

DOCUMENT OF INTERNATIONAL MONETARY FUND  
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FOR  
AGENDA

EBS/88/195

CONFIDENTIAL

October 7, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Zaire - Overdue Financial Obligations to the Fund -  
Consideration of Report and Complaint Under Rule K-1 and  
of Notice of Failure to Settle Trust Fund Obligations,  
and Report and Complaint Under Rule S-1

The attached paper is scheduled for consideration by the Executive Directors on Wednesday, October 12, 1988. Draft decisions appear 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)



INTERNATIONAL MONETARY FUND

Zaire - Overdue Financial Obligations to the Fund -  
Consideration of Report and Complaint Under Rule K-1 and  
of Notice of Failure to Settle Trust Fund Obligations,  
and Report and Complaint Under Rule S-1

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

(In consultation with the Exchange and Trade Relations Department)

Approved by David Williams, G.E. Gondwe, and R. Munzberg

October 7, 1988

1. On October 12, 1988, the Executive Board will give substantive consideration to the Managing Director's complaint under Rule K-1 of the Fund's Rules and Regulations and to the notice of failure to settle Trust Fund obligations with respect to Zaire's overdue financial obligations in the General Department and to the Trust Fund (EBS/88/189, 9/2/88). At the time of issuance of the complaint under Rule K-1, which was noted by the Executive Board on September 9, 1988 (see Attachment I), Zaire's overdue financial obligations to the Fund totaled SDR 66.1 million. Since then, Zaire has made no payments to the Fund and additional obligations of SDR 15.0 million have become overdue. Accordingly, on October 4, 1988 Zaire's overdue financial obligations to the Fund totaled SDR 81.1 million (see Attachment II). On the basis of Zaire's present amount of Fund credit outstanding, Trust Fund loans outstanding, and position in the SDR Department, Zaire's forthcoming financial obligations to the Fund through 1993 total SDR 661.1 million, as shown in Attachment III.

When the complaint under Rule K-1 and Trust Fund notice were issued, the Executive Board was informed that Zaire was overdue in discharging net SDR charges of SDR 1.3 million due August 1, 1988 and that if this obligation were not settled shortly, a report and complaint under Rule S-1 would be issued. <sup>1</sup>/ Zaire has not paid its net SDR charges that were due on August 1, 1988 and under the Fund's established procedures, a complaint under Rule S-1 is due to be issued at this time and is attached to this paper (see Attachment IV).

2. The most recent description of the economic and financial situation of Zaire is contained in the staff report for the 1988 Article IV consultation (SM/88/210, 9/6/88), which is scheduled to be discussed on October 12, 1988 in conjunction with the Executive Board's

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<sup>1</sup> See footnote 1 on page 4 of EBS/88/189.

substantive consideration of the report and complaint under Rule K-1 and notice of failure to settle Trust Fund obligations. Additional information on the economic and financial situation of Zaïre is contained in EBS/88/189.

3. The Executive Board meeting on October 12, 1988 will give substantive consideration to the Managing Director's complaint under Rule K-1 and notice of failure to settle Trust Fund obligations. In considering what steps should be taken at this point, it may be useful to review the experience of Zaïre with respect to its financial obligations to the Fund. Although Zaïre has been in arrears to the Fund intermittently for a number of years, the complaint under Rule K-1 and Trust Fund notice issued on September 2, 1988 are the first such complaint and notice with respect to Zaïre. The complaint under Rule S-1 contained in this paper is also the first such complaint issued with respect to Zaïre. Since the emergence of arrears to the Fund at end-June 1988, Zaïre has not made any payments to the Fund. Available information on Zaïre's external debt service payments in the first half of 1988 is contained in EBS/88/189. In addition, preliminary estimates indicate that external debt service payments by Zaïre in July 1988 amounted to US\$3.0 million.

