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FOR
AGENDA

EBS/88/215

CONFIDENTIAL

October 20, 1988

To: Members of the Executive Board

From: The Secretary

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

The attached paper is tentatively scheduled for consideration by the Executive Directors on Monday, October 24, 1988. A draft decision appears on pages 4 and 5.

Mr. Berthet (ext. 7633) or Ms. Bradley (ext. 7885) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

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

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

Approved by Gerhard Laske, G.E. Gondwe, and F.P. Gianviti

October 19, 1988

1. On October 24, 1988, the Executive Board is scheduled to conduct a first review of Sierra Leone's overdue financial obligations to the Fund following the declaration of Sierra Leone's ineligibility to use the general resources of the Fund effective April 25, 1988. 1/ This paper provides background information and a proposed decision for that discussion.

2. Sierra Leone's arrears to the Fund totaled SDR 39.1 million at the time the declaration of ineligibility took effect. Since then, Sierra Leone has made no payments to the Fund and additional financial obligations of SDR 9.5 million have become overdue. As of October 14, 1988, Sierra Leone's overdue financial obligations to the Fund amounted to SDR 48.6 million, 2/ as shown in Attachment II. Sierra Leone's forthcoming financial obligations to the Fund are shown in Attachment III.

Sierra Leone's overdue and forthcoming financial obligations to the Fund through 1993 (including repurchases, GRA charges, net SDR charges, and Trust Fund and SAF loan repayments and interest) amount to SDR 91.3 million. Deferred income from charges due by Sierra Leone which is subject to burden sharing totaled SDR 6.8 million as of August 31, 1988. Sierra Leone's current arrears to the Fund of SDR 48.6 million in relation to various financial indicators are shown in the following tabulation:

<u>Overdue obligations in relation to:</u>	<u>Percent</u>
Quota	83.9
Total exports (1987/88 est.)	59.5
Total imports (1987/88 est.)	46.6
Total external arrears (end-June 1988 est.)	11.1
Gross international reserves (end-June 1988)	166.4

1/ Decision No. 8778-(88/10) G/S/TR, adopted January 25, 1988. (See Attachment I.)

2/ In addition, two repurchases of SDR 562,500 each fall due on October 15 and 22, 1988.

3. The most recent description of the economic situation and policies of Sierra Leone is contained in the staff report for the 1987 Article IV consultation (SM/88/68, 3/23/88), which was discussed by the Executive Board on April 20, 1988 (EBM/88/62), and in the accompanying report on recent economic developments (SM/88/76, 4/4/88).

At the request of the authorities, a staff team visited Freetown in June 1988 to discuss the formulation of a comprehensive adjustment program. The authorities indicated to the mission that they were not in a position at that time to take major action in the key areas of exchange rate and pricing policies, although they anticipated implementing some adjustments in a gradual manner during the following months. They also expressed the intention of pursuing a tighter fiscal policy in 1988/89 (fiscal year ending June 30), which might lessen the extent of the other policy adjustments needed.

During discussions with the staff at the time of the Annual Meetings in Berlin, and subsequently during a meeting between His Excellency President Momoh and Fund management in Washington on October 3, 1988, some information was provided by the authorities on recent economic developments and policies. In the past few months, the official exchange rate of the leone has been depreciated gradually, from Le 29 per US\$1 at mid-March 1988 to Le 40 per US\$1 at end-September. However, the official exchange rate is still significantly below the parallel market rate (reportedly Le 50-55 per US\$1 at present), and inflows of foreign exchange into the banking system (particularly relating to exports of gold and diamonds) have remained at very low levels. In mid-August 1988, the official retail price of rice was doubled to Le 680 per 50 kg. bag, and the authorities announced that the Sierra Leone Produce Marketing Board (SLPMB) would no longer be involved in the importation of rice. The new official retail price of rice remains significantly below the free market price (of Le 900-1,000 per bag), and substantial quantities of rice have continued to be sold to the security forces at a heavily subsidized price of Le 85 per bag. Also, the initial imports of rice by the private sector have been financed using an official guarantee of foreign exchange against expected export receipts of the SLPMB.

The budget for 1988/89, announced at end-June 1988, envisaged an overall deficit equivalent to about 9.3 percent of GDP, compared with the estimated 1987/88 deficit of about 8.1 percent of GDP. The budget contained an increase in civil service salaries (including allowances) averaging almost 90 percent, without any new revenue measures. The authorities have indicated that strenuous efforts are being made to reduce expenditures by eliminating wage payments for "ghost" employees and by sharply curtailing other expenditures (including extra-budgetary outlays). However, even if the deficit were contained at the level planned by the authorities (which, in the staff's view, is likely to be difficult on the basis of present policies), it would have to be

financed almost entirely by an increase in domestic bank borrowing and/or in domestic and external payments arrears.

