of members quota [5 per cent of quota per month] were decided directly by the management without prior intervention of the Executive Board. This practice, however, did not provide sufficient assurances to the Fund that its resources were being utilized in a temporary manner. When a member makes the first drawing called the gold tranche drawing, there are no conditions attached to it, because, that is purchases which would raise the Fund's holding of a currency to not more than the quota of a member. Thus during the first six years of the Fund there was relatively little use of the Fund's resources and virtually no policy conditionality. But the seed for the further stand-by arrangements was planted [Diz, (1984), pp.220-21].

#### 4.2.2 The Period 1952-1968

The second period goes from 1952 to 1968, when the second main Executive Board decision on the use of Fund resources and stand-by arrangement was approved, the 1968 decision was a direct by-product of the first Amendment. This Amendment introduced three important elements in the area under consideration: The first, one is that it required the Fund "to adopt policies in the use of its resources", second, it made the use of Fund resources policy conditional by requiring the Fund to challenge a member's representation. Thirdly, by expecting gold tranche purchases from this challenge it gave legal



unconditionality to the use of the gold tranche. This period of the 1950 and the 1960s was the period in which the concept of conditionality became fully developed.

In the statement introducing the 1957 Annual Report of the Executive Directors to the Board of Governors, the Managing Director states "once again" the Fund policy that have been recorded in the Annual Report of 1955:

.... access to the gold tranche is almost automatic, and request for drawing within the next 25 per cent (the so called First credit tranche) are also treated liberally but, even so, such request will be approved only if the country asking for assistance can show that it is making reasonable efforts to solve its own problems. For drawing beyond that tranche substantial justification is required [Diz, (1984), pp.221-22].

Within the context of the guidelines on conditionality fund supported programmes do, however, emphasize a number of major economic variables, such as domestic credit, the financing of the public sector and external debt, as well as some key elements of the price system, including the exchange rate, interest rate, and in exceptional cases, the price of commodities that bear significantly upon the public finance and foreign trade [IMF Survey, May (1981), p.2].

#### 4.2.3 The Period 1968-1979

In this period the third major decision on conditionality was adopted, almost one year after the second Amendment of the Articles of Agreement became effective. In this Amendment the provisions of the Articles dealing with the use of Fund's general resources were revised largely but no substantial changes were introduced in the area of conditionality. Three points, however, merit a brief comment. (1) The limits on purchases expressed in terms of an increase in Fund's holding of a member's currency of no more than 25 per cent during the 12 months ending on the date of the purchases, (2) the word, "stand-by" entered the Articles for the first time, it means a decision of the Fund by which a member is assured that it will be able to make purchases from the General Resources Account in accordance with the terms of the decision during a specified period and upto a specified amount [Art. XXX(b) p.343]. (3) The capacity of the Fund to develop and adopt "special policies for special balance of payment problems was explicitly recognized. This expression was meant to include ad-hoc policies on the use of conditional resources like those of the compensatory financing or the Buffer stock financing facilities, as different from those applying to the use of resources under the basic or regular credit tranche policies of the Fund [Diz, (1984), p.226].

During 1973-74 the world economy was shocked by a very high increase in the price of oil which created external payments disequilibrium in many countries, price began to accelerate, inflation reached intolerable levels in usually stable economy, the industrial countries entered a severe recession with very negative repercussions in the developing countries. In those circumstances the demand for Fund resources increased very significantly and Fund had to react to a new critical situation. During the 'seventies the number and variety of Fund's policies and facilities increased considerably and some facilities created on a temporary basis and have by now been discontinued but other will most become a permanent. The degree of conditionality was changed and more and more member countries used the Fund resources in upper credit tranches. The size of the Fund resources was enlarged through increases and especially through new forms of borrowing. The length or during the use of the Fund resources was increased in order to accommodate members subject to prolonged situation of disequilibrium [Diz, (1984), p.229]. The format of the Fund's reaction to the economic turbulence of the 'seventies can briefly be described as follows:

The first type of reaction was implemented through the now discontinued oil facility of 1974 and 1975. The first one was a virtually unconditional facility in response

to the problems created by the 1973-74 oil price increase. The 1975 facility, however, was characterised by a higher degree of conditionality than the initial one, although without performance criteria or phasing, like the one applying to drawings in the first credit tranche. The reason was that the Executive Board felt at the time that the effects of the oil price increases were not temporary, that the rise in energy prices would be largely nonreversible and that financing should therefore be accompanied by positive efforts of adjustment [Diz, (1984), p.227].

