

INTERNATIONAL MONETARY FUND

Review of the Fund's Strategy on Overdue Financial Obligations

Prepared by the Finance, Policy Development and Review, and Legal Departments

(In consultation with other departments)

Approved by Michael G. Kuhn, Mark Allen, and Hector Elizalde

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Executive Summary

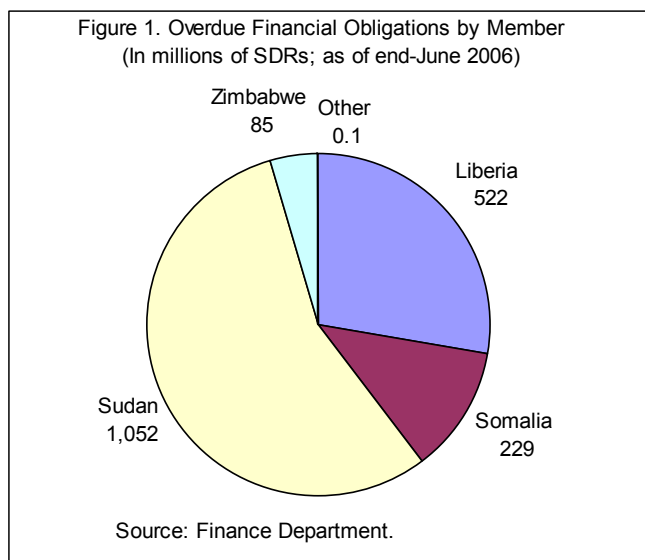
- **This paper reviews progress under the Fund’s strengthened cooperative strategy on overdue financial obligations and proposes to extend the availability of the rights approach by another year, to end-August 2007.** The rights approach remains potentially important for arrears clearance for the three eligible members (Liberia, Somalia, and Sudan). A draft decision to this effect is provided for Board approval.
- **Total arrears to the Fund declined by SDR 109 million since the last review, owing largely to Zimbabwe’s full settlement of its arrears to the General Resources Account (GRA) in February 2006.** While Sudan’s monthly payments in excess of obligations falling due also contributed to the decline in total arrears, arrears by Liberia and Somalia increased further. The majority of total arrears to the Fund (87 percent) was to the GRA.
- **Four members remain in protracted arrears to the Fund**—Liberia, Somalia, Sudan, and Zimbabwe. Sudan alone accounts for over one half of total arrears to the Fund.
- **No changes are proposed to the Fund’s strategy on arrears, which remains broadly effective in dealing with both short-term and protracted arrears.** The record of cooperation with the Fund on policies and payments among the four protracted arrears cases varied widely during the review period:
 - **Sudan’s** record of cooperation on economic policies and payments to the Fund remained broadly satisfactory.
 - **Liberia’s** cooperation with the Fund has improved significantly, as demonstrated by its commitment to policy adjustment and reform, as well as its performance through end-June under a staff-monitored program (SMP) for the period February–September 2006.
 - **Zimbabwe** fully settled its arrears to the GRA in February 2006. However, cooperation remained weak and Zimbabwe still has substantial arrears to the PRGF-ESF Trust. The Board decisions with respect to the suspension of Zimbabwe’s voting and related rights in the Fund, its ineligibility to use the Fund’s general resources, and arrears to the PRGF-ESF Trust remain in place.
 - **Somalia** continued to suffer from security problems and inadequate information on economic and financial developments, which precluded a full assessment of its cooperation with the Fund.

I. INTRODUCTION

1. **This paper reviews progress under the Fund’s strengthened cooperative strategy on overdue financial obligations since the last review and proposes to extend the availability of the rights approach by another year, to end-August 2007.**¹ Section II reviews recent developments regarding overdue financial obligations to the Fund through end-June 2006. Progress under the Fund’s strategy on arrears and developments in the protracted arrears cases are discussed in Section III. A draft decision to extend the availability of the rights approach until end-August 2007 is provided in Section IV.