4. As regards the decision on the complaint under Rule K-1 and Trust Fund notice, a draft decision is provided below which incorporates actions similar to those taken by the Executive Board on the occasion of its substantive consideration in other cases of complaints under Rule K-1 and Trust Fund notices in similar circumstances. It is proposed that Zaïre's use of the Fund's general resources be limited until Zaïre has become current in its financial obligations in the General Department and that if Zaïre were otherwise eligible to make use of the general resources of the Fund, account be taken of the existence of any overdue obligation to the Trust Fund in considering any request by Zaïre for the use of the general resources. It is suggested that the period for review of the decision on the complaint under Rule K-1 and Trust Fund notice be three months from the date of the decision.

In view of the Executive Board's scheduled consideration of the complaint under Rule K-1 and Trust Fund notice on October 12, 1988, it is proposed that the complaint under Rule S-1 with respect to Zaïre, which is contained in Attachment IV, be noted at that Board meeting and that the matter be placed on the agenda of the Executive Board at the time of the first review of the decision on the complaint under Rule K-1 and Trust Fund notice. <sup>1/</sup> Under this timing, the period between issuance of the complaint under Rule S-1 and its substantive consideration would be extended for about two months beyond the standard one-month period for substantive consideration of a complaint

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<sup>1/</sup> A draft cable to the authorities is contained in Attachment V.

under Rule S-1, depending on the decision taken by the Executive Board in respect of the review period for the complaint under Rule K-1 and Trust Fund notice. However, this is consistent with the flexibility in timing that has been applied in other instances in the past, and which was supported by the Executive Board at its discussion of the six-monthly report on overdue financial obligations to the Fund in February 1988 (EBM/88/19, 2/10/88).

Accordingly, the following draft decisions are proposed for adoption by the Executive Board:

Draft Decisions

1. Zaire - Report and Complaint Under Rule K-1 and Notice of Failure to Settle Trust Fund Obligations

1. On September 2, 1988, the Managing Director submitted a report and complaint to the Executive Board (EBS/88/189), under Rule K-1 of the Fund's Rules and Regulations, setting out the facts on the basis of which it appeared to him at that time that Zaire was not fulfilling its obligations under the Articles of Agreement relating to repurchases and the payment of charges and interest in the General Department. In addition, the Managing Director issued a notice of the facts on the basis of which it appeared to him that as of September 2, 1988, Zaire was not fulfilling its obligations under Decision No. 5069-(76/72) with regard to the Trust Fund to repay disbursements and to pay interest under its Trust Fund loans, and pursuant to Decision No. 8165-(85/189) G/TR to pay special charges that are overdue to the Trust Fund. These facts and the complaint under Rule K-1 and notice of failure to settle Trust Fund obligations were communicated to the authorities of Zaire on September 9, 1988.

2. Having considered the report of the Managing Director, the complaint under Rule K-1 and notice of failure to settle Trust Fund obligations, and the views of Zaire, the Fund finds that Zaire has failed to fulfill its obligations under the Articles of Agreement as stated in paragraph 1 above.

3. The Fund regrets the nonobservance by Zaire of its financial obligations, urges Zaire to give these obligations the highest priority and to resume their observance forthwith, and decides: (a) pursuant to Rule K-2 of the Fund's Rules and Regulations that Zaire shall not make use of the general resources of the Fund until such time as Zaire has become current in its obligations under the Articles of Agreement relating to repurchases and the payment of charges and interest in the General Department, and (b) if Zaire were otherwise eligible to make use of the general resources of the Fund, to take account of the existence of any overdue obligation to the Trust Fund in

considering any request by Zaïre for the use of the general resources.

