

INTERNATIONAL MONETARY FUND

Review of the Fund's Strategy on Overdue Financial Obligations

Prepared by the Treasurer's, Policy Development and Review, and Legal Departments

(In consultation with other departments)

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EXECUTIVE SUMMARY

Review of Overdue Financial Obligations

- **Total arrears to the Fund fell** from SDR 2.32 billion at end-April 2000 to SDR 2.26 billion at end-April 2001, primarily reflecting the settlement of arrears by the Federal Republic of Yugoslavia (Serbia/Montenegro) on December 20, 2000.
- **More than four-fifths of arrears to the Fund were to the GRA**, and half represented overdue principal. Sudan's overdue obligations accounted for about half of total arrears to the Fund.

Policy Issues

- In the context of agreed payments by the Democratic Republic of the Congo (the DRC) to the Fund under the staff-monitored program (SMP), **World Bank staff raised an issue concerning a conflict between extending IDA grants to countries in arrears and payments to the Fund and other creditors by the recipients of IDA grants**. The paper discusses this issue and its implications for the Fund's strategy on arrears. It recommends that the Fund retain the discretion to determine the amount of payments on a case-by-case basis and that, at the next review scheduled for mid-January 2002 and/or at the completion of the SMP in March 2002 (and later if the program is extended), the Board could decide to request transfer of all or some of the deposits being made by the DRC as part of the test of cooperation and subsequent direct payments to the Fund.
- Recent developments highlight the need for more detailed procedures applicable to PRGF arrears. **Strengthened remedial procedures for PRGF arrears are proposed for adoption by the Executive Board.**
- The paper **discusses how to strengthen transparency with respect to arrears**. It proposes that: (i) information on arrears be published on the Fund's external website when they have been outstanding for three months (instead of six months under the current policy); and (ii) a press release be issued on the occasion of each substantive Board action related to specific arrears cases.
- The paper also **discusses issues concerning the publication of information on missed repurchase expectations** and proposes to publish such information on the Fund's external website at the three-month stage. No press release will be issued with respect to missed repurchase expectations.
- **Draft decisions** on the extension of the rights approach, procedures on PRGF arrears, and the publication of information on arrears and missed repurchase expectations are proposed for adoption by the Executive Board.

I. INTRODUCTION

1. This paper updates developments in overdue financial obligations to the Fund and progress under the strengthened cooperative strategy since the last review in June 2000 (Section II).^{1, 2} The paper also discusses a number of policy issues (Section III) with respect to: (i) payments to the Fund in arrears cases and coordination with other international creditors on the clearance of arrears in light of the experience with the Democratic Republic of the Congo; (ii) procedures to address arrears to the Poverty Reduction and Growth Facility (PRGF) Trust; and (iii) measures to strengthen transparency through the publication of information on overdue financial obligations. Issues concerning the publication of information on missed repurchase expectations are also discussed in the paper (Section IV). Decisions extending the availability of the rights approach until end-August 2002,³ and establishing procedures on PRGF arrears and the publication of information on arrears and missed repurchase expectations are proposed for approval by the Executive Board (Section V).

II. REVIEW OF OVERDUE FINANCIAL OBLIGATIONS

A. Recent Developments

2. **Overdue financial obligations to the Fund declined** from SDR 2,323 million at end-April 2000 to SDR 2,260 million at end-April 2001 (Table 1). The clearance of the arrears of the Federal Republic of Yugoslavia (Serbia/Montenegro) of SDR 101.1 million on December 20, 2000, prior to its succeeding to the membership in the Fund of the former Socialist Federal Republic of Yugoslavia, was the main factor behind the decline in overall arrears. In addition, during the period under review, Sudan made payments totaling

¹ Previous reviews include “Overdue Financial Obligations to the Fund—Review of Progress Under the Strengthened Cooperative Strategy” (EBS/00/100, 6/7/00); “Review of Major Cases of Protracted Arrears to the Fund—Background Information” (EBS/00/104, 6/9/00); and “Overdue Financial Obligations to the Fund—Statistical Update” (EBS/01/62, 4/27/01).

² Statistical information provided in this report covers the twelve-month period through end-April 2001.

³ The rights approach was recently extended through end-August 2001. See “Overdue Financial Obligations to the Fund—Review of Progress Under the Strengthened Cooperative Strategy—Extension of the Rights Approach” (EBS/01/93, 6/20/01).

SDR 49 million, contributing to a decline of SDR 23 million in its overdue obligations to the Fund. The arrears of other protracted cases continued to increase, however.⁴

Table 1. Overdue Financial Obligations to the Fund

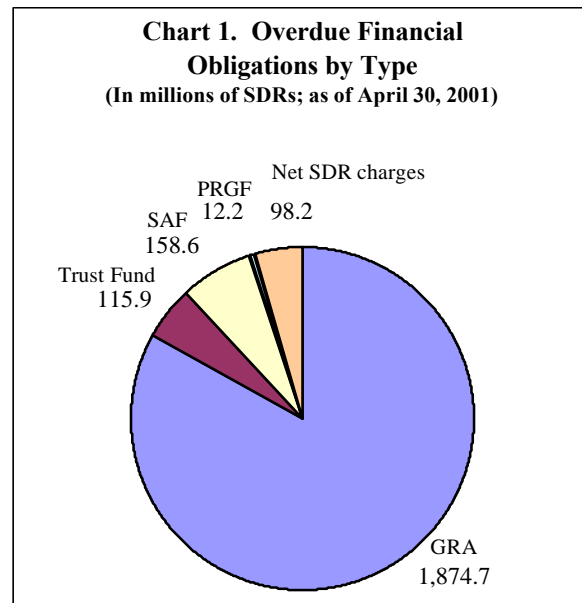
(In millions of SDRs)

	End-April 2000	End-April 2001
Total arrears	2,322.6	2,259.5
Principal	1,199.4	1,117.4
GRA	958.8	864.7
PRGF	--	12.2
Other 1/	240.7	240.5
Interest and Charges	1,123.1	1,142.2
GRA	984.4	1,010.0
PRGF	--	--
Other 2/	138.7	132.2

1/ Includes overdue Trust Fund and SAF principal.

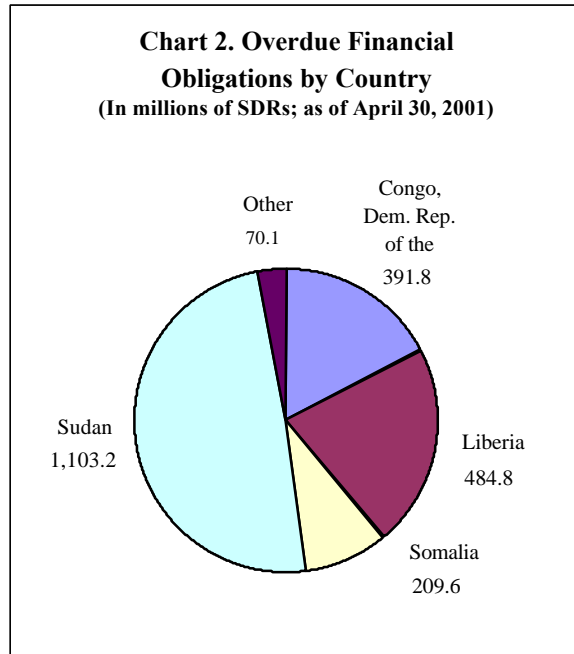
2/ Includes overdue net SDR charges, SDR member assessments, Trust Fund and SAF interest obligations

3. **The structure of arrears to the Fund remained broadly unchanged since the last report.** Of the total arrears to the Fund, more than four-fifths were to the General Resources Account (GRA), with the remainder to the SDR Department, the Trust Fund, the Structural Adjustment Facility (SAF), and the PRGF Trust (Chart 1). Total arrears to the Fund remained evenly divided between overdue principal and overdue interest and charges.



⁴ Protracted arrears are those outstanding for six months or more.

4. **The number of countries in protracted arrears to the Fund declined from seven to six with the settlement of arrears by the Federal Republic of Yugoslavia.** Four countries in protracted arrears to the Fund—the Democratic Republic of the Congo, Liberia, Somalia, and Sudan—accounted for 97 percent of the total arrears to the Fund, with Sudan alone accounting for almost half (Chart 2). There were no new instances of protracted arrears to the Fund.



5. **A number of short-term arrears (less than six months) occurred during the review period.** Total short-term arrears by 20 countries (40 cases) amounted to SDR 15.3 million, of which SDR 9.3 million were to the PRGF Trust, SDR 2.8 million to the GRA, and the rest to the SAF, net SDR charges, and other charges. Most of these arrears were due to technical difficulties and were cleared quickly.

6. **Many of the countries with overdue obligations to the Fund have also been in arrears to the World Bank and the African Development Bank.** As of end-April 2001, total arrears to the World Bank and International Development Association amounted to about US\$3 billion (equivalent to SDR 2.4 billion), and arrears to the African Development Bank Group amounted to SDR 1.1 billion (Table 2).

Table 2. Arrears to the Fund, the World Bank Group,
and the African Development Bank Group

(In millions of SDRs; as of end-April 2001)

	Fund	World Bank 1/ 2/	African Development Bank	Total
Total arrears	2,259.5	2,374.7	1,095.1	5,729.4
Afghanistan, Islamic State of	6.3	17.5	--	23.7
Congo, Dem. Rep. of	391.8	233.9	607.4	1,233.1
Iraq	45.9	50.5	--	96.5
Liberia	484.8	245.1	135.0	864.9
Somalia	209.6	60.1	28.3	298.1
Sudan	1,103.2	143.6	62.2	1,309.0
Other	17.9	1,624.0	262.2	1,904.1

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

2/ Converted at the exchange rate of US\$ per SDR on April 30, 2001.

B. Progress Under the Strengthened Cooperative Strategy

7. The strengthened cooperative strategy on overdue financial obligations to the Fund—initiated in 1990 in response to mounting concerns about rising arrears during the 1980s—consists of three elements: prevention, intensified collaboration (including the rights approach), and remedial measures. **During the period under review, there were no major changes in this strategy**, although the preventive element was bolstered through the introduction of safeguards assessments of members' central banks, beginning in July 2000.

