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AGENDA**

EBS/87/157

CONFIDENTIAL

July 13, 1987

To: Members of the Executive Board

From: The Secretary

Subject: 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

The attached paper is scheduled for consideration by the Executive Directors on Friday, July 17, 1987. Draft decisions appear on pages 4 and 5.

Mr. Berthet (ext. 7633) or Mr. Pritchett (ext. 7640) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Sierra Leone - 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 Overdue Trust Fund Obligations

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

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

July 13, 1987

1. On July 17, 1987, the Executive Board is scheduled to review its Decision No. 8566-(87/61), adopted April 17, 1987, regarding Sierra Leone's overdue financial obligations to 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). A report and complaint under Rule S-1 and a notice of failure to settle overdue Trust Fund obligations were issued to the Executive Board on July 2, 1987 (see EBS/87/145 and Attachment II), and the Board adopted, on a lapse of time basis, a decision on July 8, 1987 which provided that this report and complaint and notice would be placed on the agenda of the Executive Board on the same date as the review of Decision No. 8566-(87/61).

2. Since the decision of the Executive Board on April 17, 1987, Sierra Leone has made no payment to the Fund, while further obligations of SDR 6,824,745 have become due. Sierra Leone's overdue obligations to the Fund totaled SDR 12,298,015 as of July 10, 1987, as shown in Attachment III. Forthcoming obligations are shown in Attachment IV.

3. The economic and financial situation of Sierra Leone remains difficult. ^{1/} A staff team visited Freetown during June 30-July 5, 1987 to review economic developments since the March mission and to assess the current stance of policies, including, in particular, performance under a shadow program discussed with the authorities in March, measures to be implemented in the 1987/88 budget, and the prospects for Sierra Leone becoming current in its overdue obligations to the Fund.

In general, the Sierra Leone economic and financial situation deteriorated further during January-June 1987, and performance under the shadow program for March-June 1987 was unsatisfactory as the authorities continued to pursue expansionary monetary and fiscal policies. The February 1987 mid-year budget was never formally adopted by

^{1/} See EBS/87/63 (3/17/87) and EBS/87/78 (4/13/87).

Parliament. In the event, the overall fiscal deficit on a commitment basis more than tripled to about Le 3.5 billion and was predominantly financed from the domestic banking system and accompanied by the accumulation of arrears. During the period of the shadow program, the banking system's claims on Government, at Le 1.15 billion, were more than double the amount envisaged. Money and quasi-money continued to expand rapidly but the ratio of currency to broad money remained unchanged at about 44 percent and, together with hoarding of currency notes, has contributed to a severe cash shortage, resulting in lower level public servants not being paid. For the fiscal year 1986/87 as a whole, the domestic rate of inflation, as measured by the consumer price index, exceeded 200 percent.

The external financial situation since February 1987 has not been particularly satisfactory. Gross foreign exchange inflows through the banking system, though improved (with inflows through the commercial banks rising from US\$20 million during July-December 1986 to US\$37 million in January-June 1987), were less than anticipated. The inter-bank exchange rate, which depreciated from Le 46 per U.S. dollar at the end of February 1987 to Le 53 per U.S. dollar at the end of April 1987, appreciated steadily to Le 33 per U.S. dollar by July 6, 1987. It appears that the authorities have influenced the determination of the official exchange rate. New external arrears were also incurred. The Sierra Leone authorities have concluded bilateral rescheduling agreements with most of the Paris Club members following the November 1986 Paris Club agreement.

The mission stressed to the authorities the seriousness of the situation, and underscored the importance of prompt settlement of arrears to the Fund. The Minister of Finance and the Governor of the Central Bank, both of whom have assumed their responsibilities only recently, have stated that they intend to work closely with the Fund with a view to redress the internal and external imbalances.

4. The Executive Board meeting on July 17, 1987 will constitute the first 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 first review under the Fund's procedures relating to overdue financial obligations (see Attachment V).

