

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**IMMEDIATE
ATTENTION**

EBS/88/153

CONFIDENTIAL

August 1, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Uganda - Overdue Financial Obligations to the Fund -
Report and Complaint Under Rule K-1

Attached is a report and complaint by the Managing Director under Rule K-1 with respect to Uganda's overdue financial obligations in the General Department. The draft decision on page 6 provides that the complaint be placed on the agenda of the Executive Board meeting scheduled on Friday, August 26, 1988.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by the close of business on Monday, August 8, 1988. In the absence of such a request and in the absence of full settlement by Uganda of the overdue financial obligations by that date, the draft decision will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Blalock (ext. 8341) or Ms. Bradley (ext. 7885) is available to answer technical or factual questions relating to this paper.

Att: (1)



CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Uganda - Overdue Financial Obligations to the Fund -
Report and Complaint Under Rule K-1

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

Approved by Thomas Leddy, A.D. Ouattara and F.P. Gianviti

(In consultation with the Exchange and Trade Relations Department)

July 29, 1988

1. Uganda is at present overdue in discharging a number of financial obligations to the Fund dating from a credit tranche repurchase due on May 20, 1988. 1/ As of July 22, 1988, Uganda's overdue financial obligations to the Fund totaled SDR 17,839,385, as shown in Attachment I. 2/ Between July 1987 and January 1988 Uganda experienced difficulties in discharging its financial obligations to the Fund on time, and on three occasions the Executive Board was notified that Uganda was overdue in its financial obligations to the Fund. However, on January 20, 1988, Uganda completed settlement of its overdue financial obligations to the Fund and became current. Since January 1988, Uganda has experienced intermittent difficulties in meeting its financial obligations to the Fund but until May 1988 the delays in payment were short and generally did not exceed one month.

2. Uganda's relations with the Fund are summarized in Attachment II. As of July 22, 1988, Uganda's outstanding use of Fund resources in the General Department, including overdue repurchases of SDR 13.5 million, totaled SDR 158.4 million, of which SDR 49.8 million is under the compensatory financing facility and SDR 108.6 million is under the enlarged access policy. In addition, SDR 9.3 million are outstanding to the Trust Fund and SDR 19.9 million to the Special Disbursement Account under the Structural Adjustment Facility.

On the basis of Uganda's present use of Fund resources, Trust Fund and SAF loans outstanding, and position in the SDR Department, Uganda's forthcoming obligations through 1992 total SDR 196.2, as shown in Attachment III. Uganda's current overdue financial obligations to the

1/ Executive Directors were informed of Uganda's arrears to the Fund in EBS/88/125 (6/28/88).

2/ In addition, Trust Fund repayments totaling SDR 1,744,000 are due on July 30, 1988.

Fund of SDR 17.8 million relative to various financial indicators are shown in the following tabulation:

<u>Overdue obligations in relation to:</u>	<u>Percent</u>
Quota	17.9
Outstanding use of Fund resources	9.5
Officially recorded merchandise exports (1987-88 est.)	7.7
Officially recorded merchandise imports (1987-88 est.)	3.9
Total external arrears (as of end-June 1988)	15.6
Gross official reserves (as of end-June 1988)	68.5

3. The most recent descriptions of the economic and financial situation in Uganda are contained in the staff report for the 1987 Article IV consultation (EBS/87/110, 5/22/87), which was discussed by the Executive Board on June 15, 1987, and in the request for a compensatory financing facility purchase (EBS/88/12, 1/22/88), which was discussed on February 5, 1988. Uganda's economic situation has worsened since that time, but the authorities have recently put in place a new policy package designed to arrest the decline.

During its (July-June) 1987/88 fiscal year, Uganda inaugurated a comprehensive economic adjustment and rehabilitation program aimed at achieving rapid economic recovery following years of civil war. In support of this program, on June 15, 1987 the Executive Board approved a three-year arrangement under the structural adjustment facility (SAF) and the first annual arrangement thereunder. The loan disbursement under the first annual arrangement was in an amount equivalent to SDR 19.9 million (20 percent of quota). The World Bank also approved an IDA Economic Recovery Credit totalling US\$105 million in support of the program. The program's targets included a 5 percent increase in real GDP, a slowing of the annual inflation rate from 250 percent to 30 percent, a more than doubling of gross reserves to US\$45.5 million, and a substantial reduction in external payments arrears, from US\$97 million to US\$20 million. To achieve these objectives the authorities implemented a major adjustment in the exchange rate, a reform of the national currency coupled with a 30 percent conversion tax designed to shrink the money supply, significant increases in agricultural producer prices and the prices of petroleum products, and the introduction of an open general licensing (OGL) system aimed at liberalizing the allocation of foreign exchange for industrial inputs and spare parts.