Prevention

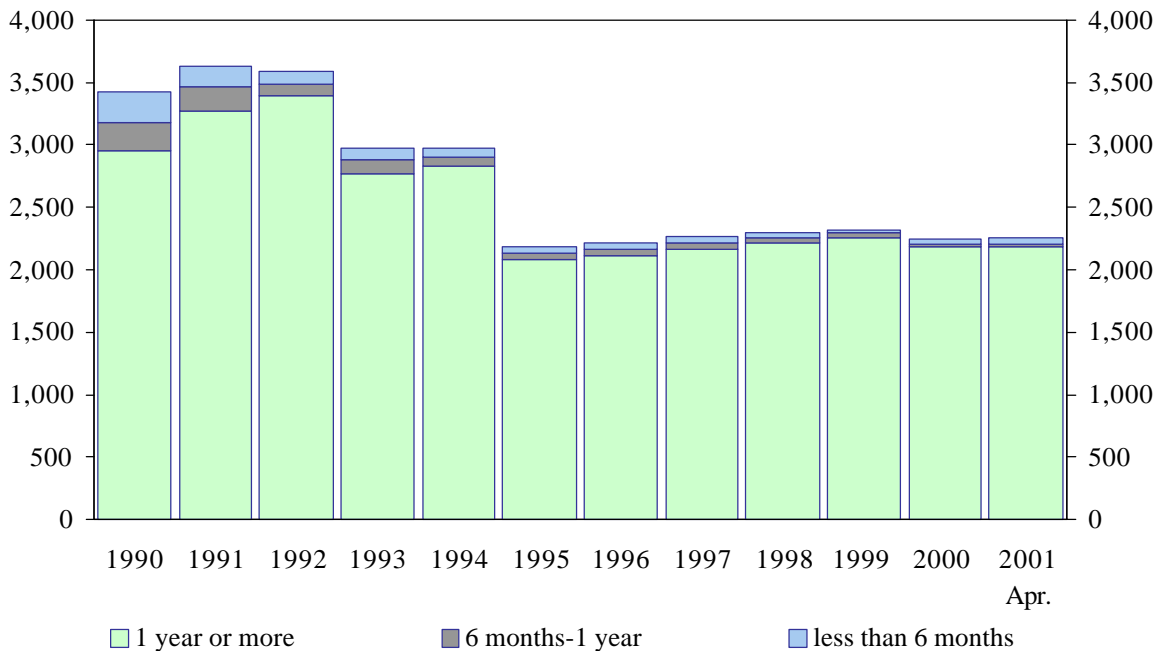
8. **Prevention remains the first line of defense against the emergence of new cases of arrears.** Preventive measures include Fund surveillance of members' economic policies, policy conditionality attached to the use of Fund resources, technical assistance by the Fund in support of members' adjustment and reform efforts, the assurance of adequate balance of payments financing for members under Fund-supported programs, and other measures to protect the Fund's resources, including the new policy on safeguards assessments of members' central banks. The objective of safeguards assessments is to provide reasonable assurance to the Fund that a central bank's framework for reporting and control is adequate.

Intensified Collaboration

9. **The intensified collaborative element of the arrears strategy** provides a framework for cooperating members in arrears to establish a strong track record of policy performance and payments to the Fund—including through Fund-monitored and staff-monitored programs—and, in turn, to mobilize bilateral and multilateral financial support for their adjustment efforts and to clear arrears to the Fund and other creditors. Intensified collaboration, coupled in some cases with the use of the rights approach, contributed to the normalization of relations between the Fund and a number of members in protracted arrears following the establishment of the strengthened cooperative strategy in 1990,⁵ and resulted in a significant reduction in total arrears to the Fund (Chart 3).

Chart 3. Overdue Financial Obligations to the Fund by Duration

(In millions of SDRs)



10. Under **the rights approach**, also established in 1990, an eligible member, in addition to building a track record of policy performance and payments under a Fund-monitored

⁵ Including Cambodia, Central African Republic, Guyana, Haiti, Honduras, Panama, Peru, Sierra Leone, Vietnam, and Zambia.

program, accumulates “rights” to future disbursements under a subsequent arrangement with the Fund, following the clearance of arrears (Box 1). Eligibility for the rights approach was limited to the eleven members in protracted arrears to the Fund at end-1989, and the availability of the approach was intended to be temporary. However, the Executive Board has regularly extended the availability of the rights approach, most recently until end-August 2001. Liberia, Somalia, and Sudan remain eligible for the rights approach.⁶ While the prospects for the early resolution of these countries’ arrears to the Fund remain uncertain, staff recommends that the availability of the rights approach be extended for another year.

Box 1. Conditionality and Terms of Rights Accumulation Programs

Typically, a rights accumulation program (RAP):

- contains targets and policy intention that meet upper-credit tranche conditionality, that is, members must adopt and implement strong adjustment programs to establish a creditable track record of policy implementation and to help create the conditions for sustained growth and substantial progress toward external viability. Such programs should adhere to the macroeconomic and structural policy standards associated with programs supported under an extended or PRGF arrangement.
- is expected to have adequate external financing to support adjustment efforts, including debt rescheduling and relief from bilateral and private creditors and new financing from various sources. In this regard, it is particularly important that the Paris Club agrees to reschedulings.
- entails that, at a minimum, members remain current with the Fund and the World Bank on obligations falling due during the period of the program. The Fund’s policy on post-conflict assistance provides flexibility on the level of payments when policy performance is satisfactory.
- is generally of a three-year duration, but the length of the program can be shorter, depending on the size of economic imbalances facing the member, the strength of adjustment efforts during the program, the magnitude of arrears to the Fund, and the resources that could be expected from donors and other creditors. The length of the RAPs of the three countries that have made use of the rights approach was 1 ½ years for Peru, 1 ¾ years for Sierra Leone, and 3 years for Zambia.

11. As part of intensified collaboration, the Fund has also developed other approaches, including **Fund-monitored programs** and **staff-monitored programs** to help members in arrears establish a track record on policies and payments, leading to eventual clearance of

⁶ Peru, Sierra Leone, and Zambia availed themselves of the rights approach in the early to mid-1990s to resolve their arrears to the Fund. Cambodia, Guyana, Honduras, Panama, and Vietnam found alternative means within the collaborative approach to resolving their arrears to the Fund.

arrears to the Fund (Box 2). These approaches, supported by the provision of technical assistance, have been instrumental in assisting members design and implement appropriate economic policies and progress toward the normalization of financial relations with external creditors, including the Fund.

Box 2. Fund- and Staff-Monitored Programs

- **Fund-monitored programs** were initiated in 1989 in the context of the Fund's intensified efforts to resolve arrears to the Fund. These programs contain targets and policy intentions that meet upper credit tranche conditionality, and are reviewed and endorsed by the Board. Observance of program targets serves to establish a track record of performance and cooperation prior to arrears clearance.
- This approach **has been used by a few members** that had relatively small arrears to the Fund and that appeared to have good prospects for the clearance of arrears within a relatively short period of time. Guyana (1989) and Panama (1990) successfully completed such programs and settled their arrears.
- **Staff-monitored programs** have provided a basis for the Fund to engage in intensive policy dialogue with members in arrears that may not be able to adopt and implement programs meeting upper credit tranche conditionality. Staff-monitored programs do not involve Board endorsement, although the Board may take into account the member's record of performance under such a program when considering the appropriate length of a Fund-monitored program, including a RAP.
- Among the **protracted arrears cases**, Sudan has undertaken staff-monitored programs since 1997, and Liberia implemented a staff-monitored program in 1998-2000. In the case of the Democratic Republic of the Congo, understandings have been reached on a staff-monitored program covering the period June 2001-March 2002.

12. **Assistance to post-conflict countries with arrears to the Fund** was recently discussed by the Executive Board.⁷ Directors noted the special challenges posed by the presence of large protracted arrears in these countries, and agreed that the Fund's arrears strategy provides adequate flexibility to address effectively the range of circumstances in these countries. To ensure a well-coordinated response to the special problems associated with arrears clearance, Directors agreed that World Bank and Fund staff would prepare an arrears clearance plan with the member, in consultation with each other and other major creditors, once a post-conflict country with arrears had established peace, made adequate progress on re-building administrative capacity and restoring macroeconomic stability, and re-established relations with the international community.

⁷ "Concluding Remarks by the Acting Chairman on Assistance to Post-Conflict Countries and the HIPC Framework" (BUFF/01/57, 4/19/01).

13. In the context of intensified collaboration, **policy and payments performance in the countries with major protracted arrears to the Fund varied widely** (Annex I). While policy and payments performance by Sudan has remained broadly satisfactory, it has been disappointing in Liberia. Moreover, monthly payments by Liberia have not been received since March 2001. In the case of the Democratic Republic of the Congo, there have been renewed efforts to strengthen cooperation with the Fund, and understandings have been reached on a staff-monitored program for June 2001–March 2002. No progress has been made in the other three protracted cases, owing to continued domestic conflict and/or international sanctions.

Remedial Measures

14. The arrears strategy requires that a number of **remedial measures be taken in cases of overdue financial obligations to the Fund** (Annex II). These remedial measures are applied using an escalating timetable to member countries with overdue obligations that do not actively cooperate with the Fund to resolve their arrears problems (Annex III). This timetable guides Executive Board consideration of remedial measures of increasing intensity, although the application of each particular step is considered in light of the individual circumstances of the member concerned. In the cases of Afghanistan, Iraq, and Somalia, where civil conflicts, the absence of a functioning government, or international sanctions have prevented the Fund from reaching a judgment regarding the members' cooperation, the application of remedial measures has been delayed or suspended until such a judgment can be reached.

15. **The Fund's remedies differ depending on the nature of the overdue obligations:**

- **Overdue obligations to the General Department** are breaches of obligations under the Articles of Agreement and are subject to the sanctions specified in Article XXVI, Section 2. Sanctions against, and remedial measures for, this type of overdue obligations include, following the issuance of a complaint, a declaration of ineligibility to use the Fund's general resources, a suspension of a member's voting and related rights in the Fund, and a decision for compulsory withdrawal from the Fund. The Fund will neither discuss nor approve the member's request for use of the Fund's general resources or PRGF resources and disbursements under Fund arrangements will be suspended if and while the member is in arrears to the Fund.
- **Overdue obligations to the SDR Department** are breaches of obligations with respect to special drawing rights under Article XXIII, Section 2. The Fund may suspend the right of the participant to use special drawing rights it acquires, but the member may not be declared ineligible to use the general resources of the Fund, have its voting rights suspended, or be required to withdraw from the Fund because of its failure to fulfill any obligations with respect to special drawing rights. However, as in the case of GRA arrears described above, the member in arrears to the SDR Department will have no access to the Fund's general resources or the PRGF Trust.

