

EBS/88/191

CONFIDENTIAL

September 9, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Somalia - Overdue Financial Obligations to the Fund -
Review Following Declaration of Ineligibility

The attached paper is tentatively scheduled for consideration by the Executive Directors on Wednesday, September 14, 1988. A draft decision appears on pages 3 and 4.

Mr. Blalock (ext. 8341) or Ms. Bradley (ext. 8254) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Type of Obligation	Date of Purchase or Loan	Due Date	Days Overdue	SDR Amount
<u>Trust Fund</u>				
Trust Fund repayment (balance)	7/31/81	7/30/87	404	91,182
Special charges (TF)	--	8/24/87	379	8,146
Trust Fund repayment	4/30/80	10/29/87	313	970,900
Special charges (TF)	--	11/20/87	291	856
Trust Fund interest	--	12/31/87	250	16,470
Trust Fund repayment	7/31/80	1/29/88	221	91,200
Special charges (TF)	--	2/24/88	195	7,030
Trust Fund repayment	4/30/80	4/29/88	130	970,900
Trust Fund interest	--	6/30/88	68	16,246
Special charges (TF)	--	7/08/88	60	7,380
Trust Fund repayment	7/31/80	7/29/88	39	91,200
Special charges (TF)	--	8/25/88	12	<u>14,670</u>
Subtotal				2,286,180
Total				<u>46,317,908</u>

DOCUMENT OF INTERNATIONAL MONETARY FUND
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FOR
AGENDA

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INTERNATIONAL MONETARY FUND

Somalia - Overdue Financial Obligations to the Fund -
Review Following Declaration of Ineligibility

Prepared by the Treasurer's, African, and Legal Departments

Approved by Gerhard Laske, A.D. Ouattara, and F.P. Gianviti

September 9, 1988

1. On September 14, 1988, the Executive Board is scheduled to conduct the first review of Somalia's overdue financial obligations to the Fund following the declaration of Somalia's ineligibility to use the general resources of the Fund on May 6, 1988. ^{1/} This paper provides background information and a proposed decision for that discussion.

2. Somalia's arrears to the Fund totaled SDR 26.7 million at the time of the declaration of ineligibility. Since then Somalia has made one payment to the Fund, of SDR 0.1 million, and additional financial obligations of SDR 19.8 million have become overdue. As of September 6, 1988, Somalia's overdue financial obligations to the Fund amounted to SDR 46.3 million, as shown in Attachment II. Somalia's forthcoming financial obligations to the Fund are shown in Attachment III.

Somalia's overdue and forthcoming financial obligations to the Fund through 1994 (including repurchases, GRA charges, net SDR charges, and Trust Fund and SAF loan repayments and interest) amount to SDR 145.2 million. Deferred charges of Somalia subject to burden sharing totaled SDR 10.9 million as of July 31, 1988. Somalia's current arrears to the Fund of SDR 46.3 million in relation to various financial indicators are shown in the following tabulation:

<u>Overdue obligations in relation to:</u>	<u>Percent</u>
Quota	104.8
Total exports (1987)	63.7
Total imports (1987)	13.9
Total external arrears (end-1987)	39.2
Gross international reserves (end-1987)	240.4

3. At the request of the Somali authorities, a Fund staff team visited Mogadiscio during July 6-24, 1988, to discuss economic and financial policies for the period July 1-December 31, 1988. A staff

^{1/} Decision No. 8868-(88/72) G/S/TR, adopted May 6, 1988. (See Attachment I.)

report on the Somali Government's economic and financial policies was circulated on September 8, 1988 (EBS/88/190).

As noted in the staff report, the Somali authorities are currently implementing measures intended to stabilize the financial situation, arrest the economic decline that has taken place, and thus facilitate repayment of Somalia's overdue financial obligations to the Fund. These measures fall short of what would be required under a Fund-supported program, but if implemented strictly they could set the stage for the formulation of a comprehensive program of adjustment placed in a medium-term context. The recently announced measures will be reviewed with the Government in October 1988 and the staffs of the Fund and the World Bank intend to discuss a policy framework paper with the Somali authorities before the end of 1988.