In addition to various structural reforms in public administration, the authorities also agreed to implement a budget that would allow a U Sh 1.9 billion reduction in net bank credit to government, equivalent to 22 percent of the end-June 1987 broad money stock, and to pursue monetary policies that would limit the increase in private sector credit to about U Sh 2.9 billion (33 percent of the end-June 1987 broad money stock).

The authorities appear to have largely succeeded in achieving their growth and rehabilitation objectives for 1987/88. Real GDP increased by 3 percent during calendar year 1987, and production in leading manufacturing establishments rose significantly during early 1988 following implementation of the OGL system. In addition, important progress was achieved in resettling areas devastated by war, in rehabilitating Uganda's highways, and in restoring other elements of Uganda's social and economic infrastructure.

The authorities were far less successful in achieving the program's financial and stabilization objectives. Reflecting a sharp decline in world coffee prices and the imposition of export quotas, exports fell significantly, while continuing civil unrest resulted in unexpected increases in government imports. In addition, disbursements of foreign assistance were delayed, and nonreschedulable debt service obligations proved larger than originally estimated. Uganda's external resources were thus tightly constrained, leading to a substantial increase in external payments arrears, to US\$150 million, including arrears to the Fund of SDR 14.2 million as of June 30, 1988, and an end-June 1988 reserve position of only US\$34 million, comprising for the most part funds earmarked for import support. In the fiscal sector, shortfalls in revenue and significant overruns in expenditure led to a substantial increase in the government budget deficit and an increase in net bank credit to government estimated at U Sh 7.5 billion. In addition, credit to the private sector is estimated to have risen by U Sh 10.0 billion, more than 3 times the programmed increase. Accordingly, broad money is estimated to have expanded by 336 percent. Reflecting these developments and a continuing shortage of official foreign exchange resources for consumer imports, the annual inflation rate slowed only to 150 percent, measured from May 1987 to May 1988. The exchange rate in the parallel market in turn depreciated sharply to about U Sh 425 per U.S. dollar at end-June 1988. However, the official exchange rate, which was depreciated by 77 percent to U Sh 60 per U.S. dollar in mid-May 1987, remained unchanged for the remainder of 1987/88.

Staff missions visited Uganda during October 1987 and February 1988 to assess performance under the first-year SAF arrangement and to discuss policy measures to put the 1987/88 program back on track. Subsequent missions visited Uganda in May and June of 1988, to discuss with the authorities policies for the 1988/99 fiscal year (July-June) that might form the basis for Fund support under a second-year SAF

arrangement. In this exercise, the authorities implemented a 60 percent depreciation of the Uganda shilling to U Sh 150 per U.S. dollar on July 1, 1988 and agreed to quarterly reviews of the exchange rate aimed, inter alia, at avoiding any further appreciation of the real effective exchange rate. Also on July 1 the authorities introduced substantial increases in agricultural producer prices aimed at preserving coffee exports and promoting export diversification. They also presented a central government budget designed to allow a substantial reduction in net bank credit to government. In addition, interest rates were raised by 10 percent, across-the-board, and were to be kept under review in light of developments in inflation. On the basis of these actions and agreement on a revised policy framework paper, the World Bank released the second tranche of its US\$105 million economic recovery credit. A staff report summarizing these developments is intended to be issued early in August 1988.

During the recent staff mission the authorities indicated that they were actively seeking financing in order to clear their arrears to the Fund and to remain current thereafter.