- **Overdue obligations to the PRGF Trust** are separate from those to the General and SDR Departments and are not breaches of obligations under the Articles of Agreement. Therefore, they are not subject to sanctions under the Fund's Articles of Agreement. However, as described in the Trust Instrument for the PRGF (Section II, paragraph 1 (e)),⁸ a member will have no access to PRGF resources when in arrears to the GRA, the SDR Department, or PRGF Trust. Likewise, it will have no access to the GRA if it has arrears to the PRGF Trust. As a further deterrent to PRGF arrears, the Fund levies additional charges on late payments to the PRGF Trust (as on arrears to the General Department) (Box 3).

16. The Instrument to establish the PRGF-HIPC Trust requires that a member has established a track record of performance under a Fund-supported program before it reaches a decision or completion point.⁹ Payment arrears to the Fund represent nonobservance of program requirements, which preclude Board consideration of decision or completion points. **Therefore, when a member is in arrears to the GRA, the SDR Department, or the PRGF Trust, no further commitments or disbursements can be made concerning HIPC assistance.**

17. For countries that have already reached the decision point and for which HIPC assistance has been committed but not yet fully disbursed, each disbursement of interim assistance as well as disbursement of assistance at the completion point require that the Fund-supported program is on track. **Therefore, the Board cannot take a decision to disburse assistance if and while the member is in arrears to the Fund or the PRGF Trust.** However, assistance that has already been disbursed to the member's account is not affected by the status of its payments to the Fund.

⁸ Decision No. 11832-(98/119) ESAF, November 20, 1998. The reference in Section II, paragraph 1(e) of the PRGF Trust Instrument to Decision No. 7842-(84/165) on the guidelines on corrective action in cases of misreporting and noncomplying purchases in the General Resources Account should be understood to refer instead to Decision No. 12249-(00/77). A decision to that effect is being proposed for adoption by the Board.

⁹ See "Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations" (Section III, paragraph 2 (c)).

Box 3. Special Charges and Additional Interest on Overdue Obligations

Special charges or additional interest are levied on overdue obligations to the GRA, Trust Fund, and SAF of up to six months' duration. Special charges do not apply to overdue obligations to the SDR Department. Additional interest is levied on overdue PRGF obligations as long as they remain outstanding.

- **Overdue GRA repurchases**—*special charges* accrue at a rate equal to the difference, if positive, between the rate of interest on the SDR and the basic rate of charge on the use of Fund credit, so that the overall cost to a member of having overdue repurchases is the basic rate of charge or SDR rate of interest, whichever is higher, plus burden sharing adjustments. Since May 1993, no special charges have accrued on overdue repurchase obligations, as the basic rate of charge has been in excess of the SDR interest rate.
- **Overdue GRA charges**—the rate of *special charge* on overdue GRA charges is equal to the SDR interest rate.
- **SDR Department**—no *special charges* are levied on overdue obligations to the SDR Department.
- **SAF obligations**—on overdue principal, the rate of *additional interest* is equal to one-half of the sum of the rate of interest on SAF loans (i.e., 0.5 percent) and the SDR interest rate, less one-half percent. On overdue interest, the rate of *additional interest* is equal to one-half of the sum of the rate of interest on SAF loans (i.e., 0.5 percent) and the SDR interest rate. Such additional interest is levied on overdue obligations during the first six months only.
- **Trust Fund**—the rate of *special charge* is the same as the rate on overdue SAF obligations.
- **PRGF Trust**—the rate of *additional interest* on both overdue principal and interest is the same, which is equal to the SDR interest rate.

Protracted arrears

18. **A number of remedial measures have been applied against countries that remain in protracted arrears to the Fund** (Table 3). As of end-April 2001, the Democratic Republic of the Congo, Liberia, Somalia, and Sudan remained ineligible to use the general resources of the Fund. Declarations of noncooperation—a further step under the strengthened cooperative arrears strategy—were in effect for the Democratic Republic of the Congo (issued on February 14, 1992) and Liberia (issued on March 30, 1990). In addition, the voting rights of the Democratic Republic of the Congo remained suspended (effective June 2, 1994).

Table 3. Remedial Measures Applied to Countries in Protracted Arrears to the Fund

	In Continuous Arrears Since	Complaint Issued (Noted)	Declaration of Ineligibility	Declaration of Non-cooperation	Suspension of Voting Rights	Complaint for Compulsory Withdrawal
Afghanistan, Islamic State of	11/1/95	2/27/96				
Congo, Democratic Republic of the	11/6/90	1/29/91 (2/5/91) 2/10/97 (2/13/97)	9/6/91	2/14/92	6/2/94	
Iraq	11/1/90	1/30/91 (2/6/91)				
Liberia	12/19/84	4/4/85 (4/24/85)	1/24/86	3/30/90		
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) 1/	2/3/86	9/14/90; lifted on 8/27/99	8/9/93; lifted on 8/1/00	4/8/94 2/

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

2/ 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.

19. **The Executive Board conducted reviews of the member countries with protracted arrears to the Fund to assess their cooperation.**

- **Sudan**—the Board reviewed Sudan’s overdue obligations twice (on July 31, 2000 and on March 5, 2001), and noted that Sudan’s payments to the Fund were in line with commitments and that policy performance was satisfactory under the staff-monitored programs for 1999–2001. In light of Sudan’s strengthened cooperation with the Fund, the Board restored Sudan’s voting rights in the Fund with effect from August 1, 2000 under its policy of de-escalation of remedial measures. This followed the lifting of the declaration of noncooperation regarding Sudan on August 27, 1999.¹⁰ The next review of Sudan’s overdue financial obligations is scheduled to take place by September 5, 2001.
- **Liberia**—at the review of Liberia’s overdue obligations to the Fund on November 15, 2000, the Board noted a regrettable weakening of policy implementation and deterioration of relations with external creditors and donors, and decided to defer the application of further remedial measures for six months to provide time for the authorities to strengthen their cooperation with the Fund. Absent a strengthening of policy performance, consideration would be given to the initiation of the procedure for the suspension of Liberia’s voting rights in the Fund by the time of the next review, which is now scheduled to take place by November 15, 2001.
- The Board postponed reviews of overdue financial obligations of **the Democratic Republic of the Congo** and **Somalia** in the absence of sufficient information on economic and financial policies and developments to assess their cooperation with the Fund. In the case of the Democratic Republic of the Congo, the review took place on July 13, 2001, at the time of the 2001 Article IV consultation. The next review for Somalia has been postponed to end-August 2001.
- No Board reviews were conducted in the case of the overdue financial obligations of **Afghanistan** and **Iraq** because of international sanctions. However, the Board has been kept informed of developments in Iraq through status reports when warranted by developments.

Short-term Arrears

20. As required under the strengthened timetable of procedures, when a member has been in arrears to the Fund for one month or more, the Managing Director is to notify the Board concerning the member’s overdue obligations. Of the 40 cases of short-term late payments to the Fund by 20 countries during the review period, only in one case were the following actions taken: the communication to selected Fund Governors, the issuance of a complaint by

¹⁰ The policy on de-escalation of remedial measures under the strengthened cooperative strategy is discussed in EBS/99/122 (6/9/99).

the Managing Director on May 4, 2001, and consideration by the Board of the complaint on June 8, 2001.

C. Overdue Currency Valuation Adjustment Obligations

21. In order to maintain the value of the Fund's holdings of a member's currency in terms of the SDR, the Fund adjusts its holdings of the member's currency at the end of each financial year, and on other occasions.¹¹ **Such adjustments (CVAs) may result in an obligation by the member** to pay additional currency to the Fund (when the member's currency has depreciated against the SDR), or an obligation by the Fund to return currency to the member. In many cases, delays in settling CVA obligations arise from required domestic legal or administrative procedures (e.g., authorization and appropriation by the member's legislature), technical and accounting differences between the member and the Fund, or inadequate understandings on the part of the member of its obligation to settle these obligations. At end-April 2001, overdue CVA obligations of 15 members amounted to SDR 2.7 billion.

22. Overdue CVA obligations do not generally affect the Fund's financing capacity. In view of this and the common causes that give rise to delays in the settlement of these obligations, overdue CVA obligations do not fall under the procedures of the Fund's arrears strategy but are reported regularly to the Executive Board.¹² **CVA obligations, nevertheless, represent an essential element of members' financial obligations to the Fund**, and the staff actively pursues their settlement.

III. POLICY ISSUES

A. Payments to the Fund in Arrears Cases

23. **Failure to meet scheduled obligations to the Fund is a serious breach of the principles that underpin the Fund and imposes a significant financial burden on other members.** The Fund's strategy to prevent and resolve overdue financial obligations has remedial and cooperative elements, including tests of cooperation on policy and payments performance prior to arrears clearance.

¹¹ Currency valuation adjustments (CVAs) are calculated at least once a year as at the end of the Fund's financial year (April 30), whenever a currency is used in a financial operation or transaction of the Fund, or when the member requests the Fund to adjust its holdings of the member's currency.

¹² For a discussion of issues pertaining to CVAs, see EBS/87/252 (12/2/87) and EBM/88/19 (2/10/88).

24. **The Fund has taken a flexible approach in applying its arrears strategy and in designing measures to clear arrears.** In the context of the **rights approach**, the Fund expects members, at a minimum, to stabilize arrears to the Fund by meeting obligations falling due (Box 4). In the context of the Fund's policy on **post-conflict** countries, the Board agreed to consider relaxing its calls for payments to the Fund as a test of cooperation prior to arrears clearance, provided that the member is judged to be cooperating on policies and that all other multilateral creditors take comparable action. In these cases, a judgment on the level of payments needed to sustain cooperation with the Fund is made on a case-by-case basis, taking into account the member's debt servicing capacity.¹³

Box 4. Payments to the Fund by Arrears Cases

Among the previous cases of members in arrears to the Fund, **Peru, Sierra Leone, and Zambia** cleared arrears through the rights approach, and made payments during the rights accumulation programs sufficient to stabilize or reduce arrears to the Fund.

Payments to the Fund by countries currently in protracted arrears have varied significantly:

- **Sudan** has made regular monthly payments since early 1997. The level of monthly payments is now US\$5.5 million, equivalent to about 3 percent of current receipts or 250 percent of obligations falling due to the Fund.
- In light of its post-conflict circumstances, **Liberia** made regular monthly payments of US\$50,000 beginning in December 1997. These payments were equivalent to about ½ percent of exports and represented only 5 percent of obligations falling due to the Fund. No payments have been received since March 2001.