Another example was the Trust Fund, established temporarily in 1976, financed from the profit of the Fund's gold sale with a low conditionality similar to the one attached to the use of Fund's resources in the first credit tranche for the benefit of the low-income developing countries. The Trust Fund assistance was available to a member when the Fund was satisfied that it had a Bop problem and was making a reasonable efforts to improve its payment position. Trust Fund loan were concessional [Guitian, (1981), p.10].

The second type of reaction, the lengthening of the period of use can be exemplified by the adoption of the Extended Fund facility in 1974, still in operation. The facility was intended for (i) an economy with "serious payments imbalances relating to structural adjustment in

production and trade", where cost and price distortions were wide spreads and long standing, (ii) situation in which "slow growth and an inherently weak balance of payment that constrained the country's pursuit of effective development policies, the facility envisaged arrangements for larger amounts in relation to quota and longer period. The arrangement period could extend upto three years with performance criteria and phasing [Diz, (1984), p.228].

The third type of reaction may be illustrated by the creation of the supplementary financing facility of 1977, operational in 1979 [IMF Annual Report 1978, Decision No. 5509 (77/127)]. SFF provide supplementary financing in conjunction with the use of the "ordinary resources" of the Fund to members facing serious payments imbalances that were large in relation to their quota. The imbalance was financed by resources borrowed from members in sufficiently strong balance of payments and reserve position. This temporary facility also provided for stand-by arrangements that could exceed the one year limit and could extend up to three years in appropriate cases. Use under this facility carried with it the same degree of conditionality as a stand by or an extended arrangement in the upper credit tranches, more and more countries began to use resources in the upper credit tranches because of the Fund's limited size (Diz, (1984), p.229].

"In March of 1979 an important decision entitled, "Guideline on conditionality" presented a synthesis of the practice the Fund developed during the 'seventies, together with a ratification of some earlier decision on conditionality" [IMF Annual Report (1979) Decision No.6056, pp.136-137].

(i) The first guideline constitute an encouragement to member countries to take corrective measures and to approach the Fund for financial support at early stage of their external difficulties or even as a precautionary measure.

(ii) The normal period for a stand-by arrangement will be one year. If, however, a longer period is requested by a member and considered necessary by the Fund, to enable the members to implement its adjustment program successfully, the stand-by arrangement may extend beyond the period one year. This period in appropriate cases may extend upto but not beyond three years. (iii) A member may be expected to adopt some corrective measure before a stand-by arrangement is approved by the Fund.

#### 4.2.4 The Period 1979-1984

The last period includes the years from 1979 to 1984. The Fund has continued to gain experience with its practice of conditionality in the midst of a phenomenal increase in the use of its resources from 1979 to 1983 purchase increased from SDR 1.2 billion to SDR 10.3 billion [See Table 4.1].

Table 4.1 : Showing low conditionality and high conditionality purchases, 1976-83

	(In billion of SDRs)							
	1976	1977	1978	1979	1980	1981	1982	1983
<u>I. Low Conditionality</u>								
<u>Purchase</u>	5.09	2.97	0.41	0.64	1.05	1.56	1.65	4.12
a) First credit tranche	.29	.78	.09	.13	.16	.78	.02	.03
b) Oil facility	3.97	.44	-	-	-	-	-	.03
c) Compensatory financing facility	.83	1.75	.32	.46	.86	.78	1.63	3.74
d) Buffer Stock facility I*	-	-	-	.05	.03	-	-	.35
<u>II. High Conditionality</u>								
<u>Purchases</u>	.18	1.78	1.96	.59	1.15	2.82	5.31	6.14
a) Credit tranche	.17	1.59	1.85	.35	.93	1.90	2.73	3.68
b) Extended Fund facility	.01	.19	.11	.24	.22	.92	2.58	2.46
<u>III. Total I + II</u>	<u>5.25</u>	<u>4.75</u>	<u>2.37</u>	<u>1.24</u>	<u>2.21</u>	<u>4.39</u>	<u>6.96</u>	<u>10.26</u>

I\* less than SDR 5 million

Source - IMF Annual Report, 1983, p.86

"The bulk of the financial assistance made available by the Fund to its members since 1977 has been through purchases in amounts and under facility that require high degree of conditionality in accordance with the Fund's policy of combining adjustment and financing" (IMF Annual Report, 1983, p.84).

Purchases under the compensatory financing facility during 1982-83 rose to a record SDR 3.7 billion similarly, but on a much smaller scale, purchases under the buffer stock financing facility reached a record level SDR 352 million.

