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March 26, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Final Minutes of Executive Board Meeting 86/3

The following corrections have been made in the final minutes of EBM/86/3 (1/6/86):

Page 1, item 1: for "Sierra Leone...Rule S-1"
read "Sierra Leone...Trust Fund Obligations"

Page 3, lines 1-3: for "Sierra Leone...Rule S-1"
read "Sierra Leone...Trust Fund Obligations"

Page 8, subpara. b - heading: for "Review of Decision No. 8014-(85/101), G/TR"
read "Review of Decision on Complaint Under Rule K-1
and Notice of Failure to Settle Trust Fund
Obligations"

Corrected pages are attached.

Att: (3)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/3

10:00 a.m., January 6, 1986

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

<u>Executive Directors</u>	<u>Alternate Executive Directors</u>
A. Alfidja	M. K. Bush S. Kolb, Temporary S. de Forges
M. Finaish	M. Sugita
G. Grosche	B. Goos Jiang H.
J. E. Ismael	M. Foot
A. Kafka	H. Fugmann
M. Massé	G. D. Hodgson, Temporary
E. I. M. Mtei	A. Abdallah C. A. Salinas, Temporary J. E. Suraisry G. Ortiz
P. Pérez	A. V. Romuáldez
J. J. Polak	O. Kabbaj
A. K. Sengupta	A. S. Jayawardena L. Tornetta

L. Van Houtven, Secretary
K. S. Friedman, Assistant

1. Sierra Leone - Overdue Financial Obligations - Report and Complaint Under Rule S-1, and Review of Decision on Complaint Under Rule K-1 and Notice of Failure to Settle Trust Fund Obligations Page 3
2. Group Life Insurance Plan - Change Page 9
3. International Capital Markets - Developments and Prospects - Publication Page 9
4. Executive Board Travel Page 9

Corrected: 3/26/87

Also Present:

African Department: G. E. Gondwe, Deputy Birector; C. Enweze, G. Kalinga.
Exchange and Trade Relations Department: E. H. Brau. Fiscal Affairs
Department: G. Blöndal. Legal Department: H. Elizalde, A. O. Liuksila,
J. M. Ogoola. Secretary's Department: A. P. Bhagwat. Treasurer's Depart-
ment: T. Leddy, Deputy Treasurer; D. Berthet, J. E. Blalock, J. C. Corr,
M. F. Melhem, B. Von Numers. Personal Assistant to the Managing Director:
R. M. G. Brown. Advisors to Executive Directors: M. B. Chatah,
S. M. Hassan, J. Hospedales, G. W. K. Pickering, A. Steinberg, A. Vasudevan,
K. Yao. Assistants to Executive Directors: H. Alaoui-Abdallaoui,
A. Bertuch-Samuels, R. Fox, V. Govindarajan, O. Isleifsson, M. Lundsager,
J. A. K. Munthali, V. Rousset, M. Sarenac, A. J. Tregilgas.

1. SIERRA LEONE - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINT UNDER RULE S-1, AND REVIEW OF DECISION ON COMPLAINT UNDER RULE K-1 AND NOTICE OF FAILURE TO SETTLE TRUST FUND OBLIGATIONS

The Executive Directors gave substantive consideration to the Managing Director's report and complaint under Rule S-1 regarding the overdue obligation of Sierra Leone in the SDR Department (EBS/85/288, 12/24/85; and Sup. 1, 1/3/86), and considered a staff paper on the second review of Decision No. 8014-(85/101), G/TR with respect to Sierra Leone's overdue obligations to the General Department and notice of Sierra Leone's failure to settle Trust Fund obligations.

Mr. Mtei said that he had hoped that the Executive Board would have found it unnecessary to consider again Sierra Leone's overdue obligations. His optimism had been based on a communication that he had received several days previously from Sierra Leone's Minister of Finance, Development and Economic Planning; the Minister had assured him that every effort would be made to settle Sierra Leone's obligations before January 6, 1986.