25. **The recent case of the Democratic Republic of the Congo (the DRC) has highlighted an issue surrounding the conditions governing the extension of IDA grants to post-conflict countries in arrears to the World Bank and the Fund's arrears clearance strategy which includes payments to the Fund as a test of cooperation prior to arrears clearance.**

¹³ "Summing Up by the Acting Chairman—Fund Assistance to Post-Conflict Countries" (BUFF/99/48, 4/9/99).

26. As part of the staff-monitored program for the DRC,¹⁴ Fund staff had originally agreed with the DRC authorities on monthly payments of SDR 600,000, an amount judged to be within the DRC's payment capacity.

27. **However, Bank staff argue that any payments to the Fund would conflict with Bank policy on providing IDA grants.** The Bank's policy is described by Bank staff as follows:

“IDA donors in 1999 authorized the limited use of grant financing to support recovery efforts during the pre-arrears clearance phase in IDA-eligible post-conflict countries with large and protracted arrears. To avoid IDA grant resources being diverted from reconstruction needs to servicing of other creditors, and to protect the financial policies of the Bank Group, access to these grants is restricted to cases meeting the following conditions: (i) performance, i.e., the recipient country needs to have made convincing steps towards social and economic recovery; (ii) arrears are large and protracted, and cannot be easily or quickly cleared using domestic resources; (iii) a concerted international assistance effort to provide positive flows is in place; (iv) alternative sources of financing are inadequate or only available on inappropriate terms; and (v) other creditors have agreed, at the least, not to make net withdrawals of financial resources from the country. Furthermore, these grants are intended to be deployed within a broader framework for supporting post-conflict countries, approved by the Bank's Executive Directors.”

28. In attempting to resolve this issue with Bank staff and management, Fund staff and management have raised the following points:

- First, as already highlighted, **payments to the Fund constitute an integral part of the establishment of a track record of cooperation with the Fund**, and a signal to other creditors that the country recognizes the importance of a “credit culture.” Payments also facilitate ultimate arrears clearance. The Fund needs to be able to apply its arrears strategy in a flexible case-by-case manner. Foregoing payments based on actions by another institution would eliminate necessary discretion and set an undesirable precedent. As IDA grants could be approved and eventually disbursed to any of the current protracted arrears cases in varying amounts, the disruption to the Fund's arrears strategy is potentially significant.
- **Second, net transfers should be measured over a reasonable horizon.** Assuming the successful implementation of the staff-monitored program and the clearance of

¹⁴ “Democratic Republic of the Congo—Staff Report for the 2001 Article IV Consultation and Staff-Monitored Program” (EBS/01/94, 6/22/2001).

arrears by the DRC in about one year, net Fund resources would be made available to support the DRC's reform efforts.

- **Third, the Fund has taken a flexible and long-term view in the past and extended financial support to countries while they made net payments to reduce arrears to the Bank.** For instance, in November 2000, the Fund extended emergency assistance of SDR 21.2 million to the Republic of Congo, notwithstanding expected substantial net payments by the Republic of Congo to the Bank to reduce arrears (US\$30 million by May 2001).

29. In order to permit IDA grants and the staff-monitored program to proceed pending the resolution of this issue, **Fund staff has agreed with the DRC authorities that they will make a monthly deposit of SDR 100,000 to an account that the DRC established with the Bank for International Settlements in June 2001.**^{15 16} The amounts so deposited will remain the official reserves of the DRC, but the transactions and holdings of the account will be monitored by the Fund. Bank management accepted this solution and is proposing to the Bank Board the disbursement of IDA grants totaling US\$50 million to the DRC to support an emergency early recovery project, including technical assistance, provided that the funds deposited with the BIS remain in the account until such time as arrears to the Fund are cleared.

30. In the view of staff, payments are an integral part of the Fund's arrears clearance strategy, and an important benchmark of cooperation. As agreed by the Board in the case of post-conflict cases,¹⁷ the level of payments to the Fund should be determined flexibly based on the payments capacity of the country concerned. Staff believes that the Fund should continue to exercise discretion in determining the level of payments a country in arrears should make as part of the test of cooperation. Therefore, staff recommends that at the next review of DRC's arrears scheduled to take place in mid-January 2002 and/or at the completion of the staff-monitored program (SMP) in March 2002 (and later if the program is extended), the Board could decide to request transfer of all or some of the amounts accumulated in the account and subsequent direct payments to the Fund. Deferring a consideration of whether to request such a transfer will give time to assess the implementation of the SMP, the record of deposits with the BIS, and efforts to mobilize support for arrears clearance. The staff will also continue the dialogue with the Bank in an effort to resolve the

¹⁵ This amount would be equivalent to 0.2 percent of DRC's exports and 10 percent of its obligations falling due to the Fund.

¹⁶ The DRC authorities have also agreed to make comparable monthly deposits at the BIS for the World Bank and African Development Bank (SDR 60,000 and SDR 70,000, respectively).

¹⁷ See "Summing Up by the Acting Chairman—Fund Assistance to Post-Conflict Countries" (BUFF/99/48, 4/9/99).

issue in a manner consistent with the policies of the two institutions and in light of the discussion by the Executive Board.

B. Strengthened Procedures on PRGF Arrears

31. **Recent developments highlight the need to have strengthened procedures to address arrears under the PRGF.** Arrears to the PRGF Trust undermine the finances of the Trust by reducing the level of self-sustained PRGF operations and the coverage to lenders afforded by the PRGF Trust Reserve Account. Therefore, it would be desirable to have procedures that establish a clear timetable of steps to address PRGF arrears.

32. To the extent possible, **the strengthened procedures described below parallel those taken under the strengthened timetable of procedures for GRA arrears.** However, a fully parallel treatment of GRA and PRGF arrears is not possible as the former are breaches of obligations under the Articles of Agreement and are subject to sanctions under Article XXVI, while arrears under the PRGF are not. As a consequence, the procedures outlined below consist of:

- **measures already in place (either in the existing policy on overdue obligations or in the PRGF Trust Instrument) to address arrears during the first six weeks,** including automatic suspension of access to the Fund's general resources, PRGF resources, and HIPC assistance, imposition of additional interest rate equivalent to the SDR interest rate, and various follow-up communications; and
- **new measures starting from the two-month stage,** including issuance of a report (equivalent to a complaint on GRA arrears) by the Managing Director, consideration of the report by the Executive Board, communications to Fund Governors, suspension of eligibility to the PRGF, declaration of noncooperation, and suspension of technical assistance.

These procedures, however, do not extend to the issuance and consideration of complaints, declaration of ineligibility to use the Fund's general resources, suspension of voting rights, or the initiation of procedures leading to the compulsory withdrawal of a member in arrears, as in the case of GRA arrears.

33. In light of these considerations, **the following timetable of procedures will be applicable in the event of arrears to the PRGF Trust:**

- **Immediately upon the emergence of arrears,** the following actions will be taken:
 - As described earlier, and in line with existing policy, the member's access to Fund resources under the GRA, Special Disbursement Account, or resources administered by the Fund as Trustee, including HIPC assistance, will be suspended.

- As specified in the Instrument to establish the PRGF Trust (Section II, paragraph 4 (a)), additional interest at a rate equal to the interest rate on the SDR will accrue on the amounts of any overdue interest or overdue repayments of Trust loans from the date of its occurrence.
- Follow-up communications will be sent to the member urging prompt payment to settle outstanding arrears and the office of the Executive Director concerned will be informed of the arrears.
- **Once arrears have been outstanding for two weeks**, the Managing Director will send a communication to the Governor for the member stressing the seriousness of the failure to settle outstanding arrears and urging full and prompt settlement. The communication will mirror similar communications sent in the event of GRA arrears.
- **When arrears have been outstanding for one month**, the Executive Board will be informed of the nature and level of the arrears and the steps taken to secure payment.
- **After six weeks have elapsed**, the Managing Director will inform the member that a report concerning arrears will be issued to the Executive Board. The Managing Director will consult with and recommend to the Board that all or selected Fund Governors be informed in writing of the member's arrears to the PRGF.
- **After arrears have been outstanding for two months**, a report regarding the overdue obligations will be issued to the Executive Board. The report will highlight the financial impact of the arrears on PRGF operations, and will request that the Board limit the member's use of PRGF resources.
- This report will be given substantive consideration by the Executive Board **after PRGF arrears have been outstanding for three months**.
 - The Fund will issue a press release following the Board's consideration of the Managing Director's report concerning overdue obligations by the member. This press release will describe the decision adopted by the Board, including a statement that the member will not make use of new Fund resources, including under the PRGF and the HIPC Initiative, as long as arrears remain outstanding. This press release will parallel the proposed action for arrears to the GRA at the three-month stage.
 - A brief factual statement noting the existence and amount of arrears outstanding for more than three months will be posted on the member's country-specific page of the Fund's external website.
- **After arrears have been outstanding for six months**,
 - the Executive Board will review the situation of the member, and may remove the member from the list of PRGF-eligible countries (and hence eligibility for

HIPC assistance from the Fund). Any reinstatement of the member on the list of PRGF-eligible countries will require a new decision of the Executive Board.

- the Fund shall issue a press release upon the decision to remove the member from the list of PRGF-eligible countries. A similar press release shall be issued upon reinstatement of the member on the list. The information contained in such press releases shall be included in the Annual Report.
- **After arrears have been outstanding for twelve months,**
 - the Executive Board may decide to issue a declaration of noncooperation of the member. The Board may at any time terminate the declaration of noncooperation in view of the member's progress in strengthening cooperation with the Fund on policies and payments.
 - upon a declaration of noncooperation, the Fund could also decide to suspend the provision of technical assistance to the member that has been removed from the list of PRGF-eligible countries. The Managing Director may also limit technical assistance provided to the member, if in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdue obligations to the Trust.
 - the Fund shall issue a press release upon the declaration of noncooperation and upon the termination of the declaration. The information contained in such press releases shall be included in the Annual Report.

34. A draft decision on the above procedures to be followed in the case of PRGF arrears is attached for the approval of the Executive Board.