Purchases under credit tranche and extended fund facility reached a record level of SDR 3.68 and 2.46 billion respectively [IMF, Annual Report (1983), p.84].

During this period there was little innovation in the practice of the Fund on the use of its resources except for the facility on enlarged access, approved during 1981, this was a temporary policy that was to be in effect until the Eighth General Review of quotas became effective, subject to the possibility that the Fund might extend this period enlarged access policy allowed the Fund to continue helping members with payments imbalances that are large in terms of their quotas and prolonged in time, and provided to members with stand-by or extended arrangements in the upper credit tranches [IMF Annual Report (1981), Decision No.6783 (81/40), p.154].

#### 4.3 Low and High Conditionality

Fund's lending is divided into three categories: Unconditional [the SDR scheme and the reserve tranche, which essentially corresponds to what a member has put into



the Fund]. Low-conditional [the first credit tranche, the compensatory financing facility and oil facility of 1974 to 1976,] and high conditionality [the remaining three credit tranches, the extended Fund facility and enlarged access]. Low conditionality involves not much more than a demonstration that a country has a payments deficit and declaration that it will co-operate with the Fund in finding solutions to any payments problem it may have [William, (1983), p.369].

Borrowing from the Fund out of one's reserve tranche can be made "without challenge" and drawing from the first credit tranche are allowed if the borrowing country has a balance of payments need and indicate its intention to take necessary corrective action, further borrowing from the compensatory and buffer stock financing facilities are allowed, if the borrowing country undertakes the necessary correction measures, in cooperation with the Fund to rectify its payments imbalances. All these borrowing can be said to fall in the category of low-conditional borrowing. On the other hand for borrowing under higher tranches and under extended arrangements a country is obliged to enter into arrangement with the Fund promising strong adjustment action according to an agreed, comprehensive programme at policy action [Gulati, (1987), p.308].

#### 4.4 Recent Adjustment Action

The present Managing Director of the Fund, Mr. J. de Larosiere described the latest position with respect to Fund conditionality as follows in his address to the French-American Chamber of Commerce in Minneapolis (U.S.A.) on March 4, 1982. "The expansion in the Fund's financial operations has been matched by a much greater emphasis on conditional financing. After the first wave of oil price increases, some two-thirds of Fund lending was made under special facilities and not requiring important measures of adjustment. But conditions have changed and this policy has been put to an end, over the past two years, more than 80 per cent of the resources have been provided by the Fund its members in support of programs involving rigorous adjustment policies" [Gulati, (1987), p.309].

In order to complete the present picture on Fund conditionality it ought to be added that after the first oil shock, approximately three quarters of the resources provided by the Fund to its members were made available on terms involving a low degree of conditionality. At present by contrast, some three quarters of our new lending commitments involve "upper credit tranche" programmes, that is to say the required rigorous adjustment policies.

#### 4.5 The Fund's Mandate

IMF may be said to have a general mandate for watching

over the International Monetary system and for seeking viable and consistent balance of payments policies among its members. In carrying out this mandate, the Fund has at its disposal resources calling for various levels of conditionality.

However, as shown elsewhere, the low conditionality resources happen at the present time, to constitute an abnormally low proportion of the total, because of the particular method that members have adopted for enlarging access to the Fund's resources, that is, by increasing quotas themselves. The effect of this is that, of the cumulative 600% of quota available to member for drawing only 25 per cent is provided at low [first credit-tranche] conditionality, whereas if quotas had been increased six-fold, which would have been the normal way of proceeding, first credit tranche conditionality would have applied to the equivalent of 150 per cent of current quotas [Dell, (1987), pp.244-45].

## 4.6

A Geometrical Note on Conditionality

Here the indifference map technique due to Diz, (1984) p.235, is used to illustrate certain characteristic of conditionality. Chart 4.1 depicts one such possible indifference map. The vertical axis (F) shows the possible amounts of financing. The horizontal axis (A) measures adjustment effort.

