

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**IMMEDIATE
ATTENTION**

EBS/86/145

CONFIDENTIAL

July 8, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Sierra Leone - Overdue Financial Obligations to the Fund -
Report and Complaint Under Rule S-1

Attached is a report and complaint by the Acting Managing Director under Rule S-1 with respect to Sierra Leone's overdue financial obligations in the SDR Department. The draft decision on page 2 provides that the complaint will be placed on the agenda of the Executive Board for a meeting proposed to be scheduled on Tuesday, August 5, 1986.

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 Tuesday, July 15, 1986. In the absence of such a request and in the absence of full settlement by Sierra Leone of the overdue net SDR charges 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.

Att: (1)

INTERNATIONAL MONETARY FUND

Sierra Leone - Overdue Financial Obligations to the Fund -
Report and Complaint Under Rule S-1

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

Approved by David Williams, A.D. Ouattara, and F.P. Gianviti

July 7, 1986

1. Sierra Leone is overdue in discharging obligations to the SDR Department of SDR 302,036 dating from April 30, 1986. In a telex dated June 16, 1986, the authorities of Sierra Leone were informed that, unless the overdue net SDR charges were settled promptly, a complaint by the Managing Director under Rule S-1 would be issued. In the absence of settlement or any indication of prompt settlement of the overdue obligations in the SDR Department, it is considered appropriate that a complaint under Rule S-1 be issued at this time.
2. In addition to its overdue obligations in the SDR Department, Sierra Leone has overdue financial obligations in the General Department and to the Trust Fund. Sierra Leone's total overdue financial obligations to the Fund currently amount to SDR 22.9 million, as shown in Attachment I. On May 6, 1986, at the fourth review of its decision to limit Sierra Leone's use of the general resources of the Fund, the Executive Board adopted Decision No. 8277-(86/77) G/TR, which states that unless Sierra Leone is current in its financial obligations to the Fund in the General Resources Account by July 16, 1986, with effect on that date Sierra Leone will be ineligible pursuant to Article XXVI, Section 2(a) to use the general resources of the Fund. 1/
3. The most recent detailed description of Sierra Leone's economic situation and policies is contained in the staff reports for the 1985 Article IV consultation (SM/85/307, 11/14/85, Cor. 1, 11/26/85, and SM/85/314, 11/25/85), which were discussed by the Executive Board on December 4, 1985; developments through April 1986 were described in the paper for the fourth review of the decision to limit Sierra Leone's use of the general resources of the Fund (EBS/86/99, 4/30/86).

On June 27, 1986, in the context of the Budget Speech for FY 1986/87 (July/June), the Government of Sierra Leone implemented a floating exchange rate system and liberalized import licensing; the staff will prepare a separate notification to the Board shortly on the new exchange system. Valuation of imports for customs purposes will be at the free

1/ See EBS/86/99, Supplement 2, (6/27/86).

market exchange rate. In addition, the Government raised the price of petroleum products (thereby eliminating petroleum subsidies), and announced that it would decontrol the price of imported rice and increase producer prices substantially following the first fixing session under the new exchange system, slated for Friday, July 11, 1986; meanwhile, other prices of imported and domestically produced goods have also been decontrolled. Government wages and salaries were raised by 35 percent, effective July 1986.

4. It is proposed that the Acting Managing Director's complaint under Rule S-1, which is contained in Attachment II, be noted by the Executive Board and that the matter be placed on the agenda of the Executive Board for August 5, 1986, i.e., about one month after issuance of the complaint. A draft cable to the authorities is contained in Attachment III.

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

1. The complaint of the Acting Managing Director dated July 8, 1986 regarding Sierra Leone's overdue obligations in the SDR Department, in EBS/86/145 (7/8/86) is noted. It shall be placed on the agenda of the Executive Board for August 5, 1986. If by that time Sierra Leone has not become current in its obligations to pay charges and an assessment 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).
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 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

(June 30, 1986)