However, by January 3, 1986 it had become clear to the authorities that the arrangement that had been initiated to discharge the full amount of the arrears would not bear fruit due to unforeseen delays and difficulties in putting the arrangement together, Mr. Mtei continued. The authorities currently aimed to make at least a partial settlement, amounting to \$3 million within the coming several days in order to underscore the seriousness of their commitment. He was fairly optimistic that that payment would be made and that the authorities would maintain their efforts to settle all the arrears to the Fund.

The Minister had also indicated that the new administration intended to implement significant economic measures to provide a strong and credible basis on which to improve Sierra Leone's external position, Mr. Mtei went on. To that end, the Government had recently announced the implementation of new measures in the diamond and gold export sector and changes in the arrangements for the importation of crude oil and in petroleum product pricing. They were to be implemented in the near future and were considered to be a preliminary step toward a more comprehensive solution to the financial and economic problems facing the country. The measures would be reviewed with the staff during the further discussions that the authorities planned to undertake following the official inauguration of the President on January 26, 1986. The authorities had indicated their strong commitment to reforming their exchange and trade system; the unmet need for that reform had thus far hindered the conclusion of an agreement with the staff on a comprehensive adjustment program supported by the Fund. There was now every indication that the authorities were ready to address the need for reform.

The timing of the present Executive Board discussion had been such that more positive and concrete signals from Sierra Leone had not been possible, Mr. Mtei remarked. The new administration had taken office

recently, on November 28, 1985, and the formal inauguration of the President had not yet occurred. More time than had been anticipated was being taken by the new Government to place itself in a position to take important policy decisions.

In the circumstances, the next review by the Executive Board of Sierra Leone's overdue obligations--if indeed the arrears had not been settled by then--should take place in three months, Mr. Mtei considered. That period would give the new administration ample time to consolidate its position and to formulate adjustment measures. In fact, some of the needed adjustment measures had already been formulated, and the staff mission could usefully visit Sierra Leone during the coming review period to appraise the adjustment process in the country. The coming three-month period could also allow the authorities to move cautiously on some of the politically sensitive issues; hasty action by the new administration could easily prove to be counterproductive.

Mr. Alfidja said that he accepted Mr. Mtei's proposal to hold the next discussion on Sierra Leone's arrears in three months.

Mr. Grosche recalled that his chair had expressed its views on Sierra Leone's economic and financial policies during the discussion on the staff report for the 1985 Article IV consultation with Sierra Leone on December 4, 1985 (EBM/85/174). He saw therefore no need to repeat them. For the reasons that the staff had given in EBS/85/288, he accepted the staff's proposal to hold the next review of Sierra Leone's overdue financial obligations in two months.

Mr. Suraisry commented that Mr. Mtei's opening statement was encouraging. The authorities should accelerate their efforts to settle Sierra Leone's arrears to the Fund. In addition, they should introduce the adjustment measures needed to bring the economy back on track.

The staff representative from the Treasurer's Department, responding to a question by Mr. Kafka, said that there were four precedents--Guyana, Nicaragua, Sudan, and Liberia--to bear in mind in considering the possible treatment of Sierra Leone's arrears. In those cases, the Executive Board had been flexible with respect to the timing of the third review, although in no instance had the review period exceeded two and one half months; the review period had usually been about two months. The proposed decision on page six was clearly consistent with the precedents, although in each previous case the Executive Board had tried to tailor its decision to the particular circumstances of the country concerned.

Responding to a further question, the staff representative from the Treasurer's Department explained that Sierra Leone's payments performance in the period between the first and second reviews was poorer than most of the precedent cases. Nicaragua had failed to make any payments between the first and second reviews, and that factor had probably been taken into account in the decision to hold the third review for Nicaragua relatively soon--namely, in less than two months. Of course, it was important to

have difficulty in accepting. The next staff mission to Sierra Leone would be significant, but mainly in terms of examining possible solutions to the problems facing the economy. In contrast, the arrears issue was of urgent significance.