The analysis of recent developments in money and credit is complicated by the emergence of a substantial lag in the compilation of data by the Bank of Sierra Leone. At the time of the June 1988 mission, data were available only through October 1987, although reportedly the situation has improved somewhat in recent months.

Sierra Leone's external financial situation has remained extremely difficult. Although increased use of foreign exchange obtained in the parallel market has helped prevent shortages of consumer commodities, the provision of public services, such as power and water, has continued to deteriorate, reflecting the lack of official foreign exchange for needed inputs. Since April 25, 1988, Sierra Leone has not made any payments to the Fund or to the World Bank, nor, reportedly, have any significant payments been made to other official creditors.

During the recent discussions with the authorities, the staff reiterated the urgent need for a strong and coordinated adjustment program. While welcoming the recent measures relating to exchange rate and rice pricing policies, the staff indicated that further action was necessary in these areas; also, strong fiscal action was needed to reduce the likely expansionary effect of the 1988/89 budget. The staff also emphasized its concern regarding Sierra Leone's increasing arrears to the Fund and the fact that no payments have been received since the declaration of ineligibility, and urged the authorities to give highest priority to becoming current with the Fund.

The authorities indicated that they were in broad agreement with the need for further adjustment measures and that they hoped to take additional action on several policy fronts in the coming months. They requested that discussions on a comprehensive adjustment program take place at the time of the next Article IV consultation mission scheduled for early 1989; in the meantime, contacts with the staff (including a staff visit to Freetown) would continue. The authorities also stated that they hoped to be in a position to make payments to the Fund in the coming months as they anticipated a seasonal pickup in export receipts.

4. Executive Directors have stressed the need for members in arrears to the Fund to give settlement of their overdue obligations the highest priority. As noted above, since the declaration of ineligibility in April 1988 Sierra Leone has made no payments to the Fund. In this context, Directors may wish to express regret regarding the continuing failure of Sierra Leone to fulfill its financial obligations to the Fund, and to note that this places a financial burden on other members and reduces Fund resources needed to help others. Directors may also wish to stress that settlement of Sierra Leone's arrears to the Fund should be given the highest priority and that Sierra Leone should take all necessary actions in this respect.

As discussed in paragraph 3 above, during the recent discussions with the authorities the staff urged Sierra Leone to adopt a strong and coordinated adjustment program, and the authorities indicated a desire to continue discussions with the staff on such a program at the time of the next Article IV consultation mission. In these circumstances, the Executive Board may wish to note the authorities' desire to discuss a comprehensive adjustment program with the staff and, in keeping with the guidance provided by the Interim Committee at its September 1988 meeting, to express the Fund's continued readiness to assist Sierra Leone in the formulation of such a program as a first step toward the development of a cooperative approach to the resolution of Sierra Leone's problems. In order that the Executive Board may be kept closely informed of developments, the staff would suggest that the next review of Sierra Leone's arrears to the Fund be held within three months.

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 Sierra Leone's continuing failure to fulfill its financial obligations to the Fund in light of the facts and developments described in EBS/88/215 (10/20/88).

2. The Fund deeply regrets the continuing failure by Sierra Leone 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. The Fund notes that no payment has been received from Sierra Leone since January 1988. The Fund again urges Sierra Leone to make full and prompt settlement of the overdue financial obligations to the Fund, and stresses that settlement of these arrears should be given the highest priority and that Sierra Leone should take all necessary actions in this respect.

3. The Fund notes the desire of the Sierra Leonean authorities to discuss a comprehensive adjustment program with the staff and, in keeping with the guidance provided by the Interim Committee at its September 1988 meeting, expresses the Fund's continued readiness to assist Sierra Leone in the formulation of such a program as a first step toward the development of a cooperative approach to the resolution of Sierra Leone's problems.

4. The Fund will review the matter of Sierra Leone's overdue financial obligations to the Fund again within three months from the date of this decision in light of actions taken by Sierra Leone in the meantime to settle its arrears to the Fund and to begin implementation of a comprehensive adjustment program.

Attachments

INTERNATIONAL MONETARY FUND

Sierra Leone - Overdue Financial Obligations -
Review of Decisions on Complaints Under Rule K-1 and Rule S-1

Executive Board Decision No. 8778-(88/10) G/S/TR,
Adopted January 25, 1988

1. The Fund has reviewed further Decision No. 8566-(87/61), adopted April 17, 1987, and Decision No. 8647-(87/104) S/TR, adopted July 17, 1987, in light of the facts described in EBS/88/4 (1/12/88) pertaining to Sierra Leone's overdue financial obligations to the Fund.