II. RECENT DEVELOPMENTS

2. **Four members remained in protracted arrears to the Fund during the period under review.**² The three members with arrears dating back to the mid-1980s—Liberia, Somalia, and Sudan—account for 96 percent of total arrears to the Fund, with Sudan alone accounting for 56 percent (Figure 1). Zimbabwe, which became a protracted arrears case on August 14, 2001, accounts for most of the remainder.³



3. **Total arrears to the Fund declined by SDR 109 million to SDR 1,888 million since the last review, reflecting mainly the clearance of Zimbabwe’s arrears to the GRA in February 2006** (Figure 2 and Table 1). Eighty-seven percent of total arrears to the Fund are to the GRA, with the remainder to the Trust Fund (6 percent), the PRGF-ESF Trust

¹ The Executive Board last reviewed the Fund’s strengthened cooperative strategy on overdue financial obligations in August 2005 (Review of the Fund’s Strategy on Overdue Financial Obligations, 8/24/05).

² Protracted arrears are those outstanding for six months or more.

³ Arrears outstanding for less than six months account for the remaining 0.01 percent.

(4½ percent),⁴ the SDR Department (2 percent), and the Structural Adjustment Facility (SAF) (½ percent).

Figure 2. Overdue Financial Obligations to the Fund
(In millions of SDRs)

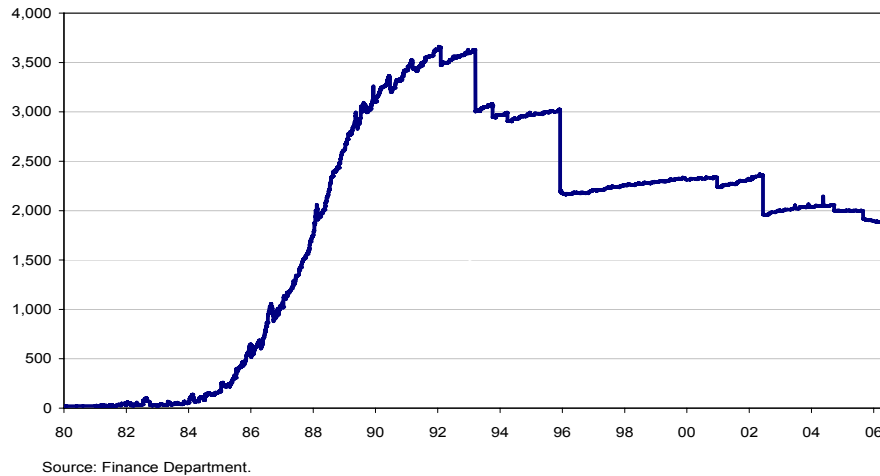


Table 1. Overdue Financial Obligations to the Fund, 2005–2006
(In millions of SDRs)

	End-June 2005	End-June 2006
Total arrears	1,996	1,888
Principal	889	764
GRA	713	592
PRGF	78	75
Other 1/	97	97
Interest	1,108	1,124
GRA	1,034	1,045
PRGF	7	10
Other 2/	66	69

Source: Finance Department.

1/ Includes overdue Trust Fund and SAF principal.

2/ Includes overdue net SDR charges, SDR member assessments, and Trust Fund and SAF interest obligations.

4. **Overdue financial obligations to the Fund continue to impose a significant financial cost on the Fund and its membership.** The ongoing cost of deferred charges to the GRA is borne by the membership through the burden-sharing mechanism, which relies

⁴ Zimbabwe is the first and only case of protracted arrears to the PRGF-ESF Trust, with outstanding arrears of SDR 85 million at end-June 2006.

on an adjustment to the rate of charge and the rate of remuneration to make up for the income loss associated with the nonpayment of charges. As of end-June 2006, total burden-shared deferred charges amounted to SDR 864 million, a net increase of SDR 12 million from a year ago.⁵ Arrears to the Trust Fund, amounting to SDR 118 million, reduced the amount of resources that would have accrued to the Reserve Account of the PRGF-ESF Trust for the benefit of the Fund's low-income members. Zimbabwe's arrears to the Trust also have reduced the balances available in the Reserve Account, as SDR 75.7 million from the Account since 2001 needed to be drawn to meet payment obligations to Trust lenders.

5. **Thirteen members (22 instances) incurred short-term arrears (less than six months) during the period under review.** Most of these arrears were settled before remedial measures were applied, except in two instances, where the Executive Board was notified of the occurrence of arrears.

6. **The members with protracted overdue financial obligations to the Fund have also accumulated arrears to other international financial institutions** (Table 2). As of end-June 2006, their arrears amounted to SDR 0.9 billion to the World Bank Group and SDR 0.5 billion to the African Development Bank Group.