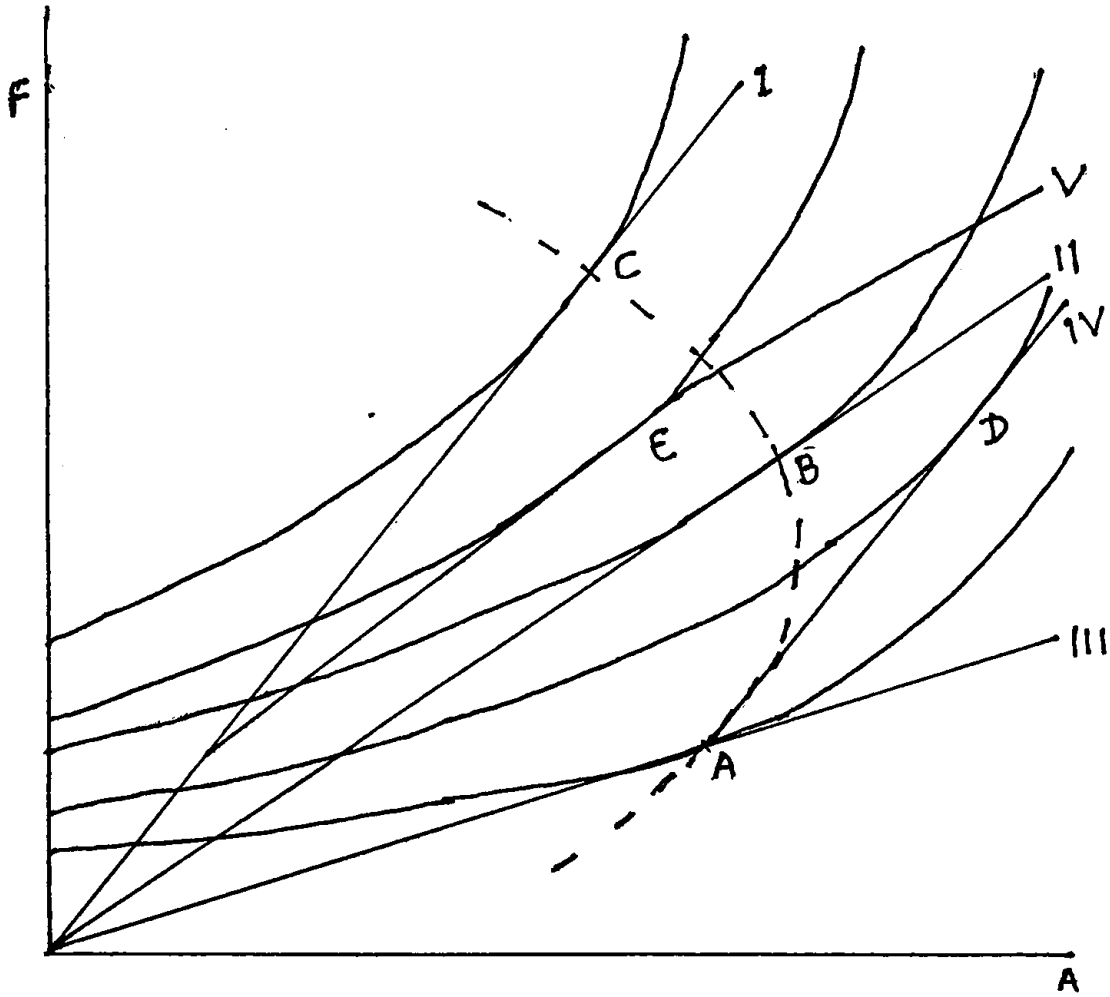
Curves with a greater steepness would indicate that only larger amounts of financing would encourage a given adjustment effort. In Figure 4.1, lines I, II and III, show alternative situations with increasing conditionality [Less financing per unit of adjust effort] points A, B and C show the most preferred attainable combination under these three alternative situations. For instance, if conditionality were to be one described by line II, the authorities will maximize their potential economic "welfare" by choosing the F-A combinations B. If the Fund and the banks were to loosen conditionality to situation I (something that probably happened, during the 'seventies) the authorities will move to the F-A combination C. The broken line shows that these decision might imply moving along a backward bending supply curve of adjustment effort.

The conditions shown by line III (relatively high conditionality) the authorities will choose the A-F combination at point A. But if they were told that after making that effort they could obtain more financing moving along line IV (implying lower conditionality) they would most probably aim for the A-F combination at point D. This could be the quasi-symmetrical counter part of the performance clause that suspends drawings for failing to attain a particular target.

The second point is that the profile of conditionality

in the Fund is the opposite of the conditions represented by line IV since as early as 1954 the IMF conditionality has been upward convex, rather than upward concave, like the situation depicted by line V. Here, as we move through the first credit tranche, conditionality is equal to the one shown by line I then, as we continue through the second and third credit tranches, conditionality increases to something similar to the conditionality of line II. Finally, through the fourth credit tranche conditionality increase to something similar to that of line III. If those are the conditions prevailing, the authorities will move to the A-F combination E, with as much adjustment as with the relatively low conditionality situation I, short of the results attained by uniform conditionality in situation II and III, and far shorter than the effort obtained with the marginally declining conditionality of situation IV. This description is given by Diz, (See, Chart 4.1).