4. The Fund shall review this decision within a period of three months from the date of the decision.

II. Zaïre - Complaint Under Rule S-1

1. The complaint of the Acting Managing Director dated October 7, 1988 regarding Zaïre's overdue obligation in the SDR Department, in EBS/88/195 (10/7/88), is noted. It shall be placed on the agenda of the Executive Board on the same date as the review of Decision No. -(88/ / ). If at that time Zaïre is not current in its obligation to pay charges in the SDR Department, the Fund will consider suspending the right of Zaïre to use SDRs it acquires after the suspension pursuant to Article XXIII, Section 2(b), *other than for settlement of financial obligations to the Fund.*

2. The Fund urges Zaïre to give settlement of its arrears to the Fund the highest priority and to become current in its financial obligations to the Fund promptly, avoiding thereby the need for the Fund to take remedial action.

3. Consideration of the complaint in accordance with Rule S-1 particularly affects Zaïre. The member shall be informed by rapid means of communication of this matter and of its right to present its views through an appropriately authorized representative at the meeting at which the complaint is considered and at such subsequent meetings as the Executive Board may hold on the subject matter of the complaint.

Attachments

INTERNATIONAL MONETARY FUND

Zaire - Overdue Financial Obligations - Report and Complaint  
Under Rule K-1 and Notice of Failure to Settle Trust Fund Obligations

Executive Board Decision No. 8977-(88/146) G/TR -  
Adopted September 9, 1988

1. The complaint of the Managing Director under Rule K-1 dated September 2, 1988 on Zaire in EBS/88/189, September 2, 1988, is noted. It shall be placed on the agenda of the Executive Board for October 12, 1988.
2. The notice of the Managing Director dated September 2, 1988 regarding the failure of Zaire to fulfill obligations under Decision No. 5069-(76/72) establishing the Trust Fund, in EBS/88/189, is noted. It shall be placed on the agenda of the Executive Board for October 12, 1988.
3. The Fund urges Zaire to become current in its financial obligations to the Fund promptly and to avoid thereby the need for the Fund to take remedial action.
4. Consideration of the complaint in accordance with Rule K-1 and of the Trust Fund notice particularly affects Zaire. The member shall be informed by rapid means of communication of these matters and of its right to present its views through an appropriately authorized representative.

Zaire - Overdue and Forthcoming Obligations  
as of October 4, 1988

(In millions of SDRs)

| Type of<br>Obligation                 | Outstanding<br>as of<br>Oct. 4, 1988 | Forthcoming 1/ |            |            |            |            |             | Total<br>Through<br>1993 3/ |
|---------------------------------------|--------------------------------------|----------------|------------|------------|------------|------------|-------------|-----------------------------|
|                                       |                                      | 1988 2/        | 1989       | 1990       | 1991       | 1992       | 1993        |                             |
| Repurchases                           | 63.5                                 | 51.9           | 155.4      | 136.4      | 78.5       | 26.7       | 8.6         | 521.0                       |
| Quarterly charges 4/                  | 6.1                                  | 5.7            | 16.2       | 8.5        | 2.9        | 0.4        | 0.0         | 39.8                        |
| Semiannual charges 4/                 | 5.8                                  | 0.0            | 8.9        | 6.5        | 4.0        | 1.9        | 0.9         | 28.0                        |
| Net SDR charges                       | 1.3                                  | 1.3            | 5.0        | 5.0        | 5.0        | 5.0        | 5.0         | 27.6                        |
| Trust Fund repayments<br>and interest | 4.3                                  | 4.9            | 12.7       | 3.4        | 0.4        | 0.0        | 0.0         | 25.7                        |
| SAF repayments<br>and interest        | <u>0.1</u>                           | <u>0.1</u>     | <u>0.3</u> | <u>0.3</u> | <u>0.3</u> | <u>6.1</u> | <u>11.8</u> | <u>19.0</u>                 |
| Total 3/                              | 81.1 5/                              | 63.9           | 198.5      | 160.1      | 91.1       | 40.1       | 26.3        | 661.1                       |

1/ On the basis of present use of Fund credit, Trust Fund loans outstanding, and Zaire'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 October 4, 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 30,350 (GRA), SDR 1,925 (TF), and SDR 432 (SAF).



