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Paris Club - 94-03 (July 18-20, 1994 meeting)

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PARIS CLUB

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: July 26, 1994

TO: Mr. Masood Ahmed, Director, IEC

FROM: R.P. Brigish, Adviser, IEC

EXTENSION: 33868

SUBJECT: Paris Club Meeting--July 18-20, 1994: Back-to-Office Report

Introduction

1. Rescheduling negotiations were held with the Philippines and Sierra Leone. The tour d' horizon covered: Argentina, Brazil, Egypt, Guatemala, Kenya, Nicaragua, Russia, Togo, Uganda, and Venezuela. Syria was added to the agenda during the meeting. (Country notes summarizing the discussions on these countries are attached.) In addition, a special session was convened by the Chairman to brief delegates on the decision to include SILIC debt in the communiqué following the G-7 summit in Naples. The results of the discussion and proposed follow-up action on SILIC debt are summarized in paragraphs 6-8 below.

The Philippines

2. The issuance by the Paris Club of an invitation to the government to negotiate a rescheduling had been preceded by considerable discussion among creditors of the appropriateness of a further rescheduling for the country. Some creditors felt that the Philippine's balance of payments prospects were sufficiently sound to permit the country to graduate from the rescheduling process, while others thought that graduation should be postponed for a while. The compromise reached (prior to the issuance of the invitation to negotiate) was for a rescheduling containing a consolidation period of only eighteen months, substantially shorter than the EFF program.

3. The government request was moderated to a rescheduling of about one-sixth of maturing obligations. Creditors appeared favorably influenced by this moderation, by the debt service record of the Philippines and by the government's intention to make this an exit rescheduling. Houston terms were accorded after a smooth negotiation.

Sierra Leone

4. Delegations were appreciative of the government's adjustment efforts under very difficult circumstances. Delegate questions centered on the security situation. The only issue arising during the negotiations was whether to defer payments due under previous agreements that had been on Enhanced Toronto terms. The decision was to limit these deferrals to agreements made on Toronto terms.

5. Sierra Leone was accorded a comprehensive rescheduling on Enhanced Toronto terms.

The table below summarizes Paris Club agreements finalized so far in 1994:

Paris Club Rescheduling Agreements 1994
US$ millions

Country	Date	Amount	Cut-off-date	Consolidation period through	Terms
Kenya	19-Jan-94	535	31-Dec-91	arrears end-'93(2)	Standard (1)
Senegal	3-Mar-94	237	1-Jan-83	31-Dec-95	Enhanced Toronto
Niger	4-Mar-94	160	1-Jul-83	31-Mar-95	Enhanced Toronto
Cote d'Ivoire	22-Mar-94	1,849	1-Jul-83	31-Mar-97	Enhanced Toronto
Cameroon	24-Mar-94	1,259(*)	31-Dec-88	3 -Sept-95	Enhanced Toronto(3)
CAR	12 Apr 94	33	1-Jan-83	31-Mar-95	Enhanced Toronto
Bulgaria	13-Apr-94	200	1-Jan-91	30-Apr-95	Standard
Gabon	15-Apr-94	1,360	1-Jul-86	31 -Mar-95	Standard (modified)
Algeria	31-May-94	5,000	30-Sept-93	31-May-95	Standard (modified) (1)
Russia	4-June-94	7,100	1-Jan-91	31-Dec-94	Standard (modified) (1)
Ecuador	27-June-94	300	1-Jan-83	31-Dec-94	Houston (2)
Jordan	28-June-94	1,200	1-Jan-89	31-May-97	Houston (1)
Congo	30-June-94	1,000 (4)	1-Jan-86	31-May-95	Houston
Philippines	19-Jul-94	586	1-Apr-84	31-Dec-95	Houston (2)
Sierra Leone	20-Jul-94	42	1-Jul-83	31-Dec-95	Enhanced Toronto

(1) With graduated payments
(2) Exit agreement
(3) on current maturities only. Houston terms on arrears
(4) of which about 10% was deferred
(*) of which about 2/3 were arrears.

SILIC DEBT

6. The Chairman (French Treasury Director Noyer) opened the meeting by noting the positive development in having had the heads of state address the debt issue in Naples and come to so positive a conclusion on the need to pursue debt stock reduction. He said that there was a recognition that the G-7 is not the Paris Club, and that a consensus would have to be developed in the latter forum for the Naples principles to be turned into action. He also noted the new wording for the case by case

approach, namely "where appropriate" and "for those countries facing special circumstances." Stressing the need to find a formula which did not permit an excessive differentiation in the levels of debt reduction to be accorded, he listed five issues which creditor delegations would have to address, namely: i) the level of concessionality; ii) stock treatment versus current maturities (or both in parallel); iii) the abolition or maintenance of the non-concessional option; iv) the (routine) inclusion of previously rescheduled debt; and v) country eligibility (the inclusion of some former SILMICS). He also acknowledged that if the objective of stock reduction was to create a "clean slate" for export credit agencies, flexibility might be required on the cut-off date.