4. The situation of Uganda's overdue financial obligations to the Fund can be summarized as follows. The complaint under Rule K-1 contained in this paper is the second such complaint with respect to Uganda. A complaint under K-1 was issued on April 29, 1987 and subsequently withdrawn on May 21, 1987 following Uganda's full settlement of its overdue obligations to the Fund in the General Resources Account. Since the emergence of arrears in May 1988 ^{1/}, Uganda has made one payment of SDR 650,971. Uganda's overdue financial obligations are in the General Resources Account (repurchases and charges), to the Trust Fund (interest), and to the Special Disbursement Account (interest on SAF loan). Uganda has not complied with the Fund's requests for settlement of these obligations. Overdue obligations in the General Resources Account and the Special Disbursement Account not only are contrary to the member's obligations under the Articles of Agreement and the purposes of the Fund, but also adversely affect the member's standing in the Fund. Such overdue obligations impair the revolving character and temporary use of the Fund's general resources, and hence the Fund's ability to assist other members, and prejudice the Fund's liquidity and credit standing. In the circumstances, the Fund must consider what actions are possible and what steps should be taken.

5. Under the Articles of Agreement, By-Laws, and Rules and Regulations of the Fund, a member that does not observe its obligations under the Articles of Agreement is subject to the application of remedies by the Fund that seek to protect the Fund's resources in the

^{1/} Arrears that emerged between June 1987 and April 1988 were cleared by subsequent payments.

General Department. The Fund has a certain choice of remedies and discretion in selecting the remedy appropriate to the circumstances. These various options, as outlined in papers for other members in similar circumstances, are set out in the Annex to this report.

6. In the past, in similar circumstances, the Fund has adopted decisions in accordance with Section I.1 as set forth in the Annex, after having given full and adequate opportunity to the member to remedy the situation or state its case.

The following procedural actions need to be taken at this stage:

(i) The Managing Director must communicate to the Executive Board a report and complaint in accordance with Rule K-1. This requirement is met by the circulation of the present report and complaint (Attachment IV).

(ii) The Executive Board will need to decide whether to consider the complaint of the Managing Director. If it decides to do so, the Executive Board would formally note the complaint, determine that consideration of the complaint particularly affects Uganda in the sense of Article XII, Section 3(j) and By-Law Section 19(a) and (c), and place the complaint on its agenda for a date that would afford reasonable notice to Uganda. 1/ This would be accomplished by taking the decision proposed at the end of this paper.

(iii) In accordance with this decision, Uganda would be informed of the complaint and notice, of the decision of the Executive Board, of its right to present its views through a representative, who may be the Executive Director elected by Uganda if the member so desires, and of the invitation to do so at the meeting or meetings to be held on the matter. This would be done by the dispatch of the draft cable in Attachment V.

1/ Article XII, Section 3(j) provides that:

"(j) The Board of Governors shall adopt regulations under which a member not entitled to appoint an Executive Director under (b) above may send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration."

By-Law Section 19(a) and (c) provides that:

"(a) Each member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i) may, in accordance with the regulations provided in this Section, send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration. A member may waive its rights under this provision. The Executive Board

(iv) The Executive Board would decide on the actions to be taken on the complaint and notice at the meeting or meetings at which the complaint is considered. 1/ 2/

Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The complaint of the Managing Director under Rule K-1 dated August 1, 1988 on Uganda in EBS/88/153, August 1, 1988, is noted. It shall be placed on the agenda of the Executive Board for August 26, 1988.
2. The Fund urges Uganda to become current in its financial obligations to the Fund promptly and to avoid thereby the need for the Fund to take remedial action.
3. Consideration of the complaint in accordance with Rule K-1 particularly affects Uganda. 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.

Attachments

1/ (Cont'd from p. 5) shall determine whether a matter under consideration particularly affects a member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i), which determination shall be final."...

"(c) Whenever the Executive Board is to consider a matter which has been determined particularly to affect a member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i), the member shall be promptly informed by rapid means of communication of the date set for its consideration. No final action shall be taken by the Executive Board with respect to such matter, nor any question particularly affecting such member submitted to the Board of Governors, until the member has either waived its rights under paragraph (a) of this Section or has been given an opportunity to present its views through an appropriately authorized representative at a meeting of the Executive Board, of which the member has had reasonable notice."

2/ Should Uganda not wish to respond to the complaint and notice, the Fund could proceed with their consideration in any event.