INTERNATIONAL MONETARY FUND

Zaire - Overdue Financial Obligations - Report and Complaint  
Under Rule K-1 and Notice of Failure to Settle Trust Fund Obligations

Executive Board Decision No. 8977-(88/146) G/TR -  
Adopted September 9, 1988

1. The complaint of the Managing Director under Rule K-1 dated September 2, 1988 on Zaire in EBS/88/189, September 2, 1988, is noted. It shall be placed on the agenda of the Executive Board for October 12, 1988.

2. The notice of the Managing Director dated September 2, 1988 regarding the failure of Zaire to fulfill obligations under Decision No. 5069-(76/72) establishing the Trust Fund, in EBS/88/189, is noted. It shall be placed on the agenda of the Executive Board for October 12, 1988.

3. The Fund urges Zaire to become current in its financial obligations to the Fund promptly and to avoid thereby the need for the Fund to take remedial action.

4. Consideration of the complaint in accordance with Rule K-1 and of the Trust Fund notice particularly affects Zaire. The member shall be informed by rapid means of communication of these matters and of its right to present its views through an appropriately authorized representative.

Zaire - Overdue Financial Obligations to the Fund  
(As of October 4, 1988)

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ATTACHMENT III

Zaire - Overdue and Forthcoming Obligations  
as of October 4, 1988

(In millions of SDRs)

| Type of<br>Obligation                 | Outstanding<br>as of<br>Oct. 4, 1988 | Forthcoming 1/ |            |            |            |            | Total<br>Through<br>1993 3/ |             |
|---------------------------------------|--------------------------------------|----------------|------------|------------|------------|------------|-----------------------------|-------------|
|                                       |                                      | 1988 2/        | 1989       | 1990       | 1991       | 1992       |                             |             |
| Repurchases                           | 63.5                                 | 51.9           | 155.4      | 136.4      | 78.5       | 26.7       | 8.6                         | 521.0       |
| Quarterly charges 4/                  | 6.1                                  | 5.7            | 16.2       | 8.5        | 2.9        | 0.4        | 0.0                         | 39.8        |
| Semiannual charges 4/                 | 5.8                                  | 0.0            | 8.9        | 6.5        | 4.0        | 1.9        | 0.9                         | 28.0        |
| Net SDR charges                       | 1.3                                  | 1.3            | 5.0        | 5.0        | 5.0        | 5.0        | 5.0                         | 27.6        |
| Trust Fund repayments<br>and interest | 4.3                                  | 4.9            | 12.7       | 3.4        | 0.4        | 0.0        | 0.0                         | 25.7        |
| SAF repayments<br>and interest        | <u>0.1</u>                           | <u>0.1</u>     | <u>0.3</u> | <u>0.3</u> | <u>0.3</u> | <u>6.1</u> | <u>11.8</u>                 | <u>19.0</u> |
| Total 3/                              | 81.1 5/                              | 63.9           | 198.5      | 160.1      | 91.1       | 40.1       | 26.3                        | 661.1       |

1/ On the basis of present use of Fund credit, Trust Fund loans outstanding, and Zaire'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 October 4, 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 30,350 (GRA), SDR 1,925 (TF), and SDR 432 (SAF).

INTERNATIONAL MONETARY FUND

Zaire - Overdue Financial Obligations - Report and Complaint  
Under Rule K-1 and Notice of Failure to Settle Trust Fund Obligations

Executive Board Decision No. 8977-(88/146) G/TR -  
Adopted September 9, 1988

1. The complaint of the Managing Director under Rule K-1 dated September 2, 1988 on Zaire in EBS/88/189, September 2, 1988, is noted. It shall be placed on the agenda of the Executive Board for October 12, 1988.
2. The notice of the Managing Director dated September 2, 1988 regarding the failure of Zaire to fulfill obligations under Decision No. 5069-(76/72) establishing the Trust Fund, in EBS/88/189, is noted. It shall be placed on the agenda of the Executive Board for October 12, 1988.
3. The Fund urges Zaire to become current in its financial obligations to the Fund promptly and to avoid thereby the need for the Fund to take remedial action.
4. Consideration of the complaint in accordance with Rule K-1 and of the Trust Fund notice particularly affects Zaire. The member shall be informed by rapid means of communication of these matters and of its right to present its views through an appropriately authorized representative.