2. The Fund regrets the continuing nonobservance by Sierra Leone of its financial obligations to the Fund and notes that further substantial obligations will fall due in the near future. The Fund urges Sierra Leone to make full and prompt settlement of the overdue financial obligations to the Fund.

3. The Fund regrets that Sierra Leone has not adopted a program that could result in necessary economic adjustment. The Fund notes the determination of the authorities to carry out urgently a comprehensive adjustment program, and to address thereby, through appropriate exchange rate and other economic and financial policy actions, the problem of overdue financial obligations to the Fund.

4. Unless by April 25, 1988 Sierra Leone is current in its financial obligations to the Fund, or the 1988 Article IV consultation has been completed by the Executive Board and the Managing Director has indicated to the Executive Board that he is satisfied that a comprehensive adjustment program has been adopted and is being implemented, and that that program offers the prospect of the prompt elimination of Sierra Leone's overdue financial obligations to the Fund, with effect on that date Sierra Leone will be ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a), and the right of Sierra Leone to use SDRs it acquires after that date will be suspended, pursuant to Article XXIII, Section 2(b), other than for settlement of financial obligations to the Fund.

Sierra Leone - Overdue Financial Obligations to the Fund^{1/}

(As of October 14, 1988)

Type of Obligation	Date of Purchase or Loan	Due Date	SDR Amount
<u>General Resources Account</u>			
CF repurchase	2/17/83	2/13/87	1,851,353
Quarterly charges	--	2/13/87	693,454
EF repurchase	4/02/81	4/01/87	1,313,375
EF repurchase	4/02/81	4/01/87	799,417
Assessment	--	4/30/87	3,339
Quarterly charges	--	5/11/87	659,232
CT repurchase	2/14/84	5/13/87	755,078
CF repurchase	2/17/83	5/15/87	2,587,500
EF repurchase	5/19/81	5/18/87	558,333
EF repurchase	5/19/81	5/18/87	837,500
Special charges (GRA)	--	5/21/87	8,097
CT repurchase	4/16/84	7/15/87	562,500
Semiannual charges	--	7/20/87	294,902
Semiannual charges	--	7/20/87	246,383
Special charges (GRA)	--	7/21/87	4,219
CT repurchase	2/14/84	8/13/87	755,078
CF repurchase	2/17/87	8/14/87	2,587,500
Quarterly charges	--	8/17/87	649,857
CT repurchase	2/15/87	8/21/87	494,922
Special charges (GRA)	--	8/24/87	19,638
EF repurchase	4/02/81	10/01/87	799,417
EF repurchase	4/02/81	10/01/87	1,313,375
CT repurchase	4/16/84	10/15/87	562,500
CT repurchase	4/16/84	10/22/87	562,500
Quarterly charges	--	11/11/87	649,857
CT repurchase	2/14/84	11/13/87	755,078
CF repurchase	2/17/83	11/16/87	2,587,500
EF repurchase	5/19/81	11/18/87	558,333
EF repurchase	5/19/81	11/18/87	837,500

^{1/} In addition, two repurchases of SDR 562,500 each fall due on October 15 and 22, 1988.

Type of Obligation	Date of Purchase or Loan	Due Date	SDR Amount
Special charges (GRA)	--	11/20/87	46,525
CT repurchase	4/16/84	1/15/88	562,500
Semiannual charges	--	1/15/88	315,568
Semiannual charges	--	1/15/88	291,124
CT repurchase	2/14/84	2/12/88	755,078
Quarterly charges	--	2/12/88	661,200
CF repurchase	2/17/83	2/16/88	2,587,500
CT repurchase	2/15/84	2/22/88	494,922
Special charges (GRA)	--	2/24/88	47,852
EF repurchase	4/02/81	3/31/88	799,417
EF repurchase	4/02/81	3/31/88	1,313,375
CT repurchase	4/16/84	4/15/88	562,500
CT repurchase	4/16/84	4/22/88	562,500
Assessment	--	4/30/88	3,013
CT repurchase	2/14/84	5/13/88	755,078
EF repurchase	5/19/81	5/17/88	558,333
EF repurchase	5/19/81	5/17/88	837,500
Quarterly charges	--	5/23/88	653,637
Special charges (GRA)	--	7/11/88	82,266
Semiannual charges	--	7/14/88	312,547
Semiannual charges	--	7/14/88	275,145
CT repurchase	4/16/84	7/15/88	562,500
CT repurchase	2/14/84	8/13/88	755,078
Quarterly charges	--	8/18/88	693,102
CT repurchase	2/15/84	8/22/88	494,922
Special charges (GRA)	--	8/25/88	99,317
EF repurchase	4/02/81	10/01/88	799,417
Subtotal			40,189,653
<u>Special Disbursement Account</u>			
SAF interest	--	6/30/87	28,714
Special charges (SAF)	--	8/24/87	77
Special charges (SAF)	--	11/20/87	239
SAF interest	--	12/31/87	29,190
Special charges (SAF)	--	2/24/88	301
SAF interest	--	6/30/88	28,792