Although Somalia has had intermittent arrears to the World Bank, it has made payments to the Bank sufficient to keep these arrears from accumulating. Currently, the staff has no information on debt-servicing payments made to other multilateral institutions in 1988. As part of its policies, the Somali Government has indicated that it intends to pay all forthcoming debt service obligations to the Fund, the World Bank, and the African Development Bank/Fund, and to ensure that overdue financial obligations to the Fund at end-December 1988 do not exceed the level of end-June 1988.

4. At other Executive Board reviews of overdue financial obligations to the Fund of ineligible members, Directors have stressed the need for members in arrears to the Fund to give settlement of overdue obligations to the Fund the highest priority. As noted in paragraph 2 above, Somalia has made one payment to the Fund since the declaration of ineligibility; this is the only payment Somalia has made to the Fund since the emergence of arrears to the Fund in July 1987. While welcoming this payment, Directors may wish to note that this represents only a modest effort on the part of Somalia to meet its financial obligations to the Fund, and to urge the authorities to make full and prompt settlement of Somalia's overdue financial obligations to the Fund.

As discussed in the staff report on Somalia's economic and financial policies, the authorities have recently implemented a number of measures designed to improve the economy of Somalia. Directors may wish to welcome these policy measures as important initial steps in the right direction, while noting that they fall short of the comprehensive adjustment program that is needed to address Somalia's economic and financial imbalances and which could provide a basis for development of an intensified collaborative approach to the resolution of the problem of Somalia's arrears to the Fund.

As noted in paragraph 3 above, the staffs of the Fund and the World Bank intend to discuss a policy framework paper with the Somali

authorities before the end of the year. In this context, Directors may wish to consider holding a further review of Somalia's overdue financial obligations to the Fund in early 1989, in order that the staff might report on progress made toward development of a comprehensive program of adjustment in the context of a policy framework paper. Accordingly, it is proposed in the draft decision that the next review be held within four months of the date of the decision. In addition, by the time of the next review the Interim Committee will have reviewed the Executive Board's report on overdue financial obligations to the Fund. Directors may wish to draw the authorities' attention to the Executive Board's report and indicate that the Fund will review the matter of Somalia's overdue financial obligations to the Fund again and consider further action in light of this report, guidance provided by the Interim Committee, and actions taken by Somalia between now and the next review.

The following draft decision, which could be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

Draft Decision

1. The Fund has reviewed further the matter of Somalia's continuing failure to fulfill its financial obligations to the Fund in light of the facts and developments described in EBS/88/191 (9/9/88).

2. The Fund deeply regrets the continuing failure by Somalia to fulfill its financial obligations to the Fund, which are placing a financial burden upon other members and reducing Fund resources needed to help others. While welcoming the modest payment made by Somalia since the declaration of ineligibility, the Fund notes that this represents only a modest effort on the part of Somalia to meet its financial obligations to the Fund and urges Somalia to make full and prompt settlement of the overdue financial obligations to the Fund. The Fund urges the authorities to give the matter of settlement of Somalia's arrears to the Fund the highest priority and to take all necessary actions in this respect.

3. The Fund welcomes the economic measures implemented recently by Somalia as important initial steps in the right direction, but notes that they fall short of the comprehensive adjustment program that is needed to address Somalia's economic and financial imbalances and which could provide a basis for development of an intensified collaborative approach to the resolution of the problem of Somalia's arrears to the Fund.

4. The Fund notes that the Interim Committee will be discussing the Executive Board's report on overdue financial obligations to the Fund in September 1988. The Fund will review

Somalia - Overdue Financial Obligations to the Fund 1/

(As of September 6, 1988)