## Zaire - Overdue Financial Obligations to the Fund

(As of October 4, 1988)

| Type of<br>Obligation               | Date of<br>Purchase<br>or Loan | Due<br>Date | SDR<br>Amount  |
|-------------------------------------|--------------------------------|-------------|----------------|
| <u>General Resources Account</u>    |                                |             |                |
| CF repurchase                       | 12/30/83                       | 6/29/88     | 14,312,500     |
| EF repurchase                       | 6/30/81                        | 6/29/88     | 8,762,500      |
| EF repurchase                       | 6/30/81                        | 6/29/88     | 750,756        |
| CT repurchase                       | 1/03/84                        | 7/01/88     | 694,602        |
| CT repurchase                       | 1/03/84                        | 7/06/88     | 3,805,398      |
| Semiannual charges                  | --                             | 7/14/88     | 5,753,182      |
| CT repurchase                       | 4/29/85                        | 7/28/88     | 5,000,000      |
| CT repurchase                       | 4/30/84                        | 7/29/88     | 2,625,000      |
| CT repurchase                       | 2/01/85                        | 7/31/88     | 1,101,375      |
| CT repurchase                       | 2/04/85                        | 8/03/88     | 1,398,625      |
| CT repurchase                       | 2/04/85                        | 8/06/88     | 2,497,273      |
| CT repurchase                       | 2/01/85                        | 8/06/88     | 21,819         |
| CT repurchase                       | 8/15/84                        | 8/14/88     | 2,500,000      |
| CT repurchase                       | 11/15/84                       | 8/14/88     | 2,500,000      |
| Quarterly charges                   | --                             | 8/18/88     | 6,128,135      |
| CT repurchase                       | 8/15/84                        | 8/22/88     | 2,500,000      |
| Special charges (GRA)               | --                             | 8/25/88     | 30,350         |
| CF repurchase                       | 12/30/83                       | 9/29/88     | 14,312,500     |
| CT repurchase                       | 1/03/84                        | 10/02/88    | <u>694,602</u> |
| Subtotal                            |                                |             | 75,388,617     |
| <u>Special Disbursement Account</u> |                                |             |                |
| SAF interest                        | --                             | 6/30/88     | 144,705        |
| Special charges (SAF)               | --                             | 8/25/88     | <u>432</u>     |
| Subtotal                            |                                |             | 145,137        |
| <u>SDR Department</u>               |                                |             |                |
| Net SDR charges                     | --                             | 8/01/88     | 1,260,865      |

| Type of<br>Obligation | Date of<br>Purchase<br>or Loan | Due<br>Date | SDR<br>Amount     |
|-----------------------|--------------------------------|-------------|-------------------|
| <u>Trust Fund</u>     |                                |             |                   |
| Trust Fund interest   | --                             | 6/30/88     | 73,210            |
| Trust Fund repayment  | 7/27/78                        | 7/26/88     | 2,728,660         |
| Trust Fund repayment  | 1/31/80                        | 7/29/88     | 960,500           |
| Trust Fund repayment  | 7/31/80                        | 7/29/88     | 542,400           |
| Special charges (TF)  | --                             | 8/25/88     | <u>1,925</u>      |
| Subtotal              |                                |             | 4,306,695         |
| Total                 |                                |             | <u>81,101,314</u> |