C. Publication of Information on Overdue Financial Obligations

35. Under the Fund's strengthened arrears strategy, **data identifying individual members' overdue obligations are made available to the public with a lag of six months**, arrears are also reflected in the Fund's financial statements with a six-month lag, and the public is notified of actions taken by the Board pursuant to the remedial measures provided explicitly under the Articles of Agreement. **This section reviews the current policy on the publication of overdue financial obligations and suggests a number of modifications to update and extend the current approach.** A draft decision on the publication of information on arrears is proposed for Board approval.

36. The current policy on the release of information on arrears to the GRA was developed in the 1980s and reflects steps envisaged in the Articles of Agreement and policies developed in the context of the strengthened cooperative strategy on arrears. **Information on arrears is**

included in Annual Reports and financial statements of the Fund only after the arrears have been outstanding for six months.¹⁸ This policy was adopted to avoid reporting short-term arrears arising from technical difficulties and to give the member time to meet its obligations. Current policy also includes the issuance of a press release on the occasion of the following remedial measures, the first of which is normally taken within 6-12 months from the emergence of arrears:

- when a member is declared ineligible by the Executive Board to use the Fund's general resources;
- when the Executive Board issues a finding of noncooperation with the Fund;
- when the Executive Board decides to suspend a member's voting and related rights in the Fund; and
- when the Board of Governors approves the compulsory withdrawal of the member from the Fund.

Press releases are also issued when the Board takes action to reverse any of the above remedial measures, as was the case, for example, in the recent decision to restore Sudan's voting and related rights in the Fund in August 2000.

37. Since the adoption of the current policy in 1989, the Fund has made considerable strides in increasing the amount and quality of information publicly available on its activities and financial operations, notably through its external website. In light of this, **it would be desirable to extend this enhanced transparency to the Fund's policy on reporting overdue financial obligations.** Staff believe that a modification of the current policy to provide greater transparency and more timely information can be achieved without hampering efforts to resolve arrears of a temporary or technical nature.¹⁹

38. **The proposed new policy is as follows:**

- Data on overdue financial obligations outstanding for three months or more will be made available on the country-specific page of the Fund's external website. A brief factual statement will be included on the country page, noting the existence and amount of such arrears.

¹⁸ "Procedures for Dealing with Members with Overdue Financial Obligations to the Fund" (EBM/89/100 and EBM/89/101, 7/27/89).

¹⁹ Given the extensive and precise information available on the Fund's external website on past and forthcoming obligations, members' financial position, and other financial information, even in the absence of explicit mentioning of arrears, careful observers are likely to be able to detect overdue financial obligations in the month following their occurrence.

- A press release will be issued following the Board consideration of the Managing Director's complaint concerning overdue GRA obligations or his report on PRGF arrears. The press release will describe the decision adopted by the Board, including a statement that the member will not make use of new Fund resources, including under the PRGF and the HIPC Initiative, as long as arrears remain outstanding.
- A press release will also be issued on the occasion of each substantive Board action taken with respect to both GRA and PRGF arrears.

39. Consideration by the Board of the Managing Director's complaint on GRA arrears or report on PRGF arrears is a substantive action taken by the Board, and publication of Board decisions concerning the complaint/report would be consistent with the current policy of increased transparency regarding the activities of the Board. A press release of the Board's consideration of a complaint/report would require releasing information on the amount and duration of arrears sooner than six months. Past experience suggests that arrears arising from technical difficulties are resolved well within three months. Consequently, making data on arrears available on the Fund's external website after three months should avoid reporting arrears that are technical in nature, and could give impetus to efforts to address the arrears.

40. **The proposed publication of information on arrears at the three-month stage would not change current accounting practices, procedures for burden-sharing, and assessments of the adequacy of Fund reserves.** The current practice of reporting overdue obligations in the Fund's financial statements only after arrears have been outstanding for six months is in line with accounting practices of other international financial institutions. The publication of information on arrears at the three-month stage while continuing the practice of reporting overdue obligations in the financial statements at six months is also consistent with International Accounting Standards.

IV. PUBLICATION OF INFORMATION ON MISSED REPURCHASE EXPECTATIONS

41. During the review of Fund facilities late last year, the Board considered the publication of information on the status of members under the policy on repurchase expectations (Box 5).²⁰ Directors broadly endorsed most of the staff's recommendations (Box 6) but agreed to reconsider the specific issue of publication of information on repurchase

²⁰ "Review of Fund Facilities—Proposed Decisions and Implementation Guidelines" 9EBS/00/216, 11/3/00) and "Statement by the Staff on Review of Fund Facilities—Proposed Decisions and Implementation Guidelines" (BUFF/00/170, 11/16/00).

expectations that are not met at the time of the annual review of overdue financial obligations.²¹

42. Meeting repurchase expectations would be a sign that the member's external position is stronger than programmed. The Board emphasized that missed repurchase expectations do not constitute a breach of obligations to the Fund. The suggested parallelism with procedures governing publication of arrears to the Fund was considered inappropriate by some Directors. It should be noted in this regard that while repurchase expectations would normally be expected to be met, the Fund could extend them on request by the member, if the Board agreed that the member's external position was not sufficiently strong for it to repay early without undue hardship or risk. As a result, the proposed publication procedures, as well as the other actions envisaged in the case of missed repurchase expectations (see Box 5), are unlikely to be invoked. **In any case, the proposed publication procedures maintain a distinction between missed repurchase expectations and arrears.**

43. Since the completion of the review of Fund facilities, the Fund has continued to publish routinely on its website the full range of country-specific information on financial relations with the Fund. This information now includes repurchases falling due according to the expectations schedule, for purchases covered by the policy on repurchase expectations, which is available through the web pages presenting each member's "Financial Position in the Fund." This information is updated monthly.

²¹ Summing Up by the Acting Chairman (BUFF/00/175, 11/27/00). Directors also agreed that the meeting of repurchase expectations would be reported on the country specific page on the Fund's external website.

Box 5. Policy on Repurchase Expectations

Repurchase expectations apply to purchases made after November 28, 2000 in the credit tranches or under the Extended Fund Facility (EFF) and the Compensatory Financing Facility (CFF). Members with a sufficiently strong external position are therefore expected to repurchase these resources in advance of the obligatory schedule, unless the Board approves a request for an extension of the expectations.

For purchases in the credit tranches and under the CFF, the expectation schedule is one year in advance of the obligation schedule, beginning 2¼ years after each purchase and ending after 4 years. For the EFF, the expectation schedule begins after 4½ years, as with the obligation schedule, but repurchases are doubled, such that the expectation schedule ends after 7 years rather than 10 years under the obligation schedule.

Members are expected to meet repurchase expectations unless the Board approves their request for an extension of the expectations. In order to grant such a request, the Board must find that the member is in an insufficiently strong external position to repay early without undue hardship or risk. The Board would consider the member's overall external position in arriving at a judgment.

Fund-supported programs continue to be guided by the requirement that the member should be able to meet repurchase obligations (rather than expectations), and the meeting of expectations is intended to signal that the member's external position is stronger than would have been dictated by this requirement. Moreover, since Fund-supported programs generally do not target adjustment sufficiently rapid for members to meet repurchase expectations, in most cases members will be considered to be in a position to meet repurchase expectations only if their external position is stronger than had been projected at the time of approval of the arrangement.

Failure to meet a repurchase expectation would result in the automatic suspension of the member's right to purchase, including under ongoing arrangements. In addition, the Managing Director would not recommend, and the Board would not approve, new arrangements or outright purchases for the member in these circumstances. However, the member would not be in arrears until and unless it failed to meet a repurchase obligation.

The following steps would be taken if a repurchase expectation were missed:

- the Managing Director would be informed immediately and staff action would intensify;
- the Managing Director would communicate with the member after two weeks;
- the Executive Board would be informed after one month; and
- the Executive Board would consider the matter after three months.

The operation of the policy on repurchase expectations is to be reviewed by end-2005.

The framework for repurchase expectations under the Supplemental Reserve Facility (SRF) and Contingent Credit Line (CCL) is separate but mirrors the general policy approved in November 2000 in all but one respect. Members are expected to repurchase SRF resources one year before they fall due (that is, after 1–1½ years), although the Board can extend these expectations up to the obligation period of 2–2½ years. If a member fails to repurchase as expected, its right to purchase and request for new arrangements would not be considered. Unlike the policy on repurchase expectations described above, however, the Board may convert an expectation under the SRF/CCL into an obligation that could be enforced by the full range of sanctions provided in the Articles of Agreement.

Box 6. Repurchase Expectations—Agreed Publication Measures

In approving the new policy on repurchase expectations in November 2000, the Executive Board also agreed on certain measures to publicize the status of members with respect to their repurchase expectations.

If repurchase expectations are extended, this information is to be made public in the form of a factual statement posted on the Fund's web site through the member's country page. The agreed language would generally take the following form:

With respect to the purchases [made under the arrangement for [member]] approved by the Fund on [date], [under the CFF] the Fund approved on [date] the member's request to amend the schedule of repurchase expectations. Accordingly, [member] will adhere instead to the schedule of repurchase obligations for all repurchase expectations arising from [date] to [date].

If repurchase expectations are met routinely, this fact is to be mentioned in summing up and, if they are published, Public Information Notices following Article IV consultation or post-program monitoring discussions, and by reporting on the member's country page on the Fund's web site. Although no specific language was considered at the time, the statement to be included on the web site would follow the model for the language agreed in the case of extended repurchase expectations:

[Member] is fully adhering to the schedule of repurchase expectations applying to the purchaser [made under the arrangement for [member]] approved by the Fund on [date] [under the CFF].

In both cases, these statements will be hyperlinked to a description of the policy on repurchase expectations (see Box 5). This presentational arrangement will ensure that the proposed clarifications highlight the positive aspects of meeting repurchase expectations and minimize the negative connotations for the member when these expectations are extended.

44. In light of earlier discussions and, in particular, Directors' concern over possible parallelism with procedures governing publication of arrears to the Fund and information on missed repurchase expectations, staff proposes the following procedures:

- **In the event that a member misses a repurchase expectation for three months, relevant data will be released on the country page** (Financial Position in the Fund) of the Fund's external website, together with a factual statement indicating the member's status with respect to repurchase expectations. A three-month period should provide sufficient opportunity for the member to resolve the matter through intensified contacts between the Fund and the member. However, **no press release will be issued with respect to repurchase expectations that have been missed.**
- **The Executive Board would give substantive consideration to the matter after no more than three months**, taking into account the specific circumstances of the

member.²² If the automatic suspension of further purchases is not lifted, the member would continue to be subject to the remedies approved by the Board in November 2000 (suspension of the right to further drawings under existing arrangements or consideration of a new arrangement (see Box 5)). Suspension of the member's drawing rights would be noted on the country page (Financial Position in the Fund) of the Fund's external website in a factual statement, parallel to that used for the approval of an extension:

“[Member] is not adhering to the schedule of repurchase expectations applying to the [credit tranche] [EFF] purchases [made under the arrangement for [member]] approved by the Fund on [date] [applying to the CFF purchases made on [date]]. In accordance with the Fund's policy on repurchase expectations, [member] is unable to draw on the Fund until it meets the missed repurchase expectation, or settles the associated repurchase obligation, or the Executive Board decides to lift the suspension.”