CHART 4.1 : FINANCING CONDITIONS



## CHAPTER V

### THE USE OF THE FUND'S RESOURCES BY DEVELOPING COUNTRIES

#### Introduction

This chapter deals with IMF, Article V, Section 12 (F)(ii) and (iii), which allows the Fund to make balance of payments assistance available on special term to "developing members" in difficult circumstances and for the purpose of the Fund, taking into account the level of per capita income. International economic events in the 1970s, in particular the rise in the price of oil and world economic recession, have created severe economic difficulties for developing countries. These have found expression in the rapid and large deterioration in their balance of payments, for a number of reasons developing countries have found it difficult to adjust their economies as quickly as is necessary to get their balance of payments into equilibrium. A considerable need for short-term finance has, therefore, been generated by IMF.

#### 5.1 Why only Developing Countries?

More generally, growth rates in this group have been low and balance of payments strains in particular have been most evident in recent years (See Table 5.1). In fact, current account deficit of the countries in this

Table 5.1 : Balance of payments Deficits on Current Account of  
Non-Oil Developing Countries as Percentage of  
GDP and Merchandise Imports 1973-81

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Deficit (in billion of U.S.dollars)									
All non oil-deve- loping countries	11.5	37.1	46.5	33.0	28.6	39.5	57.6	82.1	97.5
Low income countries	4.0	7.5	7.6	4.2	3.4	6.7	9.5	14.1	15.7
As percentage of G.D.P.									
Non-oil developing countries	2.0	5.0	5.8	3.7	3.0	3.2	4.0	4.8	4.9
Low-income countries	3.1	4.9	4.7	2.6	1.8	3.1	4.0	4.7	4.4
As percentage of Merchandise Imports									
Non-oil developing countries	12.4	25.1	30.4	20.4	16.1	17.1	20.0	22.4	24.1
Low-income countries	35.2	44.5	43.1	24.7	17.6	27.2	31.7	37.3	39.4

Source : Gulati, (1987), p.305.

group with the notable exception of India, have been exceptionally high in recent years. India's balance of payments position came under strain only from 1979-80 with the second round of drastic rise in oil price and further upsurge of protectionism in the industrial countries. It is noteworthy that though these low income countries have incurred heavy external deficits in recent years, their



volume of imports has hardly registered much increase. It is in the above context that the role of Fund assistance has to be viewed as far as low income countries are concerned. Though as we noted above, their import gains in recent years have been negligible, their external deficits have risen phenomenally. Practically all of Fund credit has gone to the developing countries. Not only that, of the IMF commitment pledged by the end of 1981 two-thirds were accounted for by countries with annual per capita income of less than \$ 700 and one-half by those with per capita income of less than \$ 300.

## 5.2 Sources and Use of Finance

Basically LDCs may gain access to short or medium-term finance by drawing on the IMF or by borrowing. Commercially within the IMF drawings may either be in the reserve tranche which in effect provides unconditional finance or in the credit tranches which provide conditional finance or in a range of special facilities available in the Fund which again provide conditional finance. However, upto 1974 and within the LDCs group there was a large range of group of experience, some developing countries such as Argentina, Chile, India, Pakistan and Sudan made frequent and often large drawing on the Fund, while others such as Thailand, Upper Volta, and Paraguay had little, if any recourse to the Fund. During the mid-1970s the range of experience

Table 5.2 : IMF Commitments under High Conditionality Programmes  
as at the end of 1981  
(Borrowing countries Grouped by per capita G.N.P.)

Below \$ 300	IMF Commit- ments (SDRs)	Between \$ 300 & \$ 699	IMF Commit- ment (SDRs)	Between \$ 700 & \$ 2999	IMF Commit- ments (SDRs)	Above \$3,000
1. Bangladesh*	800.0	1. Mauritania* <sup>a</sup>	25.80	1. Morocco*	817.05	
2. Ethiopia	67.60	2. Madagascar*	109.00	2. Guatemala	19.10	
3. Somalia* <sup>a</sup>	43.13	3. Togo*	47.50	3. Jamaica* <sup>a</sup>	477.70	
4. Burma	27.00	4. Kenya* <sup>a</sup>	241.50	4. Ivory Coast	484.50	
5. Zaire*	912.00	5. Senegal*	63.00	5. Korea* <sup>a</sup>	576.00	
6. Malawi* <sup>a</sup>	49.87	6. Solomon Island*	1.60	6. Costa Rica*	276.75	
7. India	5000.00	7. Sudan* <sup>a</sup>	427.00	7. Romania*	1102.50	
8. Tanzania*	179.60	8. Liberia* <sup>a</sup>	55.00	8. Yugoslavia	1662.00	
9. Sierra- ceone* <sup>a</sup>	163.70	9. Honduras*	47.60	9. Uruguay	31.50	
10. Uganda*	112.50	10. Zambia*	800.00			
11. Central African Republic	10.40	11. Dominica	8.55			
12. Pakistan	1268.00	12. Zimbabwe	37.50			
		13. Thailand	814.50			
		14. Grenada	3.425			
		15. Guyana*	150.00			
Total	8633.70		2831.97		5447.10	
Percentage	51.05		16.75		32.2	

