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AGENDA**

EBS/87/216

CONFIDENTIAL

October 14, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Sierra Leone - Overdue Financial Obligations to the Fund -
Further Review of Decision to Limit Use of the Fund's General
Resources and Review of Complaint Under Rule S-1 and Notice of
Failure to Settle Trust Fund Obligations

The attached paper is scheduled for consideration by the Executive Board on Friday, October 16, 1987. A draft decision appears on pages 4-5.

Mr. Blalock (ext. 8341) or Mr. Pritchett (ext. 7640) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)



INTERNATIONAL MONETARY FUND

Sierra Leone - Overdue Financial Obligations to the Fund -
Further Review of Decision to Limit Use of the Fund's General Resources
and Review of Complaint Under Rule S-1 and Notice of Failure to
Settle Trust Fund Obligations

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

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

October 14, 1987

1. On October 16, 1987, the Executive Board will hold a second review of Decision No. 8566-(87/61), adopted April 17, 1987, regarding Sierra Leone's overdue financial obligations to the Fund in the General Resources Account. That decision provided that Sierra Leone shall not make use of the general resources of the Fund until such time as Sierra Leone is current in its obligations in the General Resources Account (see Attachment I). At the first review on July 17, 1987, the decision adopted expressed the Fund's regret regarding the nonobservance by Sierra Leone of its financial obligations to the Fund and that Sierra Leone had not adopted a program that could result in necessary adjustment, and provided for a further review within three months, at which time the appropriateness of further steps, including the possibility of declaring Sierra Leone ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a), would be considered if Sierra Leone had not become current (see Attachment II). In addition, at the July 1987 meeting, the Fund suspended Sierra Leone's right to use SDRs it acquired after that date, other than for settlement of financial obligations to the Fund, until such time as Sierra Leone has become current in its obligations in the SDR Department (see Attachment II). 1/

2. Since the Executive Board meeting of July 17, 1987, Sierra Leone has made no payment to the Fund, while further obligations of SDR 8,830,221 have become due. 2/ Sierra Leone's overdue obligations to the Fund totaled SDR 21,547,778 as of October 8, 1987, as shown in Attachment III. Forthcoming obligations are shown in Attachment IV.

3. Sierra Leone's economic and financial situation remains difficult, and policy implementation has been weak. 3/ Internal and external imbalances are unsustainably large, and the divergence between the official and parallel market exchange rates has widened.

1/ Decision No. 8647-(87/104) S/TR provided further that if Sierra Leone were otherwise eligible to use the Fund's general resources, any overdue obligation to the Trust Fund would be taken into account in considering any request by Sierra Leone to use the general resources of the Fund.

2/ Related to the retroactive adjustment of charges, a subsidy payment of SDR 1,647 was made to Sierra Leone on August 4, 1987 and was used by Sierra Leone to reduce the amount of overdue obligations to the Fund.

3/ See EBS/87/157 (7/13/87) and EBS/87/188 (9/1/87).

Internally, the overall fiscal situation on a cash basis showed some restraint in July and August, but developments in both months were accompanied by a further accumulation of domestic and external payments arrears. The leone's overvalued official exchange rate led to reduced tax revenues on international trade. However, the rate of growth of government expenditure decelerated, reflecting delays in payment of civil service salaries and in servicing of external debt, as well as some slowdown in expenditure on goods and services. As a consequence, the banking system's net claims on the Government fell by Le 261.8 million, or 7 percent, in July, the latest month for which monetary data are available. The public sector accounts were also favorably affected by a de facto privatization of the import and retail trade in rice, which effectively eliminated the prospective government subsidy on this national staple. Preliminary figures suggest that the domestic rate of inflation, as measured by the consumer price index, was less than 2 percent per month in July and August, compared with 19 percent in June. This reduction reflected the appreciation in the exchange rate and a decline in prices of food and beverages.

