

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES
ROOM C-525

0450

SM/92/233

CONTAINS CONFIDENTIAL
INFORMATION

December 30, 1992

To: Members of the Executive Board
From: The Acting Secretary
Subject: Sierra Leone - Report on External Debt Renegotiation

Attached for the information of the Executive Directors is a report on the meeting held in Paris on November 20, 1992 to consider Sierra Leone's request to alleviate its external debt service obligations.

Mr. Nowak (ext. 38969) or Mr. Kalter (ext. 38755) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

Report on Sierra Leone's External Debt Renegotiation

Prepared by the African Department
and the Policy Development and Review Department

(In consultation with the Legal Department)

Approved by Evangelos A. Calamitsis and Thomas Leddy

December 29, 1992

Representatives of Sierra Leone and 12 creditor countries 1/ met in Paris on November 20, 1992 under the aegis of the Paris Club to consider Sierra Leone's request to alleviate its external debt service obligations. Observers from one other country, 2/ the Fund, 3/ the World Bank, the African Development Bank, the OECD, and the Secretariat of UNCTAD also attended the meeting, which was chaired by Ms. Le Lorier of the French Treasury.

The delegation of Sierra Leone, which was headed by Dr. Funna, who was at the time Secretary of State for Finance, Economic Development, and Planning, described the serious economic and financial difficulties faced by Sierra Leone, and the Government's strong determination to reduce the economic and financial imbalances as well as to remain within the targets of Sierra Leone's rights accumulation program endorsed by the Fund. 4/ The Fund staff representatives described Sierra Leone's economic situation and the major elements of the rights accumulation program undertaken by the Government.

The representatives of the governments of the participating creditor countries noted the strong adjustment measures in the economic and financial program undertaken by Sierra Leone, and emphasized the importance they attach to the continued and full implementation of the program. They

1/ Austria, Belgium, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Switzerland, the United Kingdom, and the United States.

2/ Sweden.

3/ The Fund staff was represented by Mr. Nowak (AFR) and Mr. Kalter (PDR).

4/ The rights accumulation program was endorsed by the Fund on April 3, 1992 and covers the period through end-February 1994 (EBS/92/45 and Supplement 1).

stressed, in particular, the need for revitalizing the productive sectors of the economy and improving public finances and foreign exchange management. They also took note of Sierra Leone's chronic balance of payments problems and heavy debt service obligations, which, in conjunction with Sierra Leone's low per capita income, were deemed to warrant exceptional treatment of the debt.

In the Agreed Minute of November 20, 1992, the representatives of the participating creditor countries agreed to recommend to their respective governments or their appropriate institutions that they provide, through rescheduling or refinancing, debt relief on the following items: (a) loans from governments or appropriate institutions of the participating creditor countries and commercial credits guaranteed or insured by them with an original maturity of more than one year and contracted prior to July 1, 1983; and (b) repayments of principal and interest due as a result of the consolidation agreements concluded or to be concluded according to the Agreed Minutes dated September 15, 1977, February 8, 1980, February 8, 1984, and November 19, 1986.

The restructuring covers (a) 100 percent of principal and interest (including late interest) due as of October 31, 1992 and not paid and (b) 100 percent of principal and interest (excluding late interest) due from November 1, 1992 up to February 28, 1994. The relief on debt other than official development assistance (ODA) will apply under one of the following three options (see attached tables):

1. France, Germany, the Netherlands, and Norway will cancel 50 percent of the debt service consolidated, with the remaining one half to be rescheduled at market rates of interest over a 23-year period, including a grace period of 6 years.

2. Austria, Belgium, Italy, Switzerland, and the United Kingdom will reschedule the debt service consolidated at concessional interest rates with repayment over 23 years and no grace period, so as to reduce the net present value by 50 percent.

3. The United States will reschedule the debt service consolidated at market interest rates with repayment over a 25-year period, including a grace period of 16 years.

Debt service on ODA loans covered by the consolidation is to be rescheduled or refinanced over a 30-year period, including a 12-year grace period, at rates of interest and on conditions at least as favorable as the concessional rates applying to the original loans.

