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INFORMATION

April 2, 1990

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

Attached for the information of the Executive Directors is a report on the meeting held in Paris on February 12, 1990 to discuss Senegal's request for restructuring part of its external debt service obligations.

Mr. Nsouli (ext. 6937) or Mr. Pham (ext. 8734) is available to answer technical or factual questions relating to this paper.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

Report on Senegal's External Debt Renegotiation

Prepared by the African Department  
and the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by Mamoudou Touré and A. Basu

March 30, 1990

At a meeting of the Paris Club held on February 12, 1990, the representatives of the governments of Belgium, Canada, France, Italy, Japan, the Netherlands, Norway, Spain, Switzerland, the United Kingdom, and the United States considered Senegal's request for restructuring part of its external debt service obligations. Observers from the governments of two other countries, 1/ the Fund, 2/ the World Bank, the Organization for Economic Cooperation and Development, and the Secretariat of the United Nations Conference on Trade and Development also attended the meeting.

The Senegalese delegation, which was headed by the Minister of Economy and Finance, outlined the country's serious economic and financial difficulties, and described the policies supported by a three-year arrangement under the enhanced structural adjustment facility (ESAF) approved on November 21, 1988, and the second annual arrangement thereunder, approved on December 6, 1989. The delegation reiterated the strong determination of the Government of Senegal to reduce the existing economic and financial imbalances through a rigorous implementation of its medium-term adjustment program.

The Fund staff representative described the country's economic and financial situation and the major elements of the program undertaken by the Government of Senegal. The representatives of the governments of the participating creditor countries took note of the adjustment measures being implemented by the Government of Senegal, and stressed the importance they attach to the continued and full implementation of the program, including in particular the revitalization of the productive sectors of the economy. They also took note of Senegal's balance of payments problems and heavy debt service obligations, in conjunction with its very low per capita income, which were deemed to warrant exceptional treatment of the country's debt.

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1/ Denmark and Finland.

2/ The Fund staff representatives were Mr. Nsouli (AFR), Mr. Kuhn (ETR), and Mr. Arbulu-Neira (PAR).

In the Agreed Minute of February 12, 1990, the representatives of the participating creditor countries agreed to recommend to their governments or appropriate institutions that debt relief be provided through rescheduling or refinancing. The restructuring covers: (i) 100 percent of principal and interest (excluding late interest) falling due from January 1, 1990 through December 31, 1990 on loans from, or commercial credits guaranteed or insured by, the governments or the appropriate institutions of the participating creditor countries that were extended to the Government of Senegal or covered by its guarantee before January 1, 1983 with an original maturity of more than one year; (ii) 100 percent of principal and interest (excluding late interest) falling due in the period January 1, 1990 through June 30, 1990 as a result of the first six consolidation agreements concluded according to the Agreed Minutes dated October 13, 1981, November 29, 1982, December 21, 1983, January 18, 1985, November 21, 1986, and November 17, 1987; and (iii) 100 percent of principal and interest (excluding late interest) falling due in the period July 1, 1990 through December 31, 1990 as a result of the first four consolidation agreements concluded according to the Agreed Minutes dated October 13, 1981, November 29, 1982, December 21, 1983, and January 18, 1985. This reorganization will not apply to the debts contracted by two multinational entities, the Air Afrique and the Agence pour la Sécurité de la Navigation Aérienne, which are guaranteed jointly by the Government of Senegal and other governments.

The representatives of each participating creditor country agreed to recommend to their authorities the provision of debt relief under one of three options. The representatives of France chose to cancel one third of the amounts consolidated and to reschedule or refinance the balance over a 14-year period, with an 8-year grace period, at an interest rate to be determined bilaterally on the basis of the appropriate market rate (Option A). The representatives of Belgium, Japan, the Netherlands, Spain, and the United States elected to reschedule or refinance the amounts eligible over 25 years, with a 14-year grace period, at an interest rate to be determined bilaterally between the creditor countries and Senegal on the basis of the appropriate market rate (Option B). The representatives of Canada, Italy, Norway, Switzerland, and the United Kingdom opted to reschedule or refinance over a 14-year period, with an 8-year grace period, on the basis of the appropriate market rate, reduced by 3.5 percentage points or 50 percent, whichever is smaller (Option C). The terms of rescheduling are subject to the further proviso that official development assistance loans rescheduled or refinanced would be repaid over a 25-year period, with a 14-year grace period, with conditions and rates of interest at least as favorable as the concessional rates applying to those loans. 1/

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1/ For France, this applies to the two thirds that is not canceled.

Participating creditors also agreed to defer at market-related interest rates the amounts of principal and interest due at end-December 1989 and not paid on the first six consolidation agreements, to be paid in two equal installments at end-December 1990 and end-March 1991. These payments arrears will be excluded from any further consolidation. The Agreed Minute also provides that the agreement will be null and void if those amounts are not paid by the due dates.

The details of the rescheduling or refinancing arrangements will be determined bilaterally between the Government of Senegal and the government or appropriate institutions of each of the participating creditor countries on the basis of the appropriate market rate of interest. The bilateral agreements are to be concluded with the least delay and in any case not later than July 31, 1990. The provisions of the Agreed Minute do not apply to creditor countries with eligible principal and interest falling due during the consolidation period on debts of less than SDR 500,000. These provisions will apply on the condition that the Government of Senegal continues to have an arrangement under the ESAF from the Fund. For this purpose, the Government of Senegal agreed that the Fund inform the Chairman of the Paris Club of the status of Senegal's relations with the Fund.

In order to secure comparable treatment of public and private external creditors on their debts, the Government of Senegal undertook to seek from external creditors, including banks and suppliers, rescheduling or refinancing arrangements on terms comparable with those set forth in the Agreed Minute for credits of comparable maturity, making sure to avoid inequality between different categories of creditors. The Government of Senegal also agreed not to accord any creditor country not participating in the Paris Club repayment terms more favorable than those accorded to the participating creditor countries. The Government of Senegal will inform the Chairman of the Paris Club in writing not later than July 31, 1990 of the progress made in negotiations with other creditors.

The participating creditor countries also agreed in principle to a meeting to consider Senegal's debt service payments falling due after December 31, 1990 and related to loans or credits granted before January 1, 1983, provided that Senegal continues to have an appropriate arrangement from the Fund, that effective arrangements have been reached with other creditors, and that Senegal has complied with all conditions set out in the Agreed Minute.

The amount of debt relief that Senegal has obtained from the Paris Club as a result of this consolidation is estimated at CFAF 53.6 billion (SDR 128.4 million) for the period January 1, 1990 through December 31, 1990, of which CFAF 33.4 billion (SDR 80.0 million) is for the period January 1, 1990 through June 30, 1990 of fiscal year 1989/90 (July/June). Including debt relief obtained under this and previous consolidations, debt rescheduling under the London Club, and debt

forgiveness, Senegal's total debt relief is estimated to amount to CFAF 58.8 billion (SDR 141.0 million) in 1989/90, compared with CFAF 53.3 billion (SDR 128.0 million) initially projected under the Fund-supported program.