On the external side, the leone exchange rate, which had been allowed to depreciate from Le 14/US\$1 in July 1986 to Le 53/US\$1 in April 1987, was steadily appreciated by the authorities to Le 23/US\$1 at the end of July, and since then has been kept unchanged. Since June 1987, the external financial situation has deteriorated substantially, and gross foreign exchange inflows through the banking system have diminished sharply. At the end of September 1987, gross official foreign reserves were negligible. Staff estimates, with which the Sierra Leonean authorities concur, indicate that the overall balance of payments situation will deteriorate further in FY 1987/88 (July/June) and over the medium term, in the absence of concerted adjustment efforts.

At the time of a staff visit in early September 1987, the authorities were preoccupied with domestic political matters, and there did not appear to be any firm consensus on the direction of economic policy. The Sierra Leonean authorities have more recently informed the staff that the President will make a major public announcement on economic issues by the middle of October. During both the staff visit and the Annual Meetings, the staff reiterated the importance for Sierra Leone of becoming and remaining current in its financial obligations to the Fund, but the Sierra Leonean authorities stated that they could not fully discharge the overdue obligations in the current financial situation. Rather, the authorities hope to settle these obligations in the context of a comprehensive economic package that could merit the support of the Fund and World Bank. To this end, the Sierra Leonean authorities contemplate commencing policy discussions with the staff at the time of the 1987 Article IV consultation discussions in November-December 1987.

4. The Executive Board meeting on October 16, 1987 will constitute the second review of the decision on the Managing Director's complaint under Rule K-1. In considering what steps should be taken at this

point, it may be useful to compare Sierra Leone's situation with those of other members that have reached the stage of a second review under the Fund's procedures relating to overdue financial obligations (see Attachment V).

In two previous cases, Tanzania and The Gambia, the decision taken at the first review contained a provision that at the next review (in two months' time for Tanzania and in three months' time for The Gambia) the Fund would consider the appropriateness of further steps, including the possibility of declaring the member ineligible to use the Fund's general resources, unless the member had become current in its financial obligations to the Fund; such a provision was also included in the decision at the first review of the Sierra Leone case. In both previous cases, after having received payments which slightly reduced the outstanding arrears, the Fund decided at the second review to hold a further review within three months, with the expectation that the member would be declared ineligible to use the general resources if it had not become current by that time.

In the case of Liberia, the decision at the first review contained a provision for a further review in three months, with the expectation that the member would be declared ineligible to use the general resources of the Fund at that time if it had not become current. At the second review, the Fund declared Liberia ineligible to use the Fund's general resources with effect in two months.

In five other cases (Guyana, Nicaragua, Sudan, Sierra Leone ^{1/}, and Zambia), the members' payments performance in the period up to the first review was such that the decision taken at that review provided for a further review of the matter without any specific provision for further action by the Fund. In each of these cases, the decision taken at the second review provided for a further review (in 2-3 months' time), at which time consideration would be given to the appropriateness of further steps including the possibility of declaring the member ineligible to use the general resources of the Fund.

5. In the case of Sierra Leone, while payments of SDR 2.0 million were made to the Fund between the issuance of the complaint and the first review, no further payment has been made and necessary economic adjustment measures have not been adopted. In this light, Executive Directors could consider a decision in line with that taken at the comparable stage in the case of Liberia, namely, declaring Sierra Leone ineligible to use the general resources of the Fund with effect on a future date, so as to allow Sierra Leone a further opportunity to clear the arrears. Alternatively, in view of the fact that a mission is expected to visit Sierra Leone in November-December 1987 to conduct the Article IV consultation discussions, which would provide a further

^{1/} Refers to a complaint under Rule K-1 issued on April 29, 1985 and withdrawn on September 18, 1986.

opportunity for the staff to consult with the authorities regarding settlement of the overdue obligations and on necessary adjustment measures, the Executive Board may wish to consider a decision along the lines of those taken at the same stage in the cases of Tanzania and The Gambia, that is, to provide for a further review with the expectation that Sierra Leone would be declared ineligible at that review if it had not become current in its financial obligations to the Fund. In either case, taking into account the expected timing of the forthcoming mission, the staff would suggest that the relevant period be set at three months.