ATTACHMENT I

Uganda - Overdue Financial Obligations to the Fund 1/

(As of July 22, 1988)

Type of Obligation	Date of Purchase or Loan	Due Date	Days Overdue	SDR Amount
<u>General Department</u>				
CT repurchase	11/17/81	5/20/88	63	2,727,273
CT repurchase	5/17/82	5/20/88	63	681,818
CT repurchase	5/16/83	5/20/88	63	4,687,500
CT repurchase	11/15/83	5/20/88	63	1,562,500
CT repurchase	12/06/82	6/06/88	46	1,562,500
CT repurchase	6/15/81	6/14/88	38	2,257,951
Special charges (GRA)	--	7/08/88	14	616
Semiannual charges	--	7/14/88	8	<u>4,285,070</u>
Subtotal				17,765,228
<u>SAF</u>				
SAF interest	--	6/30/88	22	49,528
<u>Trust Fund</u>				
Trust Fund interest	--	6/30/88	22	24,629
Total				<u>17,839,385</u>

1/ In addition, two Trust Fund repayments totaling SDR 1,744,000 are due on July 30, 1988.

ATTACHMENT II

Uganda - Relations with the Fund

(As of July 14, 1988)

I. Membership status

- (a) Date of membership: September 27, 1963
- (b) Status: Article XIV

A. Financial Relations

II. General Department (amounts in millions of SDRs)

- (a) Quota: 99.6
- (b) Total Fund holdings of Uganda shillings:
258.1 (259 percent of quota)
- (c) Fund credit: 178.3 (179 percent of quota)
Of which:
 - General Resources Account
 - Enlarged access: 108.6 (109.1 percent of quota)
 - Compensatory Financing Facility: 49.8 (50 percent of quota)
 - Special Disbursement Account
 - Structural Adjustment Facility: 19.9 (20.0 percent of quota)
- (d) Reserve tranche position: Nil

III. Stand-by or extended arrangements and special facilities in the last ten years

- (a) Stand-by arrangements:
 - (i) Duration: September 16, 1983 to September 15, 1984
 - (ii) Amount: SDR 95.0 million
 - (iii) Utilization: SDR 65.0 million
 - (i) Duration: August 11, 1982 to August 10, 1983
 - (ii) Amount: SDR 112.5 million
 - (iii) Utilization: SDR 112.5 million
 - (i) Duration: June 5, 1981 to June 30, 1982
 - (ii) Amount: SDR 112.5 million
 - (iii) Utilization: SDR 112.5 million

(b) Special facilities:

Compensatory financing:

- (i) Date approved: June 5, 1981
- (ii) Amount: SDR 45.0 million

(c) Structural Adjustment Arrangement:

- (i) Duration: June 15, 1987 to June 14, 1990
- (ii) Amount: SDR 63.25 million (63.50 percent of quota)
- (iii) Utilization: SDR 19.92 million (20.00 percent of quota)

IV. SDR Department

- (a) Net cumulative allocations: SDR 29.40 million
- (b) Holdings: Nil

V. Trust Fund Loans: Disbursed: SDR 27.48 million
Outstanding: SDR 9.29 million

VI. Overdue obligations to the Fund: SDR 17.8 million
(as of July 22, 1988)

B. Nonfinancial Relations

VII. Exchange Rate: Since July 1, 1988, the Uganda shilling has been pegged to the U.S. dollar at the rate of U Sh 150 per U.S. dollar.

VIII. Consultation with the Fund: Article IV consultation discussions were conducted during the first half of 1988. The staff report will be issued shortly.

- IX. Resident Representative: The Fund has maintained a resident representative in Uganda since July 1982. A staff member, Mr. G. Begashaw, has been the Fund resident representative since December 1987.
- X. Technical Assistance: Uganda has received extensive technical assistance from the Fund in recent years, including:
- (a) technical assistance through CBD's panel of experts;
 - (b) technical assistance through members of FAD's panel of experts;
 - (c) several missions from BUR which have visited Uganda since 1983;
 - (d) technical assistance from LEG in the fields of fiscal and banking legislation; and
 - (e) seminar sponsored by the IMF Institute with the Bank of Uganda in "Techniques of Financial Programming" (January 31-February 8, 1985).