Table 2. Arrears to the Fund and Other International Financial Institutions
(In millions of SDRs; as of end-June 2006)

	Fund	World Bank 1/ 2/	AfDB	Total
Total	1,888	944	523	3,354
Liberia	522	306	157	985
Somalia	229	98	41	368
Sudan	1,052	257	111	1,420
Zimbabwe	85	283	213	581

Sources: African Development Bank, World Bank, and IMF Finance Department.

1/ Countries in non-accrual status with disbursements suspended.

2/ At the exchange rate of US\$/SDR on June 30, 2006.

7. **Overdue currency valuation adjustments of 10 members amounted to SDR 1.9 billion at end-June 2006.** Of this amount, the protracted arrears cases accounted for SDR 1.4 billion (73 percent). In order to maintain the value of the Fund's holdings of a member's currency in terms of the SDR, the Fund, at a minimum, adjusts its holdings of the

⁵ The net increase reflects further buildup of overdue GRA charges by Liberia, Somalia, and Sudan, which was partially offset by Zimbabwe's settlement of its GRA overdue charges.

member's currency at the end of each financial year. Such adjustments may result in an obligation by the member to pay additional currency to the Fund or vice-versa, depending on exchange rate movements. While overdue currency valuation adjustments do not generally affect the Fund's financing capacity, they, nevertheless, represent an essential element of members' financial obligations to the Fund, and staff actively pursues their settlement.

III. PROGRESS UNDER THE STRENGTHENED COOPERATIVE STRATEGY

A. Progress under the Strategy and Extension of the Rights Approach

8. **The Fund's strategy on arrears has been broadly effective in dealing with cases that have arisen to date, and no changes are proposed.** The strategy is comprised of three elements: prevention, intensified collaboration (including the rights approach), and remedial measures. The preventive element of the strategy has generally worked well in avoiding new arrears or in bringing about the quick clearance of such arrears should they occur, thereby preventing new cases of protracted arrears.

9. **The rights approach remains potentially important for arrears clearance for Liberia, Somalia, and Sudan.**^{6 7} Use of the rights approach is not required for these eligible members, but it provides a tested approach that has worked effectively for large protracted arrears cases in the past. It is, therefore, proposed that the availability of the rights approach be extended for another year, to end-August 2007.

B. Developments in Protracted Arrears Cases

10. **During the period under the review, the record of cooperation with the Fund by the four protracted arrears cases varied widely.** Key developments were as follows:

- **Liberia's cooperation with the Fund has improved significantly,** as demonstrated by its commitment to policy adjustment and reform, as well as its performance through end-June under a staff-monitored program (SMP) for the period

⁶ The rights approach was initiated in 1990 and was used in clearing the arrears to the Fund of three members—Peru, Sierra Leone, and Zambia. Eligibility was restricted to the eleven members that had protracted arrears to the Fund at end-1989. Under this approach, an eligible member must establish a track record of cooperation on policies with the Fund by undertaking an economic program with conditionality equivalent to that of upper credit tranche Fund arrangements. The member is also expected to make payments to the Fund that, at a minimum, are sufficient to meet new obligations falling due. By establishing such a track record, the member accumulates "rights" to future drawings of Fund resources following the clearance of its arrears. At the end of the rights accumulation program, bilateral creditors would provide a bridge loan to clear the member's arrears to the Fund, which would be repaid with a front-loaded disbursement under a successor financial arrangement from the Fund.

⁷ In the context of the Multilateral Debt Relief Initiative, the G-8 committed that donors would provide extra resources necessary for full debt relief for the three protracted arrears cases at completion point under the enhanced HIPC Initiative.

February–September 2006. The authorities increased the monthly payments to the Fund from US\$50,000 to US\$60,000 in November 2005. At its meeting on April 26, 2006,⁸ the Executive Board commended the Liberian authorities' resolve to work closely with international partners in addressing the daunting challenges of rebuilding Liberia's economy and reducing pervasive poverty. Directors stressed that prompt and sufficient indications of support from donors and strong performance under the SMP would be important steps toward the clearance of arrears to the Fund and a formal Fund arrangement following arrears clearance. They noted that satisfactory performance under such an arrangement would help pave the way toward Liberia's timely participation in the HIPC Initiative and MDRI debt relief and lead to a resolution of Liberia's debt overhang. The Board decided that the Fund would take into account the authorities' track record of performance on policies and payments under the SMP when deciding on the initiation of the de-escalation of remedial measures now in place for Liberia. Despite severe capacity limitations, the government has made considerable progress in recent months in implementing key policies under the SMP⁹.