6. A draft decision, containing the alternatives discussed above, is presented below for the consideration of the Executive Board. With respect to the complaint under Rule S-1, both versions of paragraph 4 incorporate action identical to that taken by the Executive Board in similar circumstances on previous occasions. Under either alternative, concurrent with a declaration of ineligibility to use the general resources, unless Sierra Leone has become current in the SDR Department, Sierra Leone's right to use SDRs would be suspended, other than for settlement of financial obligations to the Fund. 1/

Draft Decision

1. The Fund has reviewed Decision No. 8566-(87/61), April 17, 1987, and Decision No. 8647-(87/104) S/TR, July 17, 1987, in light of the facts described in EBS/87/216 (10/14/87) 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.

[4. Unless by January 16, 1988 Sierra Leone is current in its financial obligations to the Fund in the General Resources Account, 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). Furthermore, unless by January 16, 1988 Sierra Leone is current in its financial obligations to the Fund in the SDR Department, the right of Sierra Leone to use SDRs it acquires after

1/ See "Overdue Financial Obligations to the Fund - Six-Monthly Report," EBS/86/255, 11/20/86, Section III.4.b, p. 12.

that date will be suspended pursuant to Article XXIII, Section 2(b), other than for settlement of financial obligations to the Fund.]

[4. The Fund shall review further Decision Nos. 8566-(87/61) and 8647-(87/104) S/TR within a period of three months, taking into account any further developments. It is expected that a decision to declare Sierra Leone ineligible to use the Fund's general resources, pursuant to Article XXVI, Section 2(a), will be taken in the absence of full settlement of Sierra Leone's overdue financial obligations to the Fund in the General Resources Account. It is further expected that a decision to suspend, pursuant to Article XXIII, Section 2(b), Sierra Leone's right to use SDRs it acquires after the date of the suspension, other than for settlement of financial obligations to the Fund, will be taken in the absence of full settlement of Sierra Leone's overdue financial obligations to the Fund in the SDR Department.]

Attachments

INTERNATIONAL MONETARY FUND

Sierra Leone - Overdue Financial Obligations -
Report and Complaint Under Rule K-1

Executive Board Decision No. 8566-(87/61) - Adopted April 17, 1987

1. The Managing Director has reported to the Executive Board, under Rule K-1 of the Fund's Rules and Regulations, the facts on the basis of which it appeared to him at the date of this report that Sierra Leone was not fulfilling its obligations under the Articles of Agreement, and submitted a complaint on March 17, 1987 (EBS/87/63) in accordance with that Rule. The complaint under Rule K-1 was that as of March 17, 1987, Sierra Leone was not fulfilling its obligations relating to repurchases and the payment of charges in the General Resources Account in the total amount of SDR 3,703,761. These facts and the complaint of the Managing Director were communicated to the authorities of Sierra Leone on March 24, 1987.

2. Taking into account the payment made by Sierra Leone and newly overdue obligations since March 17, 1987, Sierra Leone's overdue obligations to the Fund in the General Resources Account now total SDR 5,420,513.

3. Having considered the report of the Managing Director, the complaint under Rule K-1, and the views of Sierra Leone, the Fund finds that Sierra Leone has failed to fulfill its obligations under the Articles of Agreement as stated in paragraphs 1 and 2 above.

4. The Fund regrets the nonobservance by Sierra Leone of its obligations, urges Sierra Leone to resume their observance forthwith, and decides, pursuant to Rule K-2 of the Fund's Rules and Regulations, that Sierra Leone shall not make use of the general resources of the Fund until such time as Sierra Leone has become current in its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Resources Account.

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

Sierra Leone - Overdue Financial Obligations -
Review of Decision to Limit Use of the Fund's General Resources
and Consideration of Report and Complaint Under Rule S-1 and Notice of
Failure to Settle Trust Fund Obligations

I. Executive Board Decision No. 8648-(87/104), Adopted July 17, 1987

Sierra Leone - Review of Decision to Limit Use of the Fund's
General Resources

1. The Fund has reviewed Decision No. 8566-(87/61), April 17, 1987, in light of the facts described in EBS/87/157 (7/13/87) 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 in the General Resources Account 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 adjustment.

4. The Fund shall review further Decision No. 8566-(87/61) within a period of three months, taking into account any further developments. Unless by the time of that review Sierra Leone is current in its financial obligations to the Fund in the General Resources Account, the Fund will consider the appropriateness of further steps, including the possibility of declaring Sierra Leone ineligible pursuant to Article XXVI, Section 2(a) to use the general resources of the Fund.