In two previous cases, Liberia and Viet Nam, no payments were made between the issuance of the complaint and the first review, nor had the authorities indicated their intention to settle the overdue obligations to the Fund at an early date. In the case of Viet Nam, the Executive Board decided to set a specific date six weeks from the date of the decision at which time Viet Nam would become ineligible if it had not become current in its financial obligations to the Fund. In the case of Liberia, the Executive Board decided to hold a further

review in three months' time and expressed the expectation that Liberia would be declared ineligible at that time if it had not become current. In another case, Peru, at the stage of substantive consideration of the complaint, the Board's decision contained an expectation that Peru would be declared ineligible effective on a date about two months from the date of the decision unless Peru was current with the Fund at that time. When this decision was reviewed, the effective date on which Peru would become ineligible if it had not become current was changed, in light of assurances regarding full settlement received from the Peruvian authorities, to a date four months after the original date.

In two other previous cases, The Gambia and Tanzania, small amounts were paid prior to the first review and the Board decided to hold a further review (within two months in the case of Tanzania and three months in The Gambia's case). The decisions in these two instances provided that, at the time of the next review, the appropriateness of further steps, including the possibility of declaring the member ineligible, would be considered.

In six other cases (Guyana, Nicaragua, Sierra Leone, Somalia, 1/ Sudan, and Zambia), more substantial payments were made prior to the first review and it was decided to hold a further review 2/ without any specific indication of the nature of possible future action. In the case of Jamaica, although a substantial payment was made prior to the first review, the Board decided to hold a further review within two months at which time the appropriateness of further steps, including the possibility of a declaration of Jamaica's ineligibility to use the Fund's general resources, would be considered.

In the circumstances of Sierra Leone, while payment of SDR 2.0 million has been made to the Fund by the member since the issuance of the complaint, no payment has been made since the Executive Board's decision on April 17, 1987 and necessary adjustment measures have not been adopted. In this light, and in view of the urgency for efforts by Sierra Leone to settle the arrears to the Fund and prevent further accumulation, Executive Directors may wish to consider the following options. One would be to adopt a decision in line with those taken at the same stage in the cases of The Gambia, Tanzania, and Jamaica, i.e., providing for a further review with a provision indicating that at the time of that review consideration would be given to the appropriateness of further steps, including the possibility of declaring Sierra Leone ineligible to use the Fund's general resources, if Sierra Leone has not

⁹⁷ 1/ Relating to a complaint under Rule K-1 issued on October 25, 1985 and withdrawn on April 22, 1986.

2/ Within three months, except in the case of Sudan for which the further review was to be held within two months taking into account a one-month postponement of the first review.

become current. Alternatively, a decision could be taken in line with that taken at the same stage in the case of Liberia, namely, providing for a further review with the expectation that Sierra Leone would be declared ineligible if it was not current. In either case, the staff would suggest that the review period be set at three months.

5. With respect to the complaint under Rule S-1 and the notice with respect to the Trust Fund, 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 S-1 and notices in similar circumstances. This decision would be revised as appropriate to take into account any new relevant information, the presentation of Sierra Leone's case, and the views of the Executive Board. With respect to the period until a review of the decision on the complaint under Rule S-1, the staff would suggest that it be the same as for the further review of the decision relating to Sierra Leone's overdue financial obligations in the General Resources Account.

6. Accordingly, the following draft decisions are submitted for consideration by the Executive Board:

Draft Decisions

I. 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.]

[4. The Fund shall review further Decision No. 8566-(87/61) 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.]

II. 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.

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 to the Fund -
Report and Complaint Under Rule S-1, and Notice
of Failure to Settle Trust Fund Obligations

Executive Board Decision No. 8638-(87/101) S/TK, Adopted July 8, 1987

1. The complaint of the Managing Director regarding Sierra Leone's overdue obligation in the SDR Department and the notice of failure to settle Trust Fund obligations dated July 2, 1987, in EBS/87/145, are noted. It shall be placed on the agenda of the Executive Board on July 17, 1987, the same date as the review of Decision No. 8566-(87/61). If at that time Sierra Leone is not current in its obligation to pay charges in the SDR Department, the Fund will consider suspending the right of Sierra Leone 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 Sierra Leone 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 S-1 and the Trust Fund notice particularly affects Sierra Leone. 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.