- **Sudan's cooperation with the Fund in terms of policies and payments remained broadly satisfactory.** At its meeting in May 2006,¹⁰ the Executive Board commended the Sudanese authorities for pursuing prudent macroeconomic policies in recent years and carrying out structural reforms in a very difficult environment, which had contributed to a favorable economic performance. Directors broadly endorsed the policy package under the 2006 SMP but urged the authorities to minimize nonconcessional borrowing in view of Sudan's already unsustainable external debt and in order to avoid complications in future debt relief operations. Directors also pointed out that all creditors should participate fully and on equal terms in any debt restructuring and the HIPC Initiative for Sudan, and the authorities should treat all creditors equally. Directors welcomed the increase in Sudan's payments to the Fund in 2006 despite severe financial constraints.¹¹ However, some Directors called for a further increase in line with Sudan's increased repayment capacity.
- **Zimbabwe's cooperation with the Fund was mixed.** Zimbabwe fully settled its arrears to the GRA in February 2006, but its arrears to the PRGF-ESF Trust remained outstanding. Following its clearance of arrears to the GRA, the Managing Director

⁸ *IMF Executive Board Concludes 2006 Article IV Consultation with Liberia* (Public Information Notice (PIN) No. 06/47, 05/02/2006).

⁹ *Statement by IMF Mission on Liberia's Progress Under the Staff Monitored Program* (Press Release No. 06/166, 07/28/2006).

¹⁰ *IMF Executive Board Concludes 2006 Article IV Consultation with Sudan* (Public Information Notice (PIN) No. 06/57, 5/24/2006).

¹¹ Sudan made payments to the Fund totaling US\$30.2 million in 2005 and committed to increase the level of payments to US\$45 million in 2006.

withdrew his complaint with respect to Zimbabwe's compulsory withdrawal from the Fund. The Executive Board last reviewed Zimbabwe's cooperation with the Fund on policies and payments on March 8, 2006.¹² At that meeting, the Executive Board did not lift the suspension of Zimbabwe's voting and related rights in the Fund. Furthermore, because of the sequential nature of the sanctions imposed under Article XXVI, Section 2, the fact that the suspension of voting and related rights was not lifted by the Board precluded the Board from adopting a decision to terminate Zimbabwe's ineligibility to use the Fund's general resources. In addition, the remedial measures against Zimbabwe with respect to its arrears to the PRGF-ESF Trust remain in place, including the removal from the list of PRGF-ESF-eligible countries, the declaration of non-cooperation, and the suspension of the provision of technical assistance. The Board noted that Zimbabwe's economic crisis called for urgent implementation of a comprehensive policy package comprising several mutually reinforcing actions in the area of macroeconomic stabilization and structural reforms. The Board also urged Zimbabwe to continue its efforts to resolve the remaining overdue financial obligations to the PRGF-ESF Trust.

- **The Board has postponed its review of Somalia's overdue financial obligations since October 1990** owing to the unsettled political and security situation and the absence of information on economic and financial developments. Fund staff continues to monitor developments in Somalia and work with its counterparts in the World Bank and other multilateral institutions, but direct contact with the Transitional Federal Government has been sporadic, and largely centered on membership issues.

IV. EXTENSION OF AVAILABILITY OF THE RIGHTS APPROACH

11. **It is proposed that the availability of the rights approach be extended for another year, to end-August 2007, based on the considerations elaborated in Section III.** Accordingly, the following draft decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

¹² *IMF Executive Board Upholds Sanctions Against Zimbabwe* (Press Release No. 06/45, 3/8/2006).

“The Fund has reviewed progress under the strengthened cooperative strategy with respect to overdue financial obligations to the Fund as described in EBS/06/111.

The Fund reaffirms its support for the strengthened cooperative strategy and agrees to extend the availability of the rights approach until end-August 2007.”