- This statement will be removed if the Executive Board lifts the automatic suspension of further purchases, or if the member meets the missed repurchase expectation or settles the associated repurchase obligation.

45. **Purchases under the Supplemental Reserve Facility (SRF) and Contingent Credit Line (CCL) are subject to a separate but broadly similar framework of repurchase expectations** (see Box 5). As the Board is now considering the establishment of a policy on publication of information on missed repurchase expectations in the credit tranches and under the EFF and CFF, the staff would propose that this policy be extended to the SRF and CCL. Accordingly, **published information on SRF and CCL repurchase expectations would include a factual statement** along the lines of the model texts agreed in Box 6 or proposed in the previous paragraph for repurchase expectations in the credit tranches and under the EFF and CFF. In the cases of the SRF and CCL, the statement would be hyperlinked to a description of the policy on SRF and CCL repurchase expectations. **It is proposed that no press release be issued with respect to missed SRF and CCL repurchase expectations.**

46. **Draft decisions** on the publication of information on overdue financial obligations and missed repurchase expectations in the credit tranches and under the EFF, CFF, SRF, and CCL are attached for Board approval. The decision on overdue financial obligations supersedes Decision No. 7931-(85/41), March 13, 1985 and Decision No. 7999-(85/90), June 5, 1985.

²² The views expressed by Executive Directors at the meeting will be summarized in a chairman's statement or concluding remarks, which will not be made public.

V. PROPOSED DECISIONS

47. The following decisions are proposed for adoption by the Executive Board:

- Decision No. 1 extends the rights approach through end-August 2002.
- Decision No. 2 establishes a timetable of procedures to address overdue financial obligations to the PRGF Trust.
- Decision No.3 makes conforming and technical changes to the existing procedures for dealing with overdue financial obligations, including in connection with the policy to publish information on overdue financial obligations.
- Decision No. 4. concerns the policy to publish information on missed repurchase expectations in the credit tranches and under the EFF, CFF, SRF, and CCL.
- Decision No. 5 updates a cross-reference in the PRGF Trust Instrument (see footnote 8 above), and abrogates earlier decisions on publication that have been superseded.

Decision No. 1

1. The Fund has reviewed progress under the strengthened cooperative strategy with respect to overdue obligations to the Fund as described in EBS/01/122 (7/23/01). The Fund reaffirms its support for the strengthened cooperative strategy and agrees to extend the availability of the rights approach until end-August 2002.

Decision No. 2

The Instrument to Establish the Poverty Reduction and Growth Facility annexed to Decision No. 8759-(87/176) ESAF shall be amended by adding the following Appendix:

“APPENDIX II

Procedures for Addressing Overdue Financial Obligations to the Poverty Reduction and Growth Facility Trust

The following procedures aim at preventing the emergence or accumulation of overdue financial obligations to the Poverty Reduction and Growth Facility Trust (the “Trust”) and at eliminating existing overdue obligations. These procedures will be implemented whenever a member has failed to make a repayment of principal or payment of interest to the Trust (“financial obligation”).

1. Whenever a member fails to settle a financial obligation on time, the staff will immediately send a cable urging the member to make the payment promptly; this communication will be followed up through the office of the Executive Director concerned. At this stage, the member’s access to the Fund, including PRGF and HIPC resources, will have been suspended.

2. When a financial obligation has been outstanding for two weeks, management will send a communication to the Governor for that member stressing the seriousness of the failure to meet obligations to the Trust and urging full and prompt settlement.

3. The Managing Director will notify the Executive Board normally one month after a financial obligation has become overdue, and will inform the Executive Board of the nature and level of the arrears and the steps being taken to secure payment.

4. When a member's longest overdue financial obligation has been outstanding for six weeks, the Managing Director will inform the member concerned that, unless all overdue obligations are settled, a report concerning the arrears to the Trust will be issued to the Executive Board within two weeks. The Managing Director will in each case recommend to the Executive Board whether a written communication should be sent to a selected set of Fund Governors, or to all Fund Governors. If it were considered that it should be sent to a selected set of Fund Governors, an informal meeting of Executive Directors will be held to consider the thrust of the communication. Alternatively, if it were considered that the communication should be sent to all Fund Governors, a formal Board meeting will be held to consider a draft text and the preferred timing.

5. A report by the Managing Director to the Executive Board will be issued two months after a financial obligation has become overdue, and will be given substantive consideration by the Executive Board one month later. The report will request that the Executive Board limit the member's use of PRGF Trust resources. A brief factual statement noting the existence and amount of arrears outstanding for more than three months will be posted on the member's country-specific page on the Fund's external website. This statement will also indicate that the member's access to the Fund,

including PRGF and HIPC resources, has been and will remain suspended for as long as such arrears remain outstanding. A press release will be issued following the Executive Board decision to limit the member's use of the PRGF Trust resources. A similar press release will be issued following a decision to lift such limitation. Periods between subsequent reviews of reports on the member's arrears by the Executive Board will normally not exceed six months. The Managing Director may recommend advancing the Executive Board's consideration of the reports regarding overdue obligations.

6. The Annual Report and the financial statements will identify those members with overdue obligations to the Trust outstanding for more than six months.

Removal from the list of PRGF- eligible countries

7. When a member's longest overdue financial obligation has been outstanding for six months, the Executive Board will review the situation of the member and may remove the member from the list of PRGF-eligible countries. Any reinstatement of the member on the list of PRGF-eligible countries will require a new decision of the Executive Board.

The Fund shall issue a press release upon the decision to remove a member from the list of PRGF-eligible countries. A similar press release shall be issued upon reinstatement of the member on the list. The information contained in such press

releases, where pertinent, shall be included in the Annual Report for the year concerned.

Declaration of noncooperation with the PRGF Trust

8. A declaration of noncooperation with the PRGF Trust may be issued by the Executive Board whenever a member's longest overdue financial obligation has been outstanding for twelve months. The decision as to whether to issue such a declaration would be based on an 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. Three related tests would be germane to this decision regarding (i) the member's performance in meeting its financial obligations to the Trust taking account of exogenous factors that may have affected the member's performance; (ii) whether the member had made payments to creditors other than the Fund while continuing to be in arrears to the Trust; and (iii) the preparedness of the member to adopt comprehensive adjustment policies. The Executive Board may at any time terminate the declaration of noncooperation in view of the member's progress in the implementation of adjustment policies and its cooperation with the Fund in the discharge of its financial obligations.

Upon a declaration of noncooperation, the Fund could also decide to suspend the provision of technical assistance. The Managing Director may also limit technical assistance provided to a member, if in his judgement that assistance was not

contributing adequately to the resolution of the problems associated with overdues to the Trust.

The Fund shall issue a press release upon the declaration of noncooperation and upon the termination of the declaration. The information contained in such press releases shall be included in the Annual Report(s) for the year(s) concerned.”

Decision No. 3

In the Procedures for Dealing with Members with Overdue Financial Obligations to the Fund adopted by the Executive Board on August 17, 1989,

(i) the title of the decision shall be amended to read: “Procedures for Dealing with Members with Overdue Financial Obligations to the General Department and the SDR Department”;

(ii) the following paragraphs shall be added between the paragraph beginning with the terms ‘- A complaint by the Managing Director...’ and the paragraph beginning with the terms ‘-The Annual Report and the financial statements...’:

“When a member has overdue financial obligations outstanding for more than three months, a brief factual statement noting the existence and amount of such arrears will be posted on the member’s country-specific page on the Fund’s external website. The statement will be updated as necessary. It will also indicate that the member’s access

to the Fund, including PRGF and HIPC resources, has been and will remain suspended for as long as arrears remain outstanding.

A press release will be issued following the Executive 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.” and

(iii) the following paragraph shall be added between the paragraph beginning with the terms ‘-A declaration of censure or noncooperation would come as an intermediate step...’ and the paragraph beginning with the terms ‘A draft of the declaration is set out...’:

“Upon a declaration of noncooperation, technical assistance to the member will be suspended unless the Executive Board decides otherwise.”

Decision No. 4

When a member has failed for three months to meet a repurchase expectation under paragraph 1(b) of Decision No. 5703-(78/39), paragraph 10(a) of Decision No. 4377-(74/114), or paragraphs 6(b) or 19 of Decision No. 11627-(97/123) SRF/CCL, a brief factual statement noting such failure and the resulting suspension of use of Fund resources will be posted on the member's country-specific page on the Fund's external website. This statement will be removed when the Executive Board lifts the

suspension, or if the member meets the missed repurchase expectation or settles the associated repurchase obligation.

Decision No. 5

1. References in Fund decisions to Decision No. 7842-(84/165) on the guidelines on corrective action in cases of misreporting and noncomplying purchases in the General Resources Account shall be understood to be references to Decision No. 12249-(00/77), July 27, 2000.