Type of Obligation	Date of Purchase or Loan	Due Date	SDR Amount
Special charges (SAF)	--	7/11/88	432
Special charges (SAF)	--	8/25/88	<u>550</u>
Subtotal			88,295
<u>SDR Department</u>			
Net SDR charges	--	5/01/87	171,154
Net SDR charges	--	8/01/87	251,672
Net SDR charges	--	11/01/87	274,374
Net SDR charges	--	2/01/88	260,652
Net SDR charges	--	5/01/88	250,037
Net SDR charges	--	8/01/88	<u>277,302</u>
Subtotal			1,485,191
<u>Trust Fund</u>			
Trust Fund repayment	7/31/88	1/30/87	52,220
Special charges (TF)	--	2/23/87	537
Trust Fund repayment	4/30/80	4/29/87	307,500
Trust Fund repayment	11/13/79	5/12/87	757,500
Special charges (TF)	--	5/21/87	5,013
Trust Fund interest	--	6/30/87	29,594
Trust Fund repayment	1/26/78	7/24/87	165,000
Trust Fund repayment	7/27/78	7/24/87	603,686
Trust Fund repayment	7/28/77	7/27/87	267,500
Trust Fund repayment	7/31/80	7/30/87	120,000
Trust Fund repayment	1/31/80	7/30/87	212,500
Special charges (TF)	--	8/24/87	7,310
Trust Fund repayment	4/30/80	10/29/87	307,500
Trust Fund repayment	11/13/79	11/12/87	757,500
Special charges (TF)	--	11/20/87	17,835
Trust Fund interest	--	12/31/87	28,654
Trust Fund repayment	1/26/78	1/25/88	165,000
Trust Fund repayment	7/27/78	1/26/88	603,686
Trust Fund repayment	1/31/80	1/29/88	212,500
Trust Fund repayment	7/31/80	1/29/88	120,000
Special charges (TF)	--	2/24/88	23,398
Trust Fund repayment	4/30/80	4/29/88	307,500
Trust Fund repayment	11/13/79	5/12/88	757,500

Type of Obligation	Date of Purchase or Loan	Due Date	SDR Amount
Trust Fund interest	--	6/30/88	28,268
Special charges (TF)	--	7/11/88	29,218
Trust Fund repayment	7/27/78	7/26/88	603,684
Trust Fund repayment	--	7/29/88	120,000
Trust Fund repayment	1/31/80	7/29/88	212,500
Special charges (TF)	--	8/25/88	<u>39,261</u>
Subtotal			6,862,364
Total			<u>48,625,503</u>

Sierra Leone - Overdue and Forthcoming Financial Obligations 1/
As of October 14, 1988

(In millions of SDRs)

Type of Obligation	Outstanding as of Oct. 14, 1988	Forthcoming						Total <u>3/</u> Through 1993
		1988 <u>2/</u>	1989	1990	1991	1992	1993	
Repurchases	33.5	2.4	6.7	8.8	6.4	0.0	0.0	57.8
Quarterly charges <u>4/</u>	4.7	0.6	1.0	0.6	0.2	--*	0.0	7.1
Semiannual charges <u>4/</u>	1.7	0.0	0.7	0.3	0.1	0.1	--*	2.9
Net SDR charges	1.5	0.3	1.0	1.0	1.0	1.0	1.0	6.8
Trust Fund repayments and interest	6.7	1.1	2.8	0.8	0.1	0.0	0.0	11.5
SAF repayments and interest	<u>0.1</u>	<u>--*</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>2.4</u>	<u>2.4</u>	<u>5.2</u>
Total <u>3/</u>	48.6 <u>5/</u>	4.4	12.3	11.6	7.9	3.5	3.4	91.3

* Less than SDR 50,000.

1/ On the basis of present use of Fund credit, Trust Fund loans outstanding, and Sierra Leone'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 14, 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 307,914 (GRA), SDR 122,572 (TF), and SDR 1,599 (SAF), and assessments of SDR 6,352.