Source : IMF Survey, 1980, 1981 and 1982.

\* In the case of these countries drawings were suspended on grounds of failure to adhere to performance criteria as agreed upon under the adjustment programmes. These include countries which have succeeded in re-negotiating the drawing arrangements.

\*<sup>a</sup> In the case of these countries drawings has been restored in re-negotiation. Even in future Fund credit will most likely be channelled to low-income countries. In recent time, industrial countries and more advanced developing countries rely increasingly on the private capital market because so long as they enjoy that access, they would rather avoid signing up for conditional fund assistance.

narrowed and the vast majority of LDCs drew on Fund resources [Bird, (1987), pp.175-76]. Until the end of 1975, LDC drew most finance from the IMF under the ordinary tranches. The compensatory financing facility (CFF) and the Oil facility (OF) were quantitatively each about one-third as important as ordinary drawings. While the Buffer stock financing facility (BSFF) and Extended Fund Facility (EFF) were fairly insignificant. Some LDCs, however, relied more heavily on compensatory and oil facility drawings than on ordinary drawing, while a few gained significant assistance from the (BSFF) or the (EFF). In 1976, there was a major change, both the Fund and the (CFF) became significantly more important than the reserve and credit tranche as sources of finance for LDCs. The CFF has been used by relatively few LDCs and with only limited exceptions, the size of drawing had been small. In 1970, for example, there was just one drawing of SDR 2.5 million by Burundi. In 1976, following the liberalization of the CFF 37 LDCs drew a total of SDRs 1452.8 million compared with 1972, the previous record year for drawing, the average size of drawing almost doubled and the number of LDCs making use of the facility almost quadrupled (Bird, (1987), p.176].

The oil facility was introduced in 1974 as a temporary method for dealing with the harshest balance of payment consequences of the rise in oil prices was also used frequently

by LDCs, and by the end of 1976, 45 LDCs had drawn a total of SDR 253.9 billion under the facility. The BSFF and EFF have remained little used upto the present time [Bird, (1987), p.176].

### 5.3 Existing Arrangements

LDCs have been particularly reluctant to draw from the IMF in the upper credit tranches where a high degree of conditionality is involved. They have generally preferred to make use of other facilities in the Fund which involve fewer and less harsh conditions. IMF credit is conditional in two respects: First, access is constrained quantitatively by the size of the member's quota. Secondly, the bulk of Fund credit is granted only on the acceptance, by drawing members of certain policy requirement. LDCs need for international financial assistance depends on: (a) the variability of the balance of payments and its structural trends; (b) the availability of alternative sources of liquidity; (c) the terms on which such assistance is granted; (d) the cost of adjustment [Bird, (1987), p.177].

### 5.4 Long-Term Deficiencies

The CFF as a short-term measure, providing finances only a relatively a small proportion of export shortfalls caused by fall in price of quantity sold - perhaps the major weakness of the CFF scheme, however, is that it fails to deal with the more fundamental, long-term problems which

face LDCs, their worsening terms of trade, the structure of production and trade, and in particular the heavy concentration on the export of one or two commodities. To halt a decline in the terms of trade requires a change in the structure of trade and production, but in order to bring about such changes long-term finance and capital are needed. The provision of such finance, however, cannot be reconciled with the philosophy of the Fund.

As noted earlier, the BSFF has been very little used. This reflects in part, the difficulties which surround the organisation of international buffer stock schemes and in part the fact that access is conditional on contribution to such schemes creating a need for balance of payments assistance. The (EFF) has similarly been relatively little used, the EFF still involve a high degree of conditionality which developing countries seem to be reluctant to accept. A similar outcome may avail the supplementary financing facility which also provides conditional finance [Bird, (1987), pp.185-86].