On a voluntary and bilateral basis, the government of each participating creditor country or its appropriate institutions may sell or exchange, in the framework of debt for nature, debt for aid, and debt for equity or other local currency debt swaps (a) outstanding ODA loans or

direct government loans and (b) up to 10 percent or US\$10 million, whichever is higher, of the amounts of other credits outstanding as of October 31, 1992 and covered under the consolidation.

Arrears outstanding as of October 31, 1992 on loans and credits with an original maturity of more than one year, and contracted after July 1, 1983, will be paid according to the following schedule: 25 percent on March 31, 1993; 25 percent on December 31, 1993; and the remaining 50 percent on February 28, 1994. Late interest will be charged on these amounts.

Arrears outstanding as of October 31, 1992 on debts with an original maturity of one year or less, and contracted before November 1, 1992, will be paid in eight equal semiannual installments, beginning on June 30, 1994 and ending on December 31, 1997. Late interest will be charged on these amounts.

Interest accruing from November 1, 1992 to February 28, 1994 on consolidated amounts will be paid according to the following schedule: 50 percent on the due dates; and the remaining 50 percent in four equal and successive quarterly installments, beginning on March 31, 1994 and ending on December 31, 1994. These amounts will not be subject to further deferral. Late interest will be charged on these amounts.

The details of the rescheduling or refinancing arrangements will be determined bilaterally between the Government of Sierra Leone and the government or appropriate institutions of each participating creditor country. The bilateral agreements are to be concluded with the least delay and, in any case, before June 30, 1993.

In order to secure comparable treatment of public and private external creditors on their debts, the Government of Sierra Leone committed itself to seek rescheduling or refinancing arrangements with public and private external creditors on terms comparable to those set forth in the Agreed Minute for credits of comparable maturity, avoiding inequality between different categories of creditors. The Government of Sierra Leone undertook not to extend to any creditor country repayment terms more favorable than those accorded to the participating creditor countries.

The provisions of the Agreed Minute do not apply to creditor countries with respect to which principal and interest on debts specified above and falling due during the consolidation period are less than SDR 250,000. Payments to these countries and all other payments to participating creditors not covered by the Agreed Minute are to be made on the original due dates; all such payments that have already fallen due should be paid as soon as possible and, in any event, not later than February 28, 1993.

The provisions of the Agreed Minute came into force on November 30, 1992, when the Fund's Executive Board completed the first review of the rights accumulation program. They will continue to apply through March 31, 1993, provided that the Government of Sierra Leone continues to have a

rights accumulation program with the Fund. The provisions will also continue to apply in the period from April 1, 1993 to February 28, 1994, provided that (a) Sierra Leone continues to have a rights accumulation program with the Fund or any other appropriate arrangement, (b) the Fund informs the Chairman of the Paris Club not later than May 31, 1993 that the Fund has completed the second review of the rights accumulation program, and (c) the Government of Sierra Leone has made all payments due from November 1, 1992 to March 31, 1993 to the participating or observer creditor countries according to the Agreed Minute.

The participating creditor countries agreed in principle to a meeting, in response to a request from the Government of Sierra Leone, to consider debt service obligations falling due after February 28, 1994 and related to loans or credits contracted before July 1, 1983 provided that Sierra Leone (a) continues to have an appropriate arrangement from the Fund, (b) has reached effective agreements with other creditors and reported these agreements to the Chairman of the Paris Club, and (c) has complied with all of the conditions of the Agreed Minute of November 20, 1992.

If, for the three years from November 20, 1992, Sierra Leone maintains satisfactory relations with the participating and observer creditor countries, fully implements all agreements with them, and continues to have an appropriate arrangement from the Fund, the participating creditor countries have agreed in principle to hold a meeting to consider the matter of Sierra Leone's stock of debt.

The amount of the debt relief that Sierra Leone has obtained from the Paris Club creditors as a result of this consolidation is estimated at about US\$160 million for the period November 1, 1992 through February 28, 1994, and is consistent with the assumptions of the rights accumulation program. This relief, together with the deferral of debt payments by the Paris Club creditors and indications already received of debt forgiveness and balance of payments and commodity assistance, is sufficient to cover Sierra Leone's external financing requirements for 1992.