Mr. Suraisry said that the proposed decision was acceptable. Given Mr. Mtei's opening statement, he was prepared to go along with Mr. Kafka's proposal for a period of two and one half months. However, the proposed decision would give the Executive Board considerable flexibility in dealing with Sierra Leone's arrears; the Executive Board could postpone the review date if the Managing Director felt that there were new developments which warranted such a postponement.

Mr. Hodgson remarked that while the authorities were clearly committed to implementing needed policies, Ms. Bush and Mr. Foot had made convincing arguments in favor of the proposed decision. Two months would be more than adequate for the next review period.

Mr. Polak commented that the authorities were clearly anxious to move forward and the Fund should keep a close eye on developments in the coming period. If the next staff mission were to take place in early February, the Executive Board should be able to consider the staff's report by March 5, 1986. Hence, the proposed two-month period seemed appropriate.

Mr. Kolb stated that he accepted the proposed decisions.

The Chairman remarked that Executive Directors seemed to favor the proposed decisions, including a review period of two months. That period must be used in the most efficient and positive manner possible. Hence, the proposal to send a staff mission promptly to Sierra Leone was useful. The authorities should not wait until the completion of that mission to make payments to the Fund.

The Executive Board then took the following decisions:

a. Report and Complaint Under Rule S-1

1. The Managing Director has reported under Rule S-1 of the Fund's Rules and Regulations to the Executive Board the facts on the basis of which it appeared to him that Sierra Leone was not fulfilling its obligations under the Articles of Agreement in the SDR Department and submitted a complaint on December 13, 1985 (EBS/85/278). The complaint under Rule S-1 was that as of December 13, 1985 Sierra Leone was not fulfilling its obligation to pay charges in the SDR Department in the total amount of SDR 330,160. These facts, and the complaint of the Managing Director, were communicated to the authorities of Sierra Leone on December 18, 1985.

2. Having considered the report of the Managing Director and the complaint under Rule S-1 and the views of Sierra Leone, the Fund finds that Sierra Leone has failed to fulfill its obligations under the Articles of Agreement as stated in paragraph 1.

3. The Fund regrets the nonobservance by Sierra Leone of its obligations and urges Sierra Leone to resume their observance forthwith. The Fund decides, pursuant to Article XXIII, Section 2(b) of the Articles of Agreement, to suspend the right of Sierra Leone to use SDRs it acquires after the suspension until such time as Sierra Leone has become current in its obligations to which that provision applies.

Decision No. 8173-(86/3) S, adopted
January 6, 1986

b. Review of Decision on Complaint Under Rule K-1 and
Notice of Failure to Settle Trust Fund Obligations

1. The Fund has reviewed further Decision No. 8014-(85/101) G/TR, adopted June 28, 1985, in light of the facts described in EBS/85/288, December 24, 1985, pertaining to Sierra Leone's overdue financial obligations to the Fund.

2. The Fund welcomes the payment by Sierra Leone on October 3, 1985. However, the Fund regrets the continuing nonobservance by Sierra Leone of its financial obligations to the Fund and notes that further obligations will fall due in the near future. The Fund again urges the Sierra Leonean authorities to make full and prompt settlement of the overdue financial obligations to the Fund.

3. The Fund reiterates the need for Sierra Leone to adopt urgently a strong and comprehensive program of economic adjustment.

4. The Fund shall review again Decision No. 8014-(85/101) G/TR and review Decision No. 8173-(86/3) S not later than March 5, 1986, taking into account further developments. Unless at the time of that review Sierra Leone is current in its financial obligations to the Fund, the Fund will consider the appropriateness of further steps, including the possibility of declaring Sierra Leone ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2 and suspending the right of Sierra Leone to use SDRs it acquires after March 5, 1986 pursuant to Article XXIII, Section 2(b).

Decision No. 8174-(86/3) G/S/TR, adopted
January 6, 1986