## 5.5 Proposed Reforms

The reforms proposed in this point to create an environment in which developing countries are permitted to adjust their longer term development programmes "undoubtedly the best policy advice for developing countries is to avoid situations in which it becomes necessary to seek IMF

assistance" [Killick, Bird, Sharpley, Sutton (1984), p.76].

The reforms mentioned so far imply a considerably extended role for the IMF.

Advantages of the Trust Fund from the view-point of those LDCs eligible for assistance are that, first, Trust Fund loans are additional to normal drawings, second, loans are made at a concessionary interest rate, third, loans are subject to a relatively long repayment period, and fourth, assistance is concentrated in the least developed countries [Bird, (1982), p.207].

Let us consider the C-20 negotiations. The developing countries strongly supported the maintenance of "fixed but adjustable" exchange rate, and establishment of the SDR as the principle reserve asset. The principal aim of the LDCs in the C-20 negotiations was the introduction of a link between reserve creation and development assistance, whereby newly created SDRs would be distributed among participants giving all developing countries a share larger than they are entitled to on the basis of quota and giving the least developed a larger share still. They also registered proposals to raise the interest rate on the SDR, a step argued to be necessary in order to make the SDR an attractive asset to hold in comparison with alternative, since this inevitably reduces the value of receiving SDR allocations because SDR use becomes more expensive. Under

such a scheme a larger proportion of SDR allocations would be directed towards developing countries quite possibly via the intermediation of an extended IMF [William, (1983), p.367].

The Compensatory Financing Facility had been established back in mid-1960s as one of the first fruits of LDC, efforts to improve their financial environment. Its purpose is that of providing semiautomatic (Low conditionality in the jargon) financing to a country whose receipts from primary product exports decline due to factors outside its own control. This may mean either crop failures or other negative supply shocks or else a deterioration in the terms of trade [William, (1983), p.368].

LDCs as group have made considerable and growing use of IMF facilities under both General and Special Accounts, and there can be little doubt they have benefited from the availability of such assistance, a larger number of LDCs have inadequate international reserve, the IMF has stood ready to provide relatively short-term financial help to members experiencing balance of payments difficulties. It is true that developing countries have relied very heavily on drawing from the IMF.

## CHAPTER VI

### SUMMARY AND CONCLUSIONS

In the first chapter we discussed the events leading to the establishment of the IMF and in particular agreed principles (1.1), resolving the outstanding differences (1.2), compromise between White and Keynes Plans (1.3).

In the second chapter, we focussed our attention on the resources of the Fund. In doing so, we take into consideration ordinary resources (2.1), and borrowed resources (2.2). In the first section, we take into consideration the Quota regime (2.1.1). Each member of the Fund has a quota, expressed in SDRs, that is, equal to its subscription in the Fund. Upto 25 per cent of a member's quota has to be paid in reserve assets, the remainder paid in the member's own currency, except that for the increases proposed in 1978. As of September 1988, 151 countries were members of the Fund and total quotas amounted to SDR 89.987 billion.

We also discussed about the borrowed resources of the Fund (2.2). Borrowing are regarded as a temporary source of the Fund. The Fund's first borrowing were made under the General Arrangements to Borrow (GAB) (2.2.1). The arrangements were made in 1962 for an initial period of four years, agreement with 10 industrial members, to provided



for lending to the Fund if this should be needed "to forestall or cope with an impairment of the international monetary system". The most recent revision which became effective in December 1983, increased the maximum credit available to SDR 17 billion. Under the revised GAB, one agreement for SDR 1.5 billion was concluded with Saudi Arabia and came into effect in December 1983. The Fund has also entered into borrowing arrangements with 17 lenders for a total amount equivalent of SDR 6.9 billion for the purpose of financing transaction under oil facility (2.2.2).

To allow the Fund to meet the needs of members facing serious balance of payments imbalances that are large in relation to their quota, the Fund entered into borrowing agreement in 1979 with 13 members for a total amount equivalent to SDR 7.8 billion to finance the supplementary financing facility (2.2.3).

Borrowed resources also have contributed to the financing of the Fund's policy of enlarged access (2.2.4). The Fund entered into borrowing agreement with seven members for a total amount equivalent of SDR 15.305 billion, to finance purchases by members under the policy.

With the signing of a medium-term borrowing agreement for SDR 8.0 billion with SAMA (2.2.5), will make a lending committed to the Fund of SDR 4 billion in the first year and further SDR 4 billion in the second year. In the same year, short-term borrowing agreements (2.2.6), for SDR 1.3 billion

over a commitment period of two years. In December 1986 the Fund concluded a borrowing agreement with the Government of Japan (2.2.7) for the equivalent of SDR 3.0 billion over a period of four years. As of April 30, 1984, the Fund has also concluded four new short-term borrowing agreements for a total of SDR 6 billion with the SAMA, BIS, Japan and NBB (2.2.8). The Fund as a trustee of the enhanced structural adjustment facility (2.2.9), had concluded borrowing arrangements with four lenders as of July 31, 1988, totalling SDR 3.3 billion to finance lending under the facility.