ATTACHMENT III

Uganda - Overdue and Forthcoming Financial Obligations
as of July 22, 1988

(In millions of SDRs)

Type of Obligation	Outstanding as of July 22, 1988	Forthcoming ^{1/}					Total Through 1992 ^{3/}
		1988 ^{2/}	1989	1990	1991	1992	
Repurchases	13.5	25.4	43.0	30.3	24.4	18.7	155.3
Quarterly charges ^{4/}	0.0	1.6	3.1	3.1	2.4	0.9	11.1
Semiannual charges ^{4/}	4.3	0.0	5.5	2.2	0.3	0.1	12.4
Net SDR charges	0.0	0.8	1.7	1.7	1.7	1.7	7.6
SAF interest	--	0.1	0.1	0.1	0.1	0.1	0.5
Trust Fund repayments and interest	--	<u>2.2</u>	<u>4.5</u>	<u>2.4</u>	<u>0.2</u>	<u>0.0</u>	<u>9.3</u>
Total ^{3/}	17.8 ^{5/}	30.1	57.9	39.8	29.1	21.5	196.2

^{1/} Estimated on the basis of Uganda's present use of Fund credit, Trust Fund loans outstanding, and position in the SDR Department. Charges are projected on the basis of current rates of charge. Special charges are not projected.

^{2/} Due after July 22, 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, actual charges may be higher.

^{5/} Includes special charges of SDR 616 (GRA).

August 1, 1988

To: Members of the Executive Board

From: The Managing Director

Subject: Uganda - Overdue Financial Obligations to the Fund -
Report and Complaint Under Rule K-1

1. A number of communications have been addressed by the International Monetary Fund to Uganda, and contacts have taken place with the authorities of Uganda concerning the nonobservance of certain obligations under the Articles of Agreement of the Fund. These communications and contacts have not resulted in a resumption of the observance of these obligations.

2. The following complaint is made in accordance with Rule K-1 of the Fund's Rules and Regulations. It appears to me that Uganda is not fulfilling obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department. As of July 22, 1988, these obligations were as follows:

(a) To repurchase the equivalent of SDR 2,727,273 relating to a repurchase due on May 20, 1988 in respect of a credit tranche purchase made on November 17, 1981;

(b) To repurchase the equivalent of SDR 681,818 relating to a repurchase due on May 20, 1988 in respect of a credit tranche purchase made on May 17, 1982;

(c) To repurchase the equivalent of SDR 4,687,500 relating to a repurchase due on May 20, 1988 in respect of a credit tranche purchase made on May 16, 1983;

(d) To repurchase the equivalent of SDR 1,562,500 relating to a repurchase due on May 20, 1988 in respect of a credit tranche purchase made on November 15, 1983;

(e) To repurchase the equivalent of SDR 1,562,500 relating to a repurchase due on June 6, 1988 in respect of a credit tranche purchase made on December 6, 1982;

(f) To repurchase the equivalent of SDR 2,257,951 relating to a repurchase due on June 14, 1988 in respect of a credit tranche purchase made on June 15, 1981;

(g) To pay special charges of SDR 616 due on July 8, 1988 under Executive Board Decision No. 8165-(85/189) G/TR, adopted December 30, 1985; and

(h) To pay semiannual charges of SDR 4,285,070 representing the balance of semiannual charges due on July 14, 1988 under Executive Board Decision No. 6783-(81/40), adopted March 11, 1983.

ATTACHMENT V

The Honorable C.W.C.B. Kiyonga
Governor of the Fund and
Minister of Finance
Ministry of Finance
Kampala
Uganda

August , 1988

Dear Mr. Governor:

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

I attach for your information the text of my memorandum of August 1, 1988 to the Executive Board setting forth the financial obligations under the Articles of Agreement of the International Monetary Fund that appear to me are not being observed by Uganda.

The Executive Board has decided to place on its agenda for a meeting to be held on August 26, 1988 the complaint set forth in my memorandum.

Consideration of the complaint could result in a declaration of ineligibility of Uganda to use the general resources of the Fund under Article XXVI, Section 2(a) of the Articles of Agreement, or a limitation of Uganda's use of the general resources of the Fund according to Rule K-2 of the Fund's Rules and Regulations.

The Government of Uganda 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 so desire, the Executive Director elected by Uganda may represent Uganda at any such meetings.

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

Michel Camdessus
Managing Director
Interfund

Attachment