II. Executive Board Decision No. 8647-(87/104) S/TR, Adopted July 17, 1987

Sierra Leone - Complaint Under Rule S-1 and Notice of Failure
to Settle Trust Fund Obligations

1. On July 2, 1987, the Managing Director submitted a report and complaint to the Executive Board (EBS/87/145), under Rule S-1 of the Fund's Rules and Regulations, setting out the basis on which it appeared to him at that time that Sierra Leone was not fulfilling its obligation under the Articles of Agreement to pay net charges in the SDR Department. In addition, the Managing

Director issued a notice of the facts on the basis of which it appeared to him that as of July 2, 1987, Sierra Leone 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) to pay special charges that are overdue to the Trust Fund. These facts and the complaint under Rule S-1 and notice with respect to the Trust Fund were communicated to the authorities of Sierra Leone on July 8, 1987.

2. The Fund regrets the nonobservance by Sierra Leone of its obligations, urges Sierra Leone to resume their observance forthwith, and decides: (a) pursuant to Article XXIII, Section 2(b) of the Articles of Agreement, to suspend the right of Sierra Leone to use SDRs it acquires after the suspension, other than for settlement of financial obligations to the Fund, until such time as Sierra Leone has become current in its obligation to which that provision applies, and (b) if Sierra Leone 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 Sierra Leone for the use of the general resources.

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

Sierra Leone - Overdue Financial Obligations to the Fund

(As of October 8, 1987) 1/

Type of Obligation	Date of Purchase or Loan	Due Date	Days Overdue	SDR Amount
<u>General Resources Account</u>				
CF repurchase	2/17/83	2/13/87	237	2,587,500
Quarterly charges	--	2/13/87	237	693,854
EF repurchase	4/02/81	4/01/87	190	1,313,375
EF repurchase	4/02/81	4/01/87	190	799,417
Assessment	--	4/30/87	161	3,239
Quarterly charges	--	5/11/87	150	659,232
CT repurchase	2/14/84	5/13/87	148	755,078
CF repurchase	2/17/83	5/15/87	146	2,587,500
EF repurchase	5/19/81	5/18/87	143	558,433
EF repurchase	5/19/81	5/18/87	143	837,500
Special charges GRA	--	5/21/87	140	8,097
CT repurchase	4/16/84	7/15/87	85	562,500
Semiannual charges EA	--	7/20/87	80	294,902
Semiannual charges SF	--	7/20/87	80	246,383
Special charges GRA	--	7/21/87	79	4,219
CT repurchase	2/14/84	8/13/87	56	755,078
CF repurchase	2/17/87	8/14/87	55	2,587,500
Quarterly charges	--	8/17/87	52	687,842
CT repurchase	2/15/87	8/21/87	48	494,922
Special charges GRA	--	8/24/87	45	19,638
EF repurchase	4/02/81	10/01/87	7	799,417
EF repurchase	4/02/81	10/01/87	7	<u>1,313,375</u>
Subtotal				18,567,801
<u>Special Disbursement Account</u>				
SAF interest	--	6/30/87	100	28,714
Special charges SAF	--	8/24/87	35	<u>77</u>
Subtotal				28,791
<u>SDR Department</u>				
Net SDR charges	--	5/01/87	160	171,154
Net SDR charges	--	8/01/87	68	<u>251,672</u>
Subtotal				422,826

1/ In addition, a CT repurchase of SDR 562,500 will fall due on October 15, 1987.

