

PLEDGES AND PAYMENT OF SUBSCRIPTIONS ON ADF III

1.0 Negotiations for ADF III replenishment to cover the 1982-1984 lending programme were concluded in Paris in February 1982. The level of the replenishment agreed on was FUA 1,003.26 million as compared to Management's proposal of between FUA 1,600 million - FUA 1,800 (a short-fall of some 37%). A pledge of FUA 4.76 million expected from the United Arab Emirates has since not materialised. This paper analyses the final outcome of the pledges and payments on ADF III.

2.0 During the Paris meeting it was agreed by State Participants that the replenishment be left open for additional contributions by existing or new participants. Management had expected that an additional amount of FUA 200 million would be made through this channel and thus bringing total contributions to around FUA 1,200 million. On this basis, the lending programme for the 1982-1984 period was to be implemented as follows:-

<u>1982</u>	<u>1983</u> <u>(Million FUA)</u>	<u>1984</u>	<u>Total</u>
350	400	450	1,200

3.0 Following the Paris meeting additional subscriptions totalling FUA 95.23 million have been received from Italy (FUA 37.64 million), France (FUA 47.59 million) and Portugal (FUA 10 million) and thus raising the level of ADF III replenishment to FUA 1,098.49 million as shown in Annex I. This level falls short of the targeted FUA 1,200 million by FUA 101.51 million (i.e. by 8.5%). The obvious implication of this short-fall is that, unless additional resources are obtained, the Fund should cut its lending programme. Considering that in 1982, the Fund lent a total of FUA 349 million, the lending target for 1983 and 1984 had to be scaled down to FUA 386 million and FUA 415 million respectively to conform with the reduced levels of resources. The revised lending target means that the annual lending growth under ADF III replenishment would average 12.8% as compared to 23% under ADF II replenishment. This annual growth is not only 10% below that of ADF II replenishment but also

means an insignificant growth in real terms. It should be noted that even the growth rate of 12.8% under ADF III assumes that FUA 51 million out of the 1984 target of FUA 415 million would be made available, for commitment purposes, from the Fund's Accumulated Net Income. If, however, this amount is not made available, the 1984 lending target would have to be scaled down by the same amount, resulting in a growth rate of 8.6% which in, real terms, would be a negative growth rate.

- 4.0 Implementation of subscriptions on ADF III are governed by Board of Governor's Resolution 09-82 (Ref: ADF/BG/IX/10 of 9th June 1982). Article 4 of that Resolution provides for the effectiveness of the replenishment. On 12th November 1982, the replenishment became effective following the receipt of instruments of subscriptions for a total amount of FUA 459.05 million representing 45.8% of the amount pledged initially. As of date, and shown in Annex I, subscriptions totalling FUA 1,035.85 million have been ratified leaving a balance of FUA 62.64 million to be ratified by the following participants:-

	<u>FUA (Millions)</u>
1) Argentina	7.62
2) Belgium	17.00
3) Netherlands	22.16
4) Spain	15.86
Total	<u>62.64</u>

Since the Resolution does not seem to set a deadline for the ratification of pledges, it would appear that participants have up to the end of the replenishment period (i.e. 31/12/1984) to ratify their pledges. It should be considered to set a deadline for ratification and thus ensure, early enough, that the Fund has adequate resources to implement its lending programme.

- 5.0 Delays in the ratification of subscriptions pledged under ADF III has led to delays in the implementation of projects approved. Despite the fact that Management adopted a procedure of submitting to the Board projects for approval even though resources were not available, the relevant loan agreements could not be signed and as a result disbursements could not commence. Such delays could

lead to cost over-runs since the original cost estimates on which the projects were appraised may no longer be valid. In the first year of the replenishment (1982), projects approved could only be signed after 12 November 1982 when ADF III became effective. In the second year, the situation became even more critical. The first problem encountered was that the second tranche of ratified subscriptions could not be committed since subscriptions fell short of the level of 80% prescribed in the resolution. Thus the Board continued approving loans which could not be signed. Even when the 80% level was realised, it became apparent that unless the subscription of a particular participant was included in this figure, the second tranche could not be committed. Although Article 6 provides that any participant could authorise the use of its second and third tranches for commitments on a more favourable schedule than provided in the Resolution, no participant, in fact, made such an offer.