2. Decision No. 7931-(85/41), March 13, 1985 and Decision No. 7999-(85/90), June 5, 1985 are hereby abrogated.

Table 4. Overdue Financial Obligations to the Fund by Duration, 1981-2001 1/

(In millions of SDRs; end of period)

	Total		Duration						
	No. of Countries	Amount	0-1 month	1-3 months	3-6 months	6 months-1 year	1-2 years	2-3 years	3 years or more
1981	20	34.4	6.3	5.0	0.2	0.4	0.8	0.7	21.0
1982	16	29.3	5.3	0.2	0.2	0.4	0.7	0.8	21.8
1983	14	60.3	18.0	5.4	7.2	5.8	0.8	0.7	22.5
1984	24	178.2	28.8	43.3	51.7	21.0	9.4	0.8	23.3
1985	25	621.2	66.6	136.9	152.2	146.9	88.8	5.8	24.0
1986	21	1,035.6	85.0	135.2	204.3	253.9	239.4	88.0	29.8
1987	26	1,752.4	79.4	157.3	182.9	361.5	616.0	239.2	116.1
1988	17	2,611.9	65.0	171.2	230.0	422.4	754.8	615.0	353.5
1989	14	3,099.4	29.8	100.5	171.9	338.0	758.6	737.0	963.5
1990	15	3,420.8	24.5	104.3	107.4	230.9	597.4	737.6	1,618.7
1991	13	3,624.5	7.4	62.0	97.3	190.1	335.4	591.1	2,341.0
1992	20	3,595.6	23.2	29.7	54.8	95.6	347.5	312.6	2,732.2
1993	12	2,970.0	9.8	36.9	41.7	117.4	185.0	338.3	2,241.0
1994	11	2,975.2	13.5	32.6	26.5	67.1	184.9	173.9	2,476.7
1995	8	2,179.2	10.0	21.6	14.2	50.0	129.5	174.5	1,779.3
1996	10	2,212.1	10.8	23.6	15.5	40.9	94.9	129.4	1,896.9
1997	11	2,263.0	13.3	16.1	15.7	48.5	89.6	94.9	1,984.9
1998	11	2,296.7	10.8	14.8	16.1	39.9	88.7	89.6	2,036.8
1999 2/	8	2,319.4	0.6	13.3	12.9	35.2	80.1	88.6	2,088.8
2000	9	2,242.6	0.3	16.2	15.3	28.0	57.1	74.4	2,051.2
2001									
Apr.	7	2,259.5	0.0	33.9	16.4	30.1	58.0	71.9	2,049.2

Source: Treasurer's Department.

1/ Overdue financial obligations include repurchases, charges, and assessments in the General Resources Account; net SDR charges; repayments and interest on Trust Fund, SAF, and PRGF loans, and special charges.

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

Table 5. Overdue Financial Obligations to the Fund by Type, 1981-2001

(In millions of SDRs; end of period)

	Number of Countries	Repurchases	GRA Charges 1/	Net SDR Charges	Trust Fund		SAF/PRGF 3/		Total 4/
					Repayments	Interest 2/	Repayments	Interest	
1981	20	24.1	9.3	--	--	0.9	--	--	34.4
1982	16	22.5	5.3	--	--	1.5	--	--	29.3
1983	14	50.4	9.5	0.4	--	--	--	--	60.3
1984	24	124.2	36.6	7.7	8.1	1.4	--	--	178.2
1985	25	429.8	134.6	15.4	38.7	2.7	--	--	621.2
1986	21	752.8	204.9	14.7	59.7	3.4	--	--	1,035.6
1987	26	1,268.9	351.5	23.0	102.2	6.5	--	0.2	1,752.4
1988	17	1,854.0	561.8	35.7	150.2	10.0	--	0.1	2,611.9
1989	14	2,073.7	801.7	44.0	164.8	14.9	--	0.2	3,099.4
1990	15	2,208.8	986.6	44.7	160.8	19.5	--	0.2	3,420.8
1991	13	2,270.0	1,131.0	39.4	157.7	25.4	--	0.8	3,624.5
1992	20	2,175.8	1,173.8	46.8	157.7	30.1	9.1	2.1	3,595.6
1993	12	1,713.8	1,037.2	47.6	114.6	26.5	27.1	3.0	2,970.0
1994	11	1,691.2	1,062.9	43.6	104.8	25.1	44.8	2.6	2,975.2
1995	8	1,111.1	820.2	51.2	95.1	24.8	73.5	3.0	2,179.2
1996	10	1,067.2	856.0	61.8	95.1	25.4	101.9	4.4	2,212.1
1997	11	1,046.6	893.7	74.9	89.9	25.8	126.6	5.1	2,263.0
1998	11	1,002.2	940.5	88.8	89.5	26.3	143.0	6.1	2,296.7
1999 5/	8	972.5	971.1	101.5	89.1	26.7	151.8	6.4	2,319.4
2000	9	875.5	998.0	94.1	88.8	27.1	151.7	6.8	2,242.6
2001									
Apr.	7	864.7	1,010.0	97.8	88.8	27.1	163.9	6.8	2,259.5

Source: Treasurer's Department.

1/ Includes quarterly charges, semiannual charges, stand-by charges on arrangements, and special charges on overdue GRA obligations (equivalent to SDR 127.8 million as of April 30, 2001).

2/ Includes special charges on overdue Trust Fund obligations (equivalent to SDR 19.7 million as of April 30, 2001).

3/ Includes additional interest on overdue SAF/PRGF obligations (equivalent to SDR 0.1 million as of April 30, 2001).

4/ Includes SDR member assessments not identified separately.

5/ See footnote 2, Table 1.

Table 6. Number of Members Incurring Late Payments to the Fund, 1991-2001

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 1/
Number of members with obligations falling due during the period 2/	146	147	157	159	163	163	163	163	163	164	164
Number of members with late payments during the period 3/	45	46	40	36	32	27	32	29	38	27	26
<i>Of which</i>											
Protracted cases 4/	9	11	11	11	8	6	7	7	7	7	6
Number of members with late payments as a percent of number of members with obligations falling due during the period	30.8	31.3	25.5	22.6	19.6	16.6	19.6	17.8	23.3	16.5	15.9

Source: Treasurer's Department.

1/ Twelve months to April 30, 2001.

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.

Table 7. Countries with Protracted Overdue Financial Obligations to the Fund 1/

(As of April 30, 2001)

	Total Indebtedness 2/		Of which: Overdue (SDR millions)		
	(SDR millions)	(% of quota)	Principal	Interest 3/	Total
Afghanistan, Islamic State of	6.3	5.2	--	6.3	6.3
Congo, Dem. Rep. of 4/ 5/ 6/	391.8	134.6	300.0	91.8	391.8
Iraq	45.9	9.1	--	45.9	45.9
Liberia 4/ 5/	484.8	679.9	224.2	260.6	484.8
Somalia 4/	209.6	474.3	112.0	97.6	209.6
Sudan 4/ 7/	1,103.2	650.1	463.2	640.0	1,103.2
Total	2,241.6		1,099.4	1,142.2	2,241.6

Source: Treasurer's 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).

3/ Overdue interest obligations by Afghanistan and Iraq include only net SDR charges and SDR assessments.

4/ The member has been declared ineligible.

5/ A declaration of noncooperation has been issued with respect to the member.

6/ The voting and related rights of the member have been suspended.

7/ The member's voting rights were restored effective from August 1, 2000. A complaint with respect to the suspension of voting rights remains outstanding as the member is still in arrears to the Fund.

Recent Developments in the Major Protracted Arrears Cases

Sudan

1. Sudan has been in continuous arrears to the Fund since 1984, and by end-April 2001, its arrears to the Fund amounted to SDR 1,103 million (650 percent of quota),²³ by far the largest arrears case to the Fund. Among the protracted arrears cases, Sudan has made the most progress in strengthening cooperation with the Fund. Since 1997, in the context of SMPs, Sudan has improved its track record of policy implementation and made regular monthly payments to the Fund, contributing to a decline in its arrears to the Fund. In view of these efforts, the Executive Board decided in August 1999 to remove the declaration of noncooperation and, in August 2000, to lift the suspension of Sudan's voting and related rights in the Fund.

2. Under the traditional approach, Sudan's arrears to the Fund could be cleared under the rights approach. A RAP would expect: (i) some strengthening of macroeconomic policies and structural measures; (ii) adequate financing assurances; and (iii) continued payments to reduce arrears to the Fund in line with Sudan's balance of payments capacity. Although Sudan has improved its track record of performance in recent years, there remains a lack of sufficient support from key official creditors. For the Executive Board to approve a RAP, there needs to be reasonable prospects that Sudan's major external creditors would be willing to provide necessary financing of the program and for the successor Fund arrangement to encash the rights.

3. Given the magnitude of its arrears and external debt, Sudan will require substantial new resources. First, Sudan will need to obtain a bridge loan of about SDR 1.1 billion to clear its arrears to the Fund before the Fund can commit financial assistance. Second, the Fund will need to mobilize grant resources of up to SDR 0.8 billion to finance the subsidy requirement associated with the successor Fund arrangement and assistance under the HIPC Initiative. Third, loan resources of about SDR 1.1 billion to finance the principal of the successor arrangement will need to be secured, if such resources were to be provided from the PRGF. None of these resources have been provided for in the financing arrangements under the PRGF-HIPC Trust. Thus, securing these additional resources necessary to help Sudan achieve external viability will require a comprehensive effort by the international community. In this regard, as demonstrated by earlier experiences, efforts by Sudan's key bilateral creditors in the form of a "support group" will be particularly useful in helping mobilize the needed support.²⁴

²³ References to quota refer to quotas under the Eighth General Review of Quotas.

²⁴ For a fuller discussion of the strategy to address Sudan's arrears and debt problems, see "Sudan—Third Review of the Second Annual Program Under the Medium-Term Staff-

(continued)

4. During the most recent visit of April 2001, staff found some slippages in policy implementation under the 2001 SMP, particularly a significant shortfall in government revenue. Together with a decline in non-oil exports (largely due to exogenous factors), this contributed to a sharp reduction in already limited official reserves. In response, the authorities took measures to curtail and delay expenditures, including suspension of debt service payments to the World Bank and other creditors, while payments to the Fund have been made as committed. The authorities indicated that the illustrative timetable discussed in the roadmap paper (EBS/01/5, Supplement 1, 2/9/01) was too long, in view of Sudan's track record of policy performance and payments to the Fund, and that an early resolution of Sudan's debt problem would be crucial for the success of its adjustment and reform efforts.

Liberia

5. Liberia has been in continuous arrears to the Fund since December 1984, and its arrears to the Fund amounted to SDR 485 million (680 percent of quota) at end-April 2001. In 1998-2000, Liberia implemented a SMP with a mixed policy performance and minimum payments (US\$50,000 per month) to the Fund. As these payments were small, Liberia's arrears to the Fund have risen steadily. Since March 2001, no payment has been received from Liberia.