In Chapter III, we have noted that the Fund makes its resources available to its members by selling SDR or currencies to member in exchange for their own currency in accordance with Fund policies on the use of its resources for balance of payments need. The first section deals with the drawing rights (3.1).

A member has a reserve tranche position (3.2.1) which is regarded as a part of the member's external reserves and a member may purchase upto the amount of its full reserve tranche at any time, purchases are not regarded as a use of Fund credit. Under the credit tranche policy (3.2.2), credit is at present made available to members in a range consisting of four tranches or segments each equal to 25 per cent of a member's quota. Purchase in first credit tranche is liberal one and purchases in the remaining three tranches are referred to as upper credit tranche purchases

requiring substantial justification. Higher conditionality accompanies the use of Fund credit in the upper tranches.

A member country is assured that it will be able to make purchases from the General Resources Account in accordance with the terms of the decision during a specified period and upto specified amount (3.2.3). Section Three of this chapter deals with the Evaluation of the various Fund's lending facility in detail. (3.3)

In the fourth chapter, we have discussed the conditionality regarding Fund's Resources. Section One traces the prehistory of conditionality (4.1). Then we move on to discuss the history of the Fund Policies (4.2). The period 1946-1952, (4.2.1) which is a period of relative inactivity of the Fund. The period 1952-1968 (4.2.2), this is a period of by-product of first Amendment and concept of conditionality has been fully developed in this period. The period 1968-1979 (4.2.3). The period 1979-1984 (4.2.4). These all are reviewed in second section. Section Three briefly reviews the low and high conditionality (4.3). The recent accent on adjustment action (4.4), the Fund's mandate (4.5), and finally Geometrical Note on Conditionality is explained (4.6).

In the fifth chapter, we evaluated the use of Fund's resources by Developing Countries. Section first, deals with the need of the developing countries (5.1), the sources

and uses of finance (5.2), the Existing Arrangement (5.3), the long-term deficiencies (5.4) and finally proposed reforms (5.5). LDCs as a group have made considerable and growing use of IMF facilities under both General and Special Accounts, a larger number of LDCs have inadequate international reserve, the IMF has stood ready to provide relatively short-term financial help to member's experiencing balance of payments difficulties. It is true that LDCs as a group have relied very heavily on drawing from the IMF.

#### General Conclusions

Our review has revealed that the IMF has been using its resources in a liberal manner. This is evident the way a number of facilities are created to deal with the emerging situations. The Fund has been a sure though meagre source of international liquidity. One of the most imaginative steps taken by the Fund is concerning the creation of Special Drawing Rights (SDRs) which are appropriately billed as international money elastic in supply and amenable to international control. The IMF hopes that the SDR will ultimately take the place of today's gold and foreign currency reserves of the member countries. Another noteworthy development of the Fund's lending policies is that the Fund, apart from its creation of number of new lending facilities, has been paying attention to the special problems of the less-developed countries (LDCs).

It is true that what the Fund has done is a trickle considering the needs of the LDCs. But the fact remains that the Fund is basically constrained by its nature as an institution meant for meeting short-term balance of payments problems of its members. Within the present framework, we find that the IMF has been stretching its resources to the utmost to help the LDCs. Given the current international monetary framework which is dominated by the leading industrial countries, the liberalisation in the use of Fund's resources is bound to come by bits. Our review brings out the fact that liberalisation in the use of Fund's resources is surely and unmistakably taking place. The conditionality surrounding the use of resources is, at times, an irritating factor. But given the intergovernmental nature of the Fund and the short-term character of the use of its resources, conditionality clause becomes inevitable. The statesmanship lies in interpreting the clauses in the light of the emerging situation. The Fund has, over the years earned the distinction as liberal though prudent international institution by its interpretation of the Articles of Agreement. Our review of the use of resources of the Fund over the past four decades and more leaves no doubt about the continuance of the present character of the use of the Fund's resources. The overriding fact cannot be denied that an institution which started with a Fund of SDR 8 billion has today at its disposal a fund of about

SDR 90 billion, with a potential to augment it further. The Ninth Quota Revision exercise is expected to be over soon, which will substantially increase the quantum of funds at the disposal of the IMF.

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