Appendix: Table 3. Remedial Measures Applied to Countries in Protracted Arrears to the Fund 1/

	In Continuous Arrears Since	Complaint Issued (Noted)	Declaration of Ineligibility	Declaration of Non-cooperation	Suspension of Voting Rights	Complaint for Compulsory Withdrawal
Liberia	12/19/84	4/4/85 (4/24/85) 4/8/2002 2/ (4/16/02)	1/24/86	3/30/90	3/5/03	
Somalia	7/2/87	9/8/87 (9/15/87)	5/6/88			
Sudan	7/12/84	12/12/84 (1/9/85) 1/22/97 (1/24/97) 4/	2/3/86	9/14/90; lifted on 8/27/99	8/9/93; lifted on 8/1/00	4/8/94 3/
Zimbabwe	2/14/01	5/4/01 (5/15/01) 10/17/02 5/ (10/24/02)	9/24/01 6/	6/13/02	6/6/03	2/6/2004; withdrawn on 2/15/06 7/

Source: Finance Department.

1/ Under the Articles of Agreement and the Fund's Procedures for dealing with members with overdue financial obligations to the General Department and the SDR Department, a complaint is issued by the Managing Director when a member falls into arrears to the Fund for two months or more. The complaint may lead to different sanctions under Article XXVI of the Fund's Articles of Agreement: declaration of ineligibility to use Fund resources, suspension of voting rights in the Fund, and compulsory withdrawal depending upon the member's persistence in its failure to fulfill its obligations. A complaint can be withdrawn only after the arrears have been cleared. Overdue obligations to the PRGF-ESF Trust are separate from those to the General and SDR Departments, and are not breaches of obligations under the Articles of Agreement. A member in arrears to the General Department, SDR Department or the PRGF-ESF Trust has no access to Fund resources. The Fund also levies additional charges on late payments to the PRGF-ESF Trust. Remedial measures for dealing with arrears to the PRGF-ESF Trust include removal from the list of PRGF-ESF eligible countries, declaration of noncooperation and suspension of technical assistance.

2/ On April 8, 2002, the Managing Director issued a complaint with respect to the suspension of Liberia's voting and related rights in the Fund.

3/ In light of the lifting of the suspension of Sudan's voting rights on 8/1/2000, the complaint for the compulsory withdrawal of Sudan has been reformulated as a complaint for the suspension of Sudan's voting rights.

4/ Complaint withdrawn on February 12, 1997, following clearance of arrears in the SDR Department.

5/ On October 17, 2002, the Managing Director issued a complaint with respect to the suspension of Zimbabwe's voting and related rights in the Fund.

6/ Zimbabwe was also removed from the list of PRGF-ESF eligible countries on September 24, 2001.

7/ As a result of Zimbabwe's full settlement of its arrears to the GRA on February 15, 2006, the Managing Director withdrew his complaint, dated February 6, 2004, with respect to compulsory withdrawal.

Appendix: Table 4. Overdue Financial Obligations to the Fund by Duration, 1981–2006
(In millions of SDRs; end of period)

	No. of Countries	Duration			Total Amount
		0-1 month	1-6 months	6 months- or more	
1981	20	6	5	23	34
1982	16	5	0	24	29
1983	14	18	13	30	60
1984	24	29	95	55	178
1985	25	67	289	266	621
1986	21	85	340	611	1,036
1987	26	79	340	1,333	1,752
1988	17	65	401	2,146	2,612
1989	14	30	272	2,797	3,099
1990	15	25	212	3,185	3,421
1991	13	7	159	3,458	3,625
1992	20	23	85	3,488	3,596
1993	12	10	78	2,882	2,969
1994	11	14	59	2,900	2,972
1995	8	10	36	2,130	2,176
1996	10	11	39	2,159	2,209
1997	11	13	32	2,215	2,260
1998	11	11	31	2,252	2,294
1999 ^{1/}	8	1	26	2,290	2,316
2000	9	1	32	2,211	2,243
2001	13	7	59	2,253	2,319
2002	7	6	45	1,948	1,999
2003	9	3	26	2,011	2,040
2004	7	4	21	1,974	1,999
2005	4	2	14	1,883	1,898
2006					
Jun.	6	2	15	1,871	1,888

Source: Finance Department.

^{1/} Includes adjustments of SDR 9.1 million resulting from SCA-2 refunds for members in protracted arrears that were applied to reduce outstanding charges.