Type of Obligation	Date of Purchase or Loan	Due Date	Days Overdue	SDR Amount
<u>General Resources Account</u>				
CT repurchase	1/03/83	7/02/87	432	250,068
CT repurchase	1/03/83	7/06/87	428	776,359
CT repurchase	7/15/82	7/14/87	420	853,283
Semiannual charges	--	7/20/87	414	2,341,281
CT repurchase	7/20/81	7/22/87	412	919,091
CT repurchase	7/15/82	7/22/87	412	1,021,716
Quarterly charges	--	8/17/87	386	698,736
Special charges (GRA)	--	8/24/87	379	20,385
CT repurchase	8/31/83	9/03/87	369	1,093,750
CT repurchase	1/03/83	10/01/87	341	473,641
CT repurchase	4/01/82	10/06/87	336	1,093,750
CT repurchase	3/31/83	10/06/87	336	735,000
Quarterly charges	--	11/11/87	300	694,719
CT repurchase	5/17/82	11/19/87	292	735,000
CT repurchase	5/16/83	11/19/87	292	441,136
CT repurchase	12/17/81	11/19/87	292	1,093,750
Special charges (GRA)	--	11/20/87	291	46,516
CT repurchase	11/30/83	12/03/87	278	1,093,750
CT repurchase	1/03/83	12/31/87	250	473,641
CT repurchase	1/03/83	1/06/87	244	776,359
Semiannual charges	--	1/15/88	235	2,298,214
CT repurchase	7/15/82	1/21/88	229	1,021,716
CT repurchase	7/20/81	1/21/88	229	919,091
Quarterly charges	--	2/12/88	207	708,189
Special charges (GRA)	--	2/24/88	195	59,666
CT repurchase	8/31/83	3/03/88	187	1,093,750
CT repurchase	4/01/82	4/06/88	153	735,000
CT repurchase	3/31/83	4/06/88	153	1,093,750
Assessment	--	4/30/88	129	2,364
CT repurchase	11/17/81	5/17/88	112	735,000
CT repurchase	5/17/82	5/17/88	112	441,136

1/ In addition, a CT repurchase of SDR 125,000 will fall due on September 14, 1988.

authorities before the end of the year. In this context, Directors may wish to consider holding a further review of Somalia's overdue financial obligations to the Fund in early 1989, in order that the staff might report on progress made toward development of a comprehensive program of adjustment in the context of a policy framework paper. Accordingly, it is proposed in the draft decision that the next review be held within four months of the date of the decision. In addition, by the time of the next review the Interim Committee will have reviewed the Executive Board's report on overdue financial obligations to the Fund. Directors may wish to draw the authorities' attention to the Executive Board's report and indicate that the Fund will review the matter of Somalia's overdue financial obligations to the Fund again and consider further action in light of this report, guidance provided by the Interim Committee, and actions taken by Somalia between now and the next review.

The following draft decision, which could be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

Draft Decision

1. The Fund has reviewed further the matter of Somalia's continuing failure to fulfill its financial obligations to the Fund in light of the facts and developments described in EBS/88/191 (9/9/88).

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3. The Fund welcomes the economic measures implemented recently by Somalia as important initial steps in the right direction, but notes that they fall short of the comprehensive adjustment program that is needed to address Somalia's economic and financial imbalances and which could provide a basis for development of an intensified collaborative approach to the resolution of the problem of Somalia's arrears to the Fund.

4. The Fund notes that the Interim Committee will be discussing the Executive Board's report on overdue financial obligations to the Fund in September 1988. The Fund will review

the matter of Somalia's overdue financial obligations to the Fund again and consider further action within four months from the date of this decision in light of those discussions and of actions taken by Somalia in the meantime to settle its arrears to the Fund, and to formulate and begin implementing a comprehensive economic adjustment program.

Attachments

INTERNATIONAL MONETARY FUND

Somalia - Overdue Financial Obligations -
Review of Decisions on Complaints Under Rule K-1 and Rule S-1,
and Notice of Failure to Settle Trust Fund Obligations

Executive Board Decision No. 8868-(88/72) G/S/TR, Adopted May 6, 1988

1. The Fund has reviewed further Decision No. 8703-(87/143), adopted October 7, 1987, and Decision No. 8746-(87/167) S/TR, adopted December 7, 1988, in light of the facts described in EBS/88/91 (5/2/88) pertaining to Somalia's overdue financial obligations to the Fund.

2. The Fund regrets the continuing nonobservance by Somalia of its financial obligations to the Fund and notes the financial burden placed upon other members by these arrears. The Fund notes that no payments have been received from Somalia since July 1987 and urges Somalia to make prompt and full settlement of the overdue financial obligations to the Fund.

3. The Fund regrets that Somalia has not adopted a program that could result in necessary economic adjustment. The Fund emphasizes its desire fully to re-establish a cooperative relationship with Somalia and stands ready to respond to the authorities in support of efforts to formulate and implement a realistic adjustment program.

4. With effect on May 6, 1988, Somalia is ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a), and the right of Somalia to use SDRs it acquires after that date is suspended, pursuant to Article XXIII, Section 2(b), other than for settlement of financial obligations to the Fund.

5. The Fund shall review the matter of Somalia's overdue financial obligations to the Fund again not later than September 15, 1988.