Zaire - Overdue and Forthcoming Obligations  
as of October 4, 1988

(In millions of SDRs)

| Type of<br>Obligation                 | Outstanding<br>as of<br>Oct. 4, 1988 | Forthcoming 1/ |            |            |            |            |             | Total<br>Through<br>1993 3/ |
|---------------------------------------|--------------------------------------|----------------|------------|------------|------------|------------|-------------|-----------------------------|
|                                       |                                      | 1988 2/        | 1989       | 1990       | 1991       | 1992       | 1993        |                             |
| Repurchases                           | 63.5                                 | 51.9           | 155.4      | 136.4      | 78.5       | 26.7       | 8.6         | 521.0                       |
| Quarterly charges 4/                  | 6.1                                  | 5.7            | 16.2       | 8.5        | 2.9        | 0.4        | 0.0         | 39.8                        |
| Semiannual charges 4/                 | 5.8                                  | 0.0            | 8.9        | 6.5        | 4.0        | 1.9        | 0.9         | 28.0                        |
| Net SDR charges                       | 1.3                                  | 1.3            | 5.0        | 5.0        | 5.0        | 5.0        | 5.0         | 27.6                        |
| Trust Fund repayments<br>and interest | 4.3                                  | 4.9            | 12.7       | 3.4        | 0.4        | 0.0        | 0.0         | 25.7                        |
| SAF repayments<br>and interest        | <u>0.1</u>                           | <u>0.1</u>     | <u>0.3</u> | <u>0.3</u> | <u>0.3</u> | <u>6.1</u> | <u>11.8</u> | <u>19.0</u>                 |
| Total 3/                              | 81.1 5/                              | 63.9           | 198.5      | 160.1      | 91.1       | 40.1       | 26.3        | 661.1                       |

1/ On the basis of present use of Fund credit, Trust Fund loans outstanding, and Zaire'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 October 4, 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 30,350 (GRA), SDR 1,925 (TF), and SDR 432 (SAF).

To: Members of the Executive Board

October 7, 1988

From: The Acting Managing Director

Subject: Zaire - Complaint Under Rule S-1

The following complaint is made in accordance with Rule S-1 of the Fund's Rules and Regulations. The complaint is that it appears to me that Zaire is not fulfilling the obligation under Article XX, Section 2 of the Articles of Agreement, referred to in Rule S-1, to pay charges in the SDR Department. The nonfulfillment of this obligation is a basis for a complaint under Rule S-1 and could lead to suspension under Article XXIII, Section 2(b). As of October 7, 1988, this obligation was to pay charges of SDR 1,260,865, which were due on August 1, 1988.

The Honorable Pay Pay Wa Syakassighe  
Governor of the Fund and of the  
Bank of Zaïre  
B.P. 2697  
Kinshasa, Zaïre

October , 1988

Dear Mr. Governor:

I refer to the various communications of the International Monetary Fund to the authorities of Zaïre concerning the nonobservance of obligations under the Articles of Agreement of the Fund.

I attach for your information the text of my memorandum of October 7, 1988 to the Executive Board setting forth the obligation under the Articles of Agreement of the International Monetary Fund that appears to me is not being observed by Zaïre.

The Executive Board has decided to place the complaint set forth in my memorandum on its agenda for the same date as the review of Decision No. -(88/ / ) regarding Zaïre's overdue obligations in the General Department and to the Trust Fund.

Consideration of the complaint under Rule S-1 could result in a suspension under Article XXIII, Section 2(b) of the right of Zaïre to use SDRs that it may acquire after the suspension, other than for settlement of financial obligations to the Fund.

The Government of Zaïre is entitled under the Articles and By-laws of the Fund, and therefore invited, to present its views, both orally and in writing, through an appropriately authorized representative at the meeting of the Executive Board referred to above, and at such subsequent meetings as the Executive Board may hold on this matter at the Fund's headquarters in Washington, D.C. If you desire, the Executive Director elected by Zaïre may represent Zaïre at any such meetings.

I am prepared to make arrangements at your request for the full briefing of your representative on all relevant matters.

Richard D. Erb  
Acting Managing Director  
International Monetary Fund