Appendix: Table 5. Overdue Financial Obligations to the Fund by Type, 1981–2006
(In millions of SDRs; end of period)

	GRA		Net SDR Charges	Trust Fund/SAF/PRGF		Total		Total 3/
	Repurchases	Charges 1/		Repayments	Interest 2/	Repayments and Repurchases	Charges and Interest	
1981	24	9	--	--	1	24	10	34
1982	23	5	--	--	2	23	7	29
1983	50	9	0	--	--	50	10	60
1984	124	37	8	8	1	132	46	178
1985	430	135	15	39	3	468	153	621
1986	753	205	15	60	3	813	223	1,036
1987	1,269	352	23	102	7	1,371	381	1,752
1988	1,854	562	36	150	10	2,004	608	2,612
1989	2,074	802	44	165	15	2,238	861	3,099
1990	2,209	987	45	161	20	2,370	1,051	3,421
1991	2,270	1,131	39	158	26	2,428	1,197	3,625
1992	2,176	1,174	47	167	32	2,343	1,253	3,596
1993	1,713	1,037	48	142	30	1,854	1,114	2,969
1994	1,688	1,063	44	150	28	1,838	1,134	2,972
1995	1,108	820	51	169	28	1,277	899	2,176
1996	1,064	856	62	197	30	1,261	948	2,209
1997	1,044	894	75	217	31	1,260	999	2,260
1998	999	940	89	233	32	1,232	1,062	2,294
1999 4/	969	971	101	241	33	1,210	1,106	2,316
2000	876	998	94	241	34	1,116	1,126	2,243
2001	864	1,040	106	270	38	1,134	1,184	2,319
2002	732	987	92	156	31	888	1,111	1,999
2003	743	1,004	88	171	33	914	1,125	2,040
2004	732	1,023	35	173	36	904	1,094	1,999
2005	603	1,047	37	173	38	776	1,123	1,898
2006								
Jun.	592	1,045	38	172	40	764	1,123	1,888

Source: Finance Department.

1/ Includes quarterly charges, semiannual charges, stand-by charges on arrangements, and special charges on overdue GRA obligations (equivalent to SDR 126.8 million as of June 30, 2006).

2/ Includes special charges on overdue Trust Fund obligations (equivalent to SDR 19.7 million as of June 30, 2006) and additional interest on overdue SAF/PRGF obligations (equivalent to SDR 7.4 million as of June 30, 2006).

3/ Includes SDR member assessments.

4/ Includes adjustments of SDR 9.1 million resulting from SCA-2 refunds for members in protracted arrears that were applied to reduce outstanding charges.

Appendix: Table 6. Number of Countries Incurring Late Payments to the Fund, 1991–2006

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 1/
Number of members with obligations falling due during the period 2/	146	147	157	159	163	163	163	163	163	164	162	162	161	161	159	159
Number of members with late payments during the period 3/	45	46	40	36	32	27	32	29	38	27	28	27	32	18	16	17
Of which:																
Protracted cases 4/	11	11	11	8	6	7	7	7	7	6	7	6	5	4	4	4
Number of members with late payments as a percent of number of members with obligations falling due during the period	31	31	26	23	20	17	20	18	23	16	17	17	20	11	10	11

Source: Finance Department.

1/ Twelve months to June 30, 2006.

2/ Includes all types of financial obligations falling due to the Fund during the period. Members with multiple obligations falling due during the period are counted only once.

3/ Members paying late during the period and with obligations overdue at the end of the period are counted only once.

4/ Members with arrears outstanding for six months or more at end of period.

Appendix: Table 7. Countries with Protracted Overdue Financial Obligations to the Fund 1/
(As of June 30, 2006)

	Total Indebtedness 2/		Of which: Overdue (SDR millions)		
	(SDR millions)	(% of quota)	Principal	Interest	Total
Liberia	521.8	731.8	223.4	298.4	521.8
Somalia	228.9	517.8	112.0	116.9	228.9
Sudan	1,052.4	620.1	353.9	698.5	1,052.4
Zimbabwe	84.7	24.0	75.0	9.7	84.7
Total	1,887.7		764.2	1,123.5	1,887.7

Source: Finance Department.

1/ Countries with arrears outstanding for six months or more.

2/ Includes outstanding repurchases, SAF and PRGF loans, Trust Fund loans, and overdue charges and interest (including special charges, net SDR charges, and assessments).