Type of Obligation	Date of Purchase or Loan	Due Date	Days Overdue	SDR Amount
<u>Trust Fund</u>				
Repayment (balance)	7/31/80	1/30/87	251	52,220
Special charges TF	--	2/23/87	227	537
Repayment	4/30/80	4/29/87	162	307,500
Repayment	11/13/79	5/12/87	149	757,500
Special charges TF	--	5/21/87	140	5,013
Interest	--	6/30/87	100	29,594
Repayment	1/26/78	7/24/87	76	165,000
Repayment	7/27/78	7/24/87	76	603,686
Repayment	7/28/77	7/27/87	73	267,500
Repayment	7/31/80	7/30/87	70	120,000
Repayment	1/31/80	7/30/87	70	212,500
Special charges TF	--	8/24/87	45	<u>7,310</u>
Subtotal				2,528,360
Total				<u>21,547,778</u>

Sierra Leone - Overdue and Forthcoming Obligations
as of October 8, 1987

(In millions of SDRs)

Type of Obligation	Overdue as of Oct. 8, 1987	Forthcoming ^{1/}							Total ^{3/} Through 1993
		1987 ^{2/}	1988	1989	1990	1991	1992	1993	
Repurchases	16.0	5.9	14.8	6.7	8.8	6.4	0.0	0.0	58.6
Quarterly charges ^{4/}	2.0	0.6	1.4	0.9	0.6	0.2	0.0	0.0	5.8
Semiannual charges ^{4/}	0.5	0.0	0.8	0.4	0.3	0.1	0.1	0.0	2.4
Net SDR charges	0.4	0.3	1.0	1.0	1.0	1.0	1.0	1.0	6.8
Trust Fund repayments	2.5	1.1	4.2	2.8	0.8	0.1	0.0	0.0	11.4
Trust Fund interest	--	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
SAF repayments	--	0.0	0.0	0.0	0.0	0.0	2.3	2.3	4.6
SAF interest	--	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.4</u>
Total ^{3/}	21.5 ^{5/}	7.7	22.3	11.9	11.6	7.9	3.5	3.3	89.8

^{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 8, 1987.

^{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 31,954 (GRA), SDR 77 (SAF), and SDR 12,860 (TF).

Overdue Financial Obligations--Selected Information on Members That
Have Reached the Stage of a Second Review 1/
(In millions of SDRs)

	Guyana	Nicaragua	Sudan	Liberia	Sierra Leone 2/	Tanzania	The Gambia	Zambia	Sierra Leone
Amount Overdue at Complaint	14.3	11.4	81.7	19.8	4.0	8.0	4.4	51.5	5.3
Paid between Complaint and 1st Review	4.4	7.3	35.5	--	3.0	1.9	0.4 <u>3/</u>	36.2	2.0
Amount Overdue at 1st Review	18.6	9.0	119.6	40.3	8.5	18.3	7.5	104.2	12.7
Decision at 1st Review	Review within 3 months	Review within 3 months	Review within 2 months <u>4/</u>	Review within 3 months; expectation of ineligibility	Review within 3 months	Review within 2 months; possible consideration of ineligibility	Review within 3 months; possible consideration of ineligibility	Review within 2 months	Review within 3 months; possible consideration of ineligibility
Paid between 1st and 2nd Reviews	6.9	--	9.7	17.7	0.9	1.1	3.2	0.1	-- <u>5/</u>
Amount Overdue at 2nd Review	14.8	9.7	150.5	34.3	13.4	17.9	7.3	142.4	21.5 <u>5/</u>
Decision at 2nd Review	Review in 2-1/2 months; possible consideration of ineligibility	Review in less than 2 months; possible consideration of ineligibility	Review in 2-1/2 months; possible consideration of ineligibility	Ineligibility with effect in 2 months	Review in 2 months; possible consideration of ineligibility	Review in 3 months; expectation of ineligibility	Review in 3 months; expectation of ineligibility	Review in 2 months; possible consideration of ineligibility	

1/ In the cases of two other members, decisions to declare the member ineligible with effect on a future date (Viet Nam), or expressing an expectation of a declaration of ineligibility at the next review (Peru), were taken at an earlier stage, in light of the member's payments performance or the lack of adjustment measures that offered the prospect of early clearance of the arrears.

2/ Refers to a complaint under Rule K-1 issued on April 29, 1985 and withdrawn on September 18, 1986.

3/ For technical reasons, payment instructions were not completed until after the review date.

4/ The first review had been postponed by one month at the request of the authorities.

5/ As of October 8, 1987. Related to the retroactive adjustment of charges, a subsidy payment of SDR 1,647 was made to Sierra Leone on August 4, 1987 and was used by Sierra Leone to reduce overdue obligations.