Table 1. Sierra Leone: Paris Club Agreed Minute of November 20, 1992
Principal Repayment Schedule for Credits by Option

(In percent of amounts rescheduled)

Payment Date	Non-ODA Loans			ODA Loans
	Debt Reduction <u>1/</u>	Debt Service Reduction	Longer Maturities	
March 1, 1994	--	0.85	--	--
September 1, 1994	--	0.89	--	--
March 1, 1995	--	0.94	--	--
September 1, 1995	--	0.98	--	--
March 1, 1996	--	1.02	--	--
September 1, 1996	--	1.07	--	--
March 1, 1997	--	1.11	--	--
September 1, 1997	--	1.16	--	--
March 1, 1998	--	1.21	--	--
September 1, 1998	--	1.26	--	--
March 1, 1999	--	1.31	--	--
September 1, 1999	--	1.36	--	--
March 1, 2000	0.12	1.41	--	--
September 1, 2000	0.20	1.47	--	--
March 1, 2001	0.28	1.52	--	--
September 1, 2001	0.38	1.58	--	--
March 1, 2002	0.48	1.64	--	--
September 1, 2002	0.58	1.70	--	--
March 1, 2003	0.70	1.76	--	--
September 1, 2003	0.82	1.82	--	--
March 1, 2004	0.94	1.88	--	--
September 1, 2004	1.08	1.95	--	--
March 1, 2005	1.22	2.01	--	--
September 1, 2005	1.36	2.08	--	--
March 1, 2006	1.52	2.15	--	0.29
September 1, 2006	1.70	2.22	--	0.36
March 1, 2007	1.86	2.29	--	0.43
September 1, 2007	2.06	2.36	--	0.51
March 1, 2008	2.26	2.44	--	0.60
September 1, 2008	2.46	2.51	--	0.69
March 1, 2009	2.68	2.59	--	0.78
September 1, 2009	2.92	2.67	--	0.88
March 1, 2010	3.18	2.75	5.55	0.99
September 1, 2010	3.44	2.84	5.55	1.10
March 1, 2011	3.70	2.92	5.55	1.22
September 1, 2011	4.00	3.00	5.55	1.34
March 1, 2012	4.30	3.10	5.55	1.47
September 1, 2012	4.64	3.19	5.55	1.60
March 1, 2013	4.98	3.28	5.55	1.74
September 1, 2013	5.34	3.37	5.55	1.89
March 1, 2014	5.72	3.47	5.55	2.05
September 1, 2014	6.12	3.57	5.55	2.22
March 1, 2015	6.54	3.67	5.55	2.39
September 1, 2015	7.00	3.77	5.55	2.57
March 1, 2016	7.46	3.87	5.55	2.76
September 1, 2016	7.96	3.99	5.55	2.96
March 1, 2017	...	...	5.55	3.18
September 1, 2017	...	...	5.55	3.40
March 1, 2018	...	...	5.55	3.63
September 1, 2018	...	...	5.55	3.87
March 1, 2019	...	...	...	4.13
September 1, 2019	...	...	...	4.40
March 1, 2020	...	...	...	4.68
September 1, 2020	...	...	...	4.97
March 1, 2021	...	...	...	5.28
September 1, 2021	...	...	...	5.61
March 1, 2022	...	...	...	5.95
September 1, 2022	...	...	...	6.31
March 1, 2023	...	...	...	6.68
September 1, 2023	...	...	...	7.07
Total	100.00	100.00	100.00	100.00

Source: Paris Club Agreed Minute.

1/ The percentages refer to the amounts consolidated after a 50 percent reduction.

Table 2. Sierra Leone: Paris Club Agreed Minute of November 20, 1992

Debt Service Reduction Option: Selected Interest Rates

(In percent)

Market rate	Debt service reduction <u>1/</u>
15.00	5.7621
14.50	5.4837
14.00	5.2041
13.50	4.9232
13.00	4.6408
12.50	4.3570
12.00	4.0717
11.50	3.7848
11.00	3.3962
10.50	3.2058
10.00	2.9137
9.50	2.6196
9.00	2.3236
8.50	2.0255
8.00	1.7252
7.50	1.4228
7.00	1.1180
6.50	0.8109
6.00	0.5012
5.50	0.1890
5.44 and below	0.1000

Source: Paris Club Agreed Minute.

1/ Interest rate applied to rescheduled amounts to achieve a 50 percent reduction in net present value terms.