Somalia - Overdue Financial Obligations to the Fund 1/

(As of September 6, 1988)

Type of Obligation	Date of Purchase or Loan	Due Date	Days Overdue	SDR Amount
<u>General Resources Account</u>				
CT repurchase	1/03/83	7/02/87	432	250,068
CT repurchase	1/03/83	7/06/87	428	776,359
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1/ In addition, a CT repurchase of SDR 125,000 will fall due on September 14, 1988.

Type of Obligation	Date of Purchase or Loan	Due Date	Days Overdue	SDR Amount
CT repurchase	5/16/83	5/17/88	112	1,093,750
Quarterly charges	--	5/23/88	106	708,761
CF repurchase	3/01/85	5/31/88	98	1,900,000
CF repurchase	3/04/85	6/02/88	96	2,175,000
CT repurchase	11/30/83	6/06/88	92	1,093,750
CT repurchase	3/15/85	6/14/88	84	125,000
CT repurchase	1/03/83	7/06/88	62	776,359
Special charges (GRA)	--	7/08/88	60	91,992
Semiannual charges	--	7/14/88	54	2,276,217
CT repurchase	7/20/81	7/19/88	49	919,090
CT repurchase	7/15/82	7/21/88	47	1,021,716
Quarterly charges	--	8/18/88	19	752,466
Special charges (GRA)	--	8/25/88	12	122,243
CF repurchase	3/01/85	8/31/88	6	1,900,000
CF repurchase	3/04/85	9/02/85	4	2,175,000
CT repurchase	8/31/83	9/06/88	--	<u>1,093,750</u>
Subtotal				42,964,901
<u>Special Disbursement Account</u>				
SAF interest	--	12/31/87	250	22,282
Special charges (SAF)	--	2/24/88	65	60
SAF interest	--	6/30/88	68	21,980
Special charges (SAF)	--	7/08/88	172	167
Special charges (SAF)	--	8/25/88	12	<u>245</u>
Subtotal				44,734
<u>SDR Department</u>				
Net SDR charges	--	8/01/87	402	196,492
Net SDR charges	--	11/01/87	310	213,225
Net SDR charges	--	2/01/88	218	202,562
Net SDR charges	--	5/01/88	128	194,313
Net SDR charges	--	8/01/88	36	<u>215,501</u>
Subtotal				1,022,093

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Trust Fund repayment	7/31/80	7/29/88	39	91,200
Special charges (TF)	--	8/25/88	12	<u>14,670</u>
Subtotal				2,286,180
Total				<u>46,317,908</u>

Somalia - Overdue and Forthcoming Obligations as of September 6, 1988

(In millions of SDRs)

Type of Obligation	Outstanding as of Sept. 6, 1988	Forthcoming 1/							Total 3/ Through 1994
		1988 2/	1989	1990	1991	1992	1993	1994	
Repurchases	32.1	9.6	32.9	19.0	7.1	3.8	2.6	0.9	108.0
Quarterly charges 4/	3.6	0.6	1.7	0.6	0.2	--*	--*	--*	6.7
Semiannual charges 4/	6.9	0.0	2.9	1.5	0.8	0.5	0.3	0.1	13.0
Net SDR charges	1.0	0.2	0.8	0.8	0.8	0.8	0.8	0.8	6.0
Trust Fund repayments and interest	2.2	1.0	2.1	1.2	--*	0.0	0.0	0.0	6.5
SAF repayments and interest	<u>0.0</u>	<u>--*</u>	<u>--*</u>	<u>--*</u>	<u>--*</u>	<u>0.9</u>	<u>1.8</u>	<u>1.8</u>	<u>4.8</u>
Total 3/	46.3 5/	11.4	40.4	23.1	8.9	6.0	5.5	3.6	145.2

* Less than SDR 50,000.

1/ On the basis of present use of Fund credit, Trust fund loans outstanding, and Somalia's present position in the SDR Department. Charges are projected on the basis of current rates of charge. Special charges are not projected.

2/ Due after September 6, 1988.

3/ Totals may not add due to rounding.

4/ Forthcoming charges estimated on the assumption that overdue obligations are paid promptly; to the extent that obligations remain overdue, forthcoming charges may be higher.

5/ Includes special charges of SDR 340,802 (GRA), SDR 38,082 (TF), SDR 472 (SAF), and an assessment of SDR 2,364.