- 6.0 The modality of payment of subscriptions on ADF III is provided in Article 5 of Resolution 09-82. In accordance with that Resolution, the first instalment of subscriptions due were paid on schedule except for a total of FUA 35.85 million due from 2 State Participants which were not settled as at 31st December 1982. As of date, the second instalment of subscriptions ratified in 1982 have fallen due bringing the total amounts due on ADF III to FUA 532.85 million. All payments due on the second instalment have been received. The amounts unpaid cannot, strictly, be considered as arrears since the resolution provides that they could be settled by 31st December 1984 or at a later date determined by the Board.
- 7.0 Payments of subscriptions could be made in cash or by deposit of non-negotiable non-interest bearing notes. Experience has shown that apart from 5 participants, who have made payments on ADF III totalling FUA 71.09 million in cash, the majority of the participants prefer to pay their subscriptions by the deposit of notes. Following Board approval of a policy on encashment of notes, participants have been given an indicative schedule of the draw-down of subscriptions on ADF III. It would seem that such subscriptions would be drawn-down over the 1985-1987 period.
- 8.0 In conclusion, it is useful to recapitulate the experiences on ADF III to determine its relevance for the ADF IV exercise:-
- i) A short-fall of resources as compared to the lending target leads to a cut-back in the lending programme. If the reduction in the lending programme is not effected early enough

then implementation of projects already in the pipeline may be delayed. It may, therefore, be useful to draw-up a lending programme on realistic expectations of resources availability.

- ii) Delays in the effectiveness of subscriptions have led to delays in loan signature and thus delays in loan implementation. The provisions of the Resolution should be re-examined in order to minimise such delays.

- iii) The pro-rata policy on encashment of notes with provisions for adequate liquidity levels, has facilitated the preparation of the encashment schedule. This schedule seems to have been useful to State Participants in their budget and cash flow planning.

STATEMENT OF PLEDGES AND PAYMENT OF SUBSCRIPTIONS ON ADF III*

AS AT 31/12/1983

(MILLION FUA)

No.	PARTICIPANT	AMOUNT PLEGGED	VOLUNTARY SUBSCRIPTION	TOTAL SUBSCRIBED	AMOUNT RATIFIED	AMOUNT DUE	AMOUNT PAID	AMOUNT UNPAID
1)	ADB	25.00	--	25.00	25.00	16.67	16.67	--
2)	Argentina	7.62	--	7.62	--	--	--	--
3)	Austria	12.50	--	12.50	12.50	4.17	4.17	--
4)	Belgium	17.00	--	17.00	--	--	--	--
5)	Brazil	12.50	--	12.50	12.50	7.75	7.75	--
6)	Canada	80.00	--	80.00	80.00	26.86	26.86	--
7)	Denmark	34.70	--	34.70	34.70	23.13	23.13	--
8)	Finland	13.22	--	13.22	13.22	8.20	8.20	--
9)	France	70.50	47.59	118.09	118.09	78.73	78.73	--
10)	Germany	98.00	--	98.00	98.00	28.42	28.42	--
11)	India	7.55	--	7.55	7.55	5.03	5.03	--
12)	Italy	62.36	37.64	100.00	100.00	33.34	--	33.34
13)	Japan	133.26	--	133.26	133.26	44.42	44.42	--
14)	Korea	8.40	--	8.40	8.40	5.21	5.21	--
15)	Kuwait	15.11	--	15.11	15.11	10.07	10.07	--
16)	Netherlands	22.16	--	22.16	--	--	--	--
17)	Norway	35.96	--	35.96	35.96	24.08	24.08	--
18)	Portugal	--	10.00	10.00	10.00	--	--	--
19)	Saudi Arabia	38.07	--	38.07	38.07	25.70	25.70	--
20)	Spain	15.86	--	15.86	--	--	--	--
21)	Sweden	55.04	--	55.04	55.04	37.56	37.56	--
22)	Switzerland	42.20	--	42.20	42.20	26.16	26.16	--
23)	United Kingdom	43.00	--	43.00	43.00	28.67	28.67	--
24)	U.S.A.	142.78	--	142.78	142.78	95.19	95.19	--
25)	Yugoslavia	10.47	--	10.47	10.47	3.49	3.49	--
	TOTAL	1,003.26	95.23	1,098.49	1,035.85	532.85	499.51	33.34

* An amount of FUA 4.76 million reserved for the United Arab Emirates during the Paris meeting has not yet been pledged by that country and is, therefore, not included in the above figures.