Type of Obligation	Date of Purchase or Loan	Due Date	Days Late	SDR Amount
<u>General Department</u>				
Quarterly charges (balance)	--	5/08/85	419	325,176
EF repurchase	5/19/81	5/17/85	410	837,500
Semiannual charges	--	7/12/85	354	838,527
Semiannual charges	--	7/18/85	348	426,205
CT repurchase	8/01/80	7/31/85	335	250,000
Quarterly charges	--	8/06/85	329	868,867
EF repurchase	4/02/81	10/01/85	273	799,417
EF repurchase	4/02/81	10/01/85	273	1,313,375
Quarterly charges	--	11/06/85	237	863,761
EF repurchase	5/19/81	11/18/85	225	837,500
EF repurchase	5/19/81	11/18/85	225	558,333
Semiannual charges	--	1/17/86	165	1,113,260
Quarterly charges	--	2/06/86	145	863,761
EF repurchase	4/02/81	4/01/86	91	799,517
EF repurchase	4/02/81	4/01/86	91	1,313,375
Quarterly charges	--	5/12/86	50	823,980
CF repurchase	2/17/83	5/16/86	46	2,587,500
EF repurchase	5/19/81	5/16/86	46	837,500
EF repurchase	5/19/81	5/16/86	46	558,333
Special charges	--	5/28/86	34	130,705
Subtotal				16,946,492
<u>SDR Department</u>				
Assessment	--	4/30/86	62	3,013
Net SDR charges	--	5/01/86	61	299,023
Subtotal				302,036

Sierra Leone - Overdue Financial Obligations to the Fund

(June 30, 1986)

Type of Obligation	Date of Purchase or Loan	Due Date	Days Late	SDR Amount
<u>Trust Fund</u>				
Trust Fund repayment (balance)	7/28/77	1/25/85	522	4,972
Trust Fund repayment	11/13/79	5/10/85	417	757,500
Trust Fund interest	--	6/28/85	368	53,450
Trust Fund repayment	1/26/78	7/25/85	341	165,000
Trust Fund repayment	7/27/78	7/26/85	340	603,686
Trust Fund repayment	7/28/77	7/26/85	340	267,500
Trust Fund repayment	1/31/80	7/30/85	336	212,500
Trust Fund repayment	4/30/80	10/29/85	245	307,500
Trust Fund repayment	11/13/79	11/12/85	231	757,500
Trust Fund interest	--	12/31/85	182	52,115
Trust Fund repayment	1/26/78	1/24/86	158	165,000
Trust Fund repayment	1/27/78	1/24/86	158	603,686
Trust Fund repayment	7/28/77	1/27/86	155	267,500
Trust Fund repayment	1/31/80	1/30/86	151	212,500
Trust Fund repayment	7/31/80	1/30/86	151	120,000
Trust Fund repayment	4/30/80	4/29/86	63	307,500
Trust Fund repayment	11/13/79	5/12/86	50	757,500
Trust Fund interest	--	6/30/86	1	51,147
Subtotal				5,666,556
TOTAL				<u>22,915,084</u>

To: Members of the Executive Board July 8, 1986
From: The Acting Managing Director
Subject: Sierra Leone - 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 Sierra Leone is not fulfilling the obligations under Article XX, Section 2 and Section 4 of the Articles of Agreement, referred to in Rule S-1, to pay charges and an assessment in the SDR Department. The nonfulfillment of these obligations is a basis for complaint under Rule S-1 and could lead to suspension under Article XXIII, Section 2(b). As of June 30, 1986, these obligations were to pay an assessment of SDR 3,013 due on April 30, 1986 and net charges of SDR 299,023 due on May 1, 1986.

The Honorable Sheka Kanu
Minister of Finance
Ministry of Finance
Freetown, Sierra Leone

Dear Minister Kanu:

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 July 8, 1986 setting forth obligations under the Articles of Agreement of the International Monetary Fund that appear to me are not being observed by Sierra Leone.

As you know, on May 6, 1986, at the fourth review of its decision to limit Sierra Leone's use of the general resources of the Fund, the Executive Board decided that unless Sierra Leone is current in its financial obligations to the Fund in the General Resources Account by July 16, 1986, with effect on that date, Sierra Leone will be ineligible to use the general resources of the Fund. I am pleased to note that the authorities have implemented a number of strong adjustment measures in the context of the 1986/87 budget, and urge you to intensify your efforts to settle Sierra Leone's overdue financial obligations in the General Resources Account by July 16, 1986.

With regard to Sierra Leone's overdue obligations in the SDR Department, the Executive Board has decided to place on its agenda for August 5, 1986 the complaint set forth in the attached memorandum. If by that time Sierra Leone has not become current in its obligations to pay charges and an assessment 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).

The Government of Sierra Leone is entitled under the Articles and By-Laws of the Fund, and therefore is 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 Sierra Leone may represent Sierra Leone 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

Attachment