Appendix: Table 8. Obligations Falling Due and Payments to the Fund
by Current Protracted Arrears Cases, 1995–2006
(In millions of SDRs)

	Liberia	Somalia	Sudan	Zimbabwe	Total
Obligations falling due					
1995	12.5	7.9	34.8	9.3	64.5
1996	10.5	6.9	28.0	14.3	59.7
1997	10.8	6.2	27.6	26.2	70.8
1998	11.1	5.4	26.8	43.2	86.5
1999	9.4	4.6	21.1	51.9	87.0
2000	12.1	5.9	25.4	61.4	104.8
2001	11.1	5.4	21.1	73.3	110.9
2002	6.9	3.4	12.3	78.5	101.2
2003	5.5	2.7	9.7	50.8	68.7
2004	6.1	3.0	9.9	29.2	48.3
2005	8.4	4.1	12.8	10.8	36.0
Jan. -Jun. 2006	5.3	2.6	7.8	1.8	17.6
Payments made to the Fund 1/					
1995	0.1	--	33.8	9.3	43.2
1996	--	--	31.7	14.3	46.1
1997	0.0	--	44.0	26.2	70.2
1998	0.4	--	44.4	43.2	88.0
1999	0.4	--	29.4	51.9	81.7
2000	0.5	--	43.3	61.4	105.2
2001	0.4	--	43.1	9.2	52.7
2002	0.4	--	18.2	2.5	21.1
2003	0.1	--	19.6	3.4	23.2
2004	0.5	--	21.8	14.3	36.6
2005	0.4	--	20.5	111.7	132.7
Jan. -Jun. 2006	0.2	--	9.5	18.1	27.9

Source: Finance Department.

1/ Excludes adjustments resulting from settlements of deferred charges, retroactive reductions in rates of charge and SCA-2 refunds for members in protracted arrears that are applied to reduce outstanding charges and repurchases.

Appendix: Table 9. Deferred GRA Charges of Countries with Protracted Arrears, FY 2002–2007 1/
(In millions of SDRs, as of June 30, 2006)

	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007		
	Balance Apr. 30, 2002	Net deferrals	Balance Apr. 30, 2003	Net deferrals	Balance Apr. 30, 2004	Net deferrals	Balance Apr. 30, 2005	Net deferrals	Balance Apr. 30, 2006	Net deferrals	Balance Jun. 30, 2006
Liberia	241.4	4.9	246.3	3.9	250.3	5.8	256.1	8.0	264.1	1.6	265.7
Somalia	91.4	2.5	93.9	2.0	95.9	3.0	98.9	4.8	103.7	0.8	104.5
Sudan	638.9	9.3	648.2	7.2	655.4	10.2	665.6	11.6	677.2	2.4	679.6
Zimbabwe	5.3	3.0	8.3	2.4	10.8	3.6	14.3	(14.3)	-	-	-
Total	977.0	19.7	996.7	15.6	1,012.3	22.6	1,034.9	10.1	1,045.0	4.8	1,049.8

Source: Finance Department.

1/ Deferred charges only include periodic charges and special charges to the GRA.

Appendix: Table 10. Countries with Overdue Currency Valuation Adjustments 1/
(In millions of SDRs; as of June 30, 2006)

Member	FY 2006
Angola	233.6
Belarus	201.9
Djibouti	2.5
Liberia	267.9
Samoa	0.4
Somalia 2/	120.1
Sudan 3/	526.3
Suriname 4/	74.7
Turkmenistan	8.2
Zimbabwe	465.6
Total	1,901.2

Source: Finance Department.

1/ The Fund revalues members' currencies at least annually, at the end of the Fund's financial year (April 30). Members are notified of the adjustments arising from the revaluation, which are required to be settled promptly (within thirty days from date of notifications). Adjustments are payable in local currency and are not included among overdue obligations.

2/ Adjustments have been outstanding since the end of FY 1991.

3/ Adjustments have been outstanding since the end of FY 1996.

4/ Adjustments have been outstanding since the end of FY 1999.

**ANNEX I: Overdue Financial Obligations to the General Department and
the SDR Department—Timetable of Remedial Measures 1/**