Sierra Leone - Overdue Financial Obligations to the Fund

(As of July 10, 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	147	2,587,500
Quarterly charges	--	2/13/87	147	719,173
Special charges GRA	--	2/23/87	147	1,048
EF repurchase	4/02/81	4/01/87	100	1,313,375
EF repurchase	4/02/81	4/01/87	100	799,417
Assessment	--	4/30/87	71	3,339
Quarterly charges	--	5/11/87	60	691,124
CT repurchase	2/14/84	5/13/87	58	755,078
CF repurchase	2/17/83	5/15/87	56	2,587,500
EF repurchase	5/19/81	5/18/87	53	558,333
EF repurchase	5/19/81	5/18/87	53	837,500
Special charges GRA	--	5/21/87	50	<u>11,920</u>
Subtotal				10,865,307
<u>Special Disbursement Account</u>				
SAF interest	--	6/30/87	10	28,714
<u>SDR Department</u>				
Net SDR charges	--	5/01/87	70	251,630
<u>Trust Fund</u>				
Repayment (balance)	7/31/80	1/30/87	161	52,220
Special charges TF	--	2/23/87	137	537
Repayment	4/30/80	4/29/87	72	307,500
Repayment	11/13/79	5/12/87	59	757,500
Special charges TF	--	5/21/87	50	5,013
Interest	--	6/30/87	10	<u>29,594</u>
Subtotal				1,152,364
Total				<u>12,298,015</u>

1/ In addition, semiannual charges (estimated) of SDR 560,000 are due in mid-July, 1987 and a CT repurchase of SDR 562,500 is due on July 15, 1987. Overdue figures do not reflect retroactive reduction of charges of SDR 49,600.

Sierra Leone - Overdue and Forthcoming Obligations
as of July 10, 1987

(In millions of SDRs)

Type of Obligation	Overdue as of July 10, 1987	Forthcoming 1/							Total 3/ Through 1993
		1987	2/ 1988	1989	1990	1991	1992	1993	
Repurchases	9.4	12.4	14.8	6.7	8.8	6.4	0.0	0.0	58.6
Quarterly charges 4/	1.4	1.2	1.4	0.9	0.6	0.2	0.0	0.0	5.7
Semiannual charges 4/	--	0.6	0.7	0.4	0.2	0.1	0.0	0.0	2.0
Net SDR charges	0.3	0.5	1.0	1.0	1.0	1.0	1.0	1.0	6.8
Trust Fund repayments	1.1	2.4	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 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>0.0</u>	<u>0.4</u>
Total 3/	12.3 5/	17.1	22.2	11.9	11.5	7.9	1.1	1.0	85.0

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 July 10, 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 12,968 (GRA) and SDR 5,550 (TF), and does not reflect retroactive reduction of charges of SDR 49,600.

Overdue Financial Obligations--Selected Information on Members That
Have Reached the Stage of a First Review

(In millions of SDRs)

Member	Amount Overdue at Complaint	Paid between Complaint and 1st Review	Amount Overdue at 1st Review	Decision at 1st Review
Guyana	14.3	4.4	18.6	Review within 3 months
Nicaragua	11.4	7.3	9.0	Review within 3 months
Viet Nam	10.2	--	23.4	Ineligibility effective 6 weeks after review
Sudan	81.7	35.5	119.6	Review within 2 months <u>1/</u>
Liberia	19.8	--	40.2	Review within 3 months; expectation of ineligibility
Sierra Leone	4.0	3.0	8.5	Review within 3 months
Tanzania	8.0	1.9	18.3	Review within 2 months; possible consideration of ineligibility
The Gambia	4.4	0.4 <u>2/</u>	7.5	Review within 3 months; possible consideration of ineligibility
Somalia	9.1	4.8	18.9	Review within 3 months
Peru	68.2	34.3	97.8	Ineligibility effective 4 months after initial review date
Jamaica	35.3	29.6	68.3	Review within 2 months; possible consideration of ineligibility
Zambia	51.5	36.2	104.2	Review within 2 months
Sierra Leone	5.3	2.0	12.3 <u>3/</u>	

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

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

3/ As of July 10, 1987.