6. In recent months, Liberia's relations with donors and the international community have deteriorated sharply over mounting evidence of Liberia's role in support of the Revolutionary United Front (RUF) rebels of Sierra Leone. On March 7, 2001, the United Nations (UN) Security Council imposed an embargo on Liberia's trade in weapons and diamonds with the threat of further economic sanctions in two months unless Liberia severs ties with the RUF rebels. On May 7, 2001, the UN imposed further sanctions that included a travel ban on senior officials and diplomats and the grounding of Liberian-registered aircraft. With the deterioration of the security situation, on April 18, 2001, the UN Security Coordinator advised all agencies that all missions to Liberia scheduled to take place during the first two weeks of May 2001 should be postponed until further notice, which was subsequently lifted on May 20. In light of these developments, Fund management decided to suspend all visits to Liberia by Fund staff until mid-summer 2001 to allow for an evaluation of the UN mandated sanctions and the security situation.

7. Looking forward, Liberia urgently needs to improve relations with the international community and the domestic security situation. It also needs to establish a sustained and credible track record of policy performance and payments to the Fund, as committed. Progress in these areas will help build support from the international community for Liberia's economic recovery and reconstruction efforts and contribute to a lasting solution to its debt problem, including its arrears to the Fund. Like Sudan, new, additional resources will be needed to resolve Liberia's arrears and debt problems. If policy and payments are sustained,

Monitored Program—Supplementary Information—An Illustrative Road Map to External Sustainability” (EBS/01/5, Supplement 1, 2/9/01).

and Liberia opts to use the rights approach, a bridge loan of about SDR 0.5 billion will be needed to clear its arrears to the Fund before a new loan of the same magnitude under the successor Fund arrangement can be provided. Interest subsidies, amounting to an estimated SDR 0.4 billion, will be required to support successor lending and eventual HIPC assistance.

Democratic Republic of the Congo

8. The Democratic Republic of the Congo has been in continuous arrears to the Fund since November 1990, and its arrears to the Fund amounted to SDR 392 million (135 percent of quota) at end-April 2001. Since mid-1998, the Fund has not been in a position to assess the member's cooperation with the Fund owing to the breakout of the war. In recent months, the political and security situation in the Democratic Republic of the Congo has improved steadily. A new government was appointed on April 14, 2001, and discussions are being held on the security situation and ways to further advance democracy and development.

9. Following a staff visit in February-March 2001, a mission visited Kinshasa during May 2-16 to conduct discussions for the 2001 Article IV consultation and negotiate a SMP. The SMP, covering the period June 2001-March 2002, consists of a critical mass of bold and frontloaded adjustment measures aiming at breaking hyperinflation, stabilizing economic situation, and laying the foundation for reconstruction and the restoration of growth. The authorities also agreed to deposit the equivalent of SDR 100,000 monthly to an account with the Bank for International Settlements, which will be used for the clearance of arrears to the Fund.

10. The Democratic Republic of the Congo is not eligible for the rights approach because it did not have protracted arrears to the Fund at end-1989. Its arrears to the Fund are much smaller in relation to quota than the arrears of Sudan and Liberia. An arrears clearance operation could be undertaken when the member establishes a track record of sustained policy performance and payments to the Fund and when a bridge loan needed for clearing arrears to the Fund is secured. The settlement of arrears could be followed by a PRGF arrangement providing sufficient resources to cover the bridge loan plus new additional credit to support the member's adjustment efforts. For the Democratic Republic of the Congo, no new resources are needed to clear its arrears to the Fund and resolve its debt problem, since such resources are already provided for in the PRGF-HIPC Trust.

Somalia

11. Somalia has been in continuous arrears to the Fund since July 1987, following intermittent periods of arrears beginning in 1983. As of end-April 2001, Somalia's arrears to the Fund amounted to SDR 210 million (equivalent to 474 percent of quota). The review of Somalia's overdue financial obligations to the Fund has been postponed on a number of occasions due to the lack of a central government and official information on economic policies and developments. Since December 1990, the Fund has not received payments from Somalia.

12. In July 2000, a Transitional Government was formed under the so-called “Djibouti Reconciliation Initiative”, which provided for a Transitional National Charter and a three-year transitional government. On several occasions, regional leaders in Somalia requested Fund’s technical assistance. On January 16, 2001, a delegation led by officials of the Transitional Government visited the Fund to explore the prospects for Somalia’s recognition by the Fund. During May 13-14, 2001, a joint World Bank/Fund mission visited Nairobi to update information on recent developments. On these occasions, the staff indicated that the Fund has not made a decision to deal with the Transitional Government as the government of Somalia, and that such a decision by the Fund would depend, inter alia, on the extent to which the Transitional Government exercises effective control over the territory and affairs of Somalia and has been recognized by the international community as the government of Somalia. Until then, neither the Fund nor the World Bank can provide technical assistance to the Transitional Government.

13. Despite recent progress, the security situation in Somalia remains unsettled and the economic infrastructure very weak. Strengthening cooperation with the Fund and gaining support from the international community will require the restoration of peace and the establishment of a functioning government. New resources will eventually be required to clear Somalia’s arrears and debt problems.

Overdue Financial Obligations to the Fund Legal Sanctions or Remedies

A number of actions can be taken by the Fund in cases of overdue financial obligations. The main legal sanctions or remedies are the following:

I. OVERDUE FINANCIAL OBLIGATIONS TO THE FUND IN THE GENERAL DEPARTMENT

1. When a member fails to fulfill any of its financial obligations to the Fund in the General Department, and thus is in arrears to the Fund in the General Resources Account (including the nondischarge of a repurchase obligation or the nonpayment of charges) or in the Special Disbursement Account nonrepayment of the principal of a loan or nonpayment of interest), the Fund may declare the member ineligible to use the general resources of the Fund including reserve tranche purchases (Article XXVI, Section 2(a)), or limit the use by the member of the general resources of the Fund (Rule K-2).²⁵ Following a declaration of ineligibility, if, after the expiration of a reasonable period, the member persists in its failure to fulfill any of its obligations under the Articles, the Fund may, by a 70 percent majority of the total voting power suspend the voting rights of the member (Articles XXVI, Section 2(b)). During the period of suspension, the provisions of Schedule L shall apply. If the member persists in its failure to fulfill any of its obligations after the expiration of a reasonable time after such a decision of suspension of its voting rights, it may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the Governors having 85 percent of the total voting power (Article XXVI, Section 2(c)).

2. The Fund has also adopted policies on the use of its general resources (other than reserve tranche purchases).²⁶ It has been decided not to discuss or approve either a stand-by or extended arrangement, or the use of the Fund's general resources outside an arrangement, for a member in arrears to the Fund. Moreover, pursuant to specific provisions in all stand-by and extended arrangements, disbursements under such arrangements are suspended if and while the member is in arrears to the Fund (see also Rule G-4 (e)).

3. Under the Trust Instrument for the Poverty Reduction and Growth Facility (Section II, paragraph 1(e)), the Fund shall not approve a request for a PRGF arrangement whenever the member has an overdue financial obligation to the Fund in the General Resources Account, the Special Disbursement Account, or the SDR Department, or to the

²⁵ A declaration of ineligibility does not suspend a participant's right to use special drawing rights (Article XXIII, Section 2(f)).

²⁶ These policies have not been applied to the nondischarge of a maintenance of value obligation under Article V, Section 11 (Chairman's Summing Up, EBM/88/19, February 10, 1988)

Fund as Trustee, or while the member is failing to meet a repurchase expectation to the Fund or to meet a repayment expectation to the Fund as Trustee. Disbursements to a member under the Facility shall be suspended while the member has an overdue financial obligation to the Fund or to the Fund as Trustee.

II. OVERDUE FINANCIAL OBLIGATIONS TO THE FUND IN THE SDR DEPARTMENT

1. Failure to fulfill an obligation to pay charges to the Fund in the SDR Department in accordance with Article XX, Sections 2 and 5 is a breach of obligation with respect to special drawing rights,²⁷ and the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension (Article XXIII, Section 2(b)). However, the participant may not be declared ineligible to use the general resources of the Fund, have its voting rights suspended, or be required to withdraw from the Fund (Article XXIII, Section 2(f)).
2. The policies on arrears to the Fund apply also to overdue charges to the Fund in the SDR Department.²⁸ Therefore, a participant in arrears has no access to the general resources of the Fund (see above I.2).
3. If a member has an overdue financial obligation to the Fund in the SDR Department, the same rule applies to approval of a new PRGF arrangement or disbursements under the PRGF Trust (see above I.3).
4. Because of the separation of assets and liabilities between the General Department and the SDR Department, any assets or property held in one Department shall not be available to discharge or meet the liabilities, obligations or losses of the Fund incurred in the conduct of the operations and transactions of the Departments, as specified in Article XVI, Section 2.

III. OVERDUE OBLIGATIONS TO THE FUND AS TRUSTEE

1. The Fund, whether acting in the General Department or the SDR Department or as Trustee, is the same legal entity. Therefore, the policies on arrears to the Fund apply also to arrears to the Fund as Trustee; access to the general resources of the Fund is suspended (see above I.2).

²⁷ Such obligation results from Rule T-1(a), which requires that the accounts of participants in the SDR Department be debited with the excess of charges over interests due.

²⁸ Assessments under Article XX, Section 4 are liabilities to the Fund in the General Department (XVI, Section 2), but nonpayment of an assessment is a breach of obligation with respect to special drawing rights. Under Rule T-2, the accounts of participants in the SDR Department are debited with the amounts of assessments.

2. If a member has an overdue financial obligation to the Fund in the SDR Department, the same rule applies to approval of a new PRGF arrangement or disbursements under the PRGF Trust (see above I.3).
3. Because of the separation of assets and liabilities of the Fund in the General Department (or the SDR Department) and of the Fund as Trustee, no set off is possible between claims and liabilities pertaining to those different activities of the Fund.
4. Obligations to the Fund as Trustee are not obligations under the Fund's Articles. A breach of such obligations, including nonpayment of financial obligations, cannot give rise to a formal declaration of ineligibility to use the general resources of the Fund, a suspension of the member's voting and related rights in the Fund, and a recommendation for compulsory withdrawal from the Fund.

Measures for Prevention/Deterrence of Overdue Financial Obligations to the Fund—Strengthened Timetable of Procedures

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	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.

Measures for Prevention/Deterrence of Overdue Financial Obligations to the Fund—Strengthened Timetable of Procedures

Time after Emergence of Arrears	Action
6-12 months	The Executive Board will review its decision on limitation within three months, with the possibility of a second review if warranted. 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 15 months	A declaration of noncooperation will be considered within three months after the dispatch of the communications.
Up to 18 months	A decision on suspension of voting and representation rights will be considered within three months after the declaration of noncooperation.
Up to 24 months	The procedure on compulsory withdrawals will be initiated within six months after the decision on suspension.