Time after emergence of arrears	Action
Immediately	Staff sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the concerned Executive Director. The member is not permitted any use of the Fund's resources nor is any request for the use of Fund resources placed before the Executive Board until the arrears are cleared.
2 weeks	Management sends a communication to the Governor for the member stressing the seriousness of the failure to meet obligations and urging full and prompt settlement.
1 month	The Managing Director notifies the Executive Board that an obligation is overdue.
6 weeks	The Managing Director notifies the member that unless the overdue obligations are settled promptly a complaint will be issued to the Executive Board. The Managing Director would also consult with and recommend to the Executive Board that a communication concerning the member's situation should be sent to selected Fund Governors or to all Fund Governors in the event that the member has not improved its cooperation with the Fund.
2 months	A complaint regarding the member's overdue obligations is issued by the Managing Director to the Executive Board.
3 months	A brief factual statement noting the existence and amount of arrears is posted on the Fund's external website, and will be updated as necessary. It also indicates that the member's access to Fund resources, including Trust resources, has been and will remain suspended for as long as arrears remain outstanding. The complaint is given substantive consideration by the Executive Board. The Board has usually decided to limit the member's use of the general resources and, if overdue SDR obligations are involved, suspend its right to use SDRs. A press release is issued following the Board's decision to limit the member's use of the general resources or, if the member has overdue obligations in the SDR Department, to suspend its right to use SDRs. A similar press release will be issued following a decision to lift such limitation or suspension.
6–12 months	The Executive Board will review its decision on limitation within three months, with the possibility of a second review if warranted.

Time after emergence of arrears	Action
Up to 15 months	Depending on the Executive Board's assessment of the specific circumstances and of the efforts being made by the member to fulfill its obligations to the Fund, a declaration of ineligibility will be considered to take effect not more than twelve months after the emergence of arrears. The sending of communications to all Fund Governors and the heads of selected international financial institutions regarding the member's continued failure to fulfill its financial obligations to the Fund is to be considered at the same time as the declaration of ineligibility.
Up to 18 months	A declaration of noncooperation will be considered within three months after the dispatch of the communications. Upon a declaration of noncooperation, technical assistance to the member will be suspended unless the Executive Board decides otherwise.
Up to 24 months	A decision on suspension of voting and representation rights will be considered within three months after the declaration of noncooperation.
	The procedure on compulsory withdrawal will be initiated within six months after the decision on suspension.

1/ Based on the procedures for dealing with members with overdue financial obligations to the Fund adopted by the Executive Board on August 17, 1989, as amended by Decision No. 12546-(01/84), adopted on August 22, 2001.

**ANNEX II: Overdue Financial Obligations to the Poverty Reduction and Growth Facility (PRGF) and Exogenous Shocks Facility (ESF) Trust—
Timetable of Remedial Measures 1/**

Time after emergence of arrears	Action
Immediately	Staff sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the concerned Executive Director. The member's access to Fund resources, including Trust resources, is suspended.
2 weeks	Management sends a communication to the Governor for the member stressing the seriousness of the failure to meet obligations to the Trust and urging full and prompt settlement.
1 month	The Managing Director notifies the Executive Board that an obligation to the Trust is overdue.
6 weeks	The Managing Director notifies the member that, unless the overdue obligations are settled promptly, a report concerning the arrears to the Trust will be issued to the Executive Board. The Managing Director would also consult with and recommend to the Executive Board that a communication concerning the member's situation should be sent to selected Fund Governors or to all Fund Governors in the event that the member has not improved its cooperation with the Fund.
2 months	A report is issued by the Managing Director to the Executive Board. The report will request that the Executive Board limit the member's use of PRGF-ESF Trust Resources.
3 months	The report is given substantive consideration by the Executive Board. A factual statement noting the existence and amount of arrears is posted on the member's country-specific page on the Fund's external website. This statement also indicates that the member's access to Fund resources, including Trust resources, has been and will remain suspended until the arrears are cleared. A press release is issued following the Executive Board's decision to limit the member's use of the PRGF-ESF Trust resources. A similar press release will be issued following the decision to lift such limitation.
6 months	The Executive Board reviews its decision on limitation and

Time after emergence of arrears	Action
12 months	<p>may remove the member from the list of PRGF-ESF-eligible countries. Any reinstatement of the member on the list of PRGF-ESF-eligible countries will require a new decision of the Executive Board. A press release is issued following the Executive Board's decision to remove a member from the list of PRGF-ESF-eligible countries. A similar press release will be issued upon reinstatement of the member on the list.</p> <p>A declaration of noncooperation with the PRGF-ESF Trust may be issued by the Executive Board depending on the Board's assessment of the member's performance in the settlement of its arrears to the Trust and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Upon a declaration of noncooperation, the Fund could decide to suspend the provision of technical assistance. The Managing Director may also limit technical assistance provided to a member, if it is in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdues to the Trust.</p>

1/ Based on Decision No. 12545-(01/84) PRGF, adopted on August 22, 2001, as amended by Decision No. 13590-(05/99) ESF, November 23, 2005, effective January 5, 2006.