7. During the tour de table that followed, fewer delegations intervened than in April when SILIC debt was last discussed. The session revealed a continued diversity in views, not so much on the underlying principle of moving to the treatment of debt stock, than on the specific menu items that would be needed to implement stock reduction in particular cases. Views are summarized hereunder:

Creditor	Level of Debt Reduction	Cut-off Date	Non-concessional Option	Previously Rescheduled Debt
Austria	66% maximum	-	-	-
Belgium	50%, or more	-	-	-
Canada	50%, higher or lower	Skeptical	Maintain[1]	Yes
Germany[2]	-	-	-	-
Japan[3]	-	-	-	-
Netherlands	50%, higher or lower	Skeptical	Maintain[1]	Yes
UK	50%, 66%, 80%	Favorable	Eliminate	Yes
US	66% maximum	-	Maintain	-

Private conversations with some delegates revealed continuing concerns about inadequate budget cover for stock reduction and about the trade off with new commitments as reasons for their hesitation in moving forward on stock reduction.

8. The Chairman concluded by noting the need for early action in the Paris Club in light of the high expectations prevailing in the developing world. He suggested that the next Paris Club meeting, scheduled for the week of September 19, 1994, devote as much time as would be needed to arrive at a consensus, even if this

[1] Although cautious about the compatibility of its maintenance with higher levels of debt relief.
[2] Only indication was a preference for phasing reductions in debt stock.
[3] Although pressed to speak, indication was that position could not be indicated before September.

meant postponement of rescheduling negotiations for Uganda and Bolivia, two of the countries whose goodwill clauses[4] are due to be invoked before the end of the calendar year.

Next Meeting

9. The following countries were mentioned as candidates for rescheduling in the fall, after a further methodology session on SILIC debt: Togo, Croatia, Cambodia, Macedonia, Bolivia, Uganda and Nicaragua.

Attachment

Distribution

Messrs/Mmes (memo only): Karaosmanoglu, Sandstrom, Stern, Bruno, Jaycox, Kaji, Koch-Weser, Thalwitz, J. Wood, Linn, Burki, Kashiwaya, S. Edwards, I. Husain, V. Thomas, Nankarni, Page, Selowsky, Gelb, Donovan, Nishimizu, Lav, Pfeffermann, Shakow, Johannes, Jun, Wyss, Handwerger, Institutional ISC.

Messrs/Mmes:

Baird, Bhattacharya, Reyes

Guerard, Katz, Rosenberg (African Countries)

Lafourcade, Derbez, AF1

Colaco, Carter, AF2

Salop, AF4

Madavo, Ikram, EA1

Cheetham, Huang, EC3

Steckhan, Meo, LA1

Segura, Lacey, LA2

Abe, de Tray, LA3

Loh, Dowsett-Coirolo, LA4

Chopra, Voyadzis, MN2

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4 Creditor agreements in principle to consider debt stock reduction if beneficiaries of Enhanced Toronto terms continued to be in good standing with the Paris Club and the IMF for a period of three years or so.

Paris Club Meeting on the Philippines

July 18-19, 1994

Statement by the IMF Representative

On June 24, 1994, the Executive Board of the IMF approved the request of the Philippine authorities for a three-year arrangement under the extended Fund facility. The arrangement, in the amount of SDR 474.5 million, is in support of the authorities' medium-term policy strategy aimed at establishing conditions conducive to rapid sustainable growth.

Mr. Chairman, you may recall that the Philippines was struck by the debt crisis in 1983. That episode marked the beginning for the country of a decade of low growth--a situation that contrasted sharply with the performance of its neighbors. On the positive side, the past ten years have also witnessed considerable achievements in macroeconomic adjustment, and structural reforms. The latter included liberalization of trade and investment, privatization of public enterprises, rehabilitation of the banking sector, restructuring and strengthening of the Central Bank, removal of exchange controls, and deregulation of key prices, including the exchange rate and interest rates. As a result, the economy is now more open and competitive, and fundamentally stronger. In particular, the reform efforts have succeeded in strengthening the country's external position. Export growth has been rapid, raising the export/GNP ratio from 22 percent in 1983 to 34 percent in 1993. Over the same period, the debt service ratio (before rescheduling) has declined from 36 percent to 24 percent. And, following the completion in December 1992 of a comprehensive $4.5 billion bank debt operation, the Philippines has begun to reestablish access to international capital markets.

However, output growth has been sluggish and uneven, reflecting the persistence of a number of constraints. Domestic savings have remained low, averaging less than 20 percent of GNP over the past decade, compared with more than 30 percent in other ASEAN members. The progress in structural reforms notwithstanding, some economic distortions remain, including restrictions on the importation of certain agricultural products and motor vehicles, and heavy regulation of energy prices. The most critical impediment to growth, however, has been the poor state of the public finances. Interest payments on National Government debt absorb about one third of revenue collections, while another third is spent on wages. Consequently, spending on infrastructure and human resource development has been kept well below what was necessary to meet the country's needs. The large public sector deficit, together with the inability, until recently, of the Central Bank to conduct effective monetary policy, has kept real domestic interest rates at high levels, which has discouraged private sector investment.

To address the remaining impediments to growth and consolidate the structural reform efforts, the authorities have recently adopted a medium-term program that has three main objectives: to lift the Philippines' growth rate toward that of its ASEAN neighbors, to reduce inflation to the ASEAN norm, and to achieve balance of payments viability. The adjustment strategy is predicated on progress in four key areas. First, fiscal consolidation, the core of the program. The aim is to reduce the consolidated public sector deficit (CPSD) from 2.7 percent of GNP in 1993 to 1/2 percent in 1997. Revenue will be mobilized through a broadening of the tax base--through an expansion of the VAT coverage, income tax reform, and elimination of tax exemptions. Expenditure will also be rationalized by devolving responsibilities to local government units and streamlining the civil service. Actions will also be taken to restore the financial viability of public corporations, notably the National Power Corporation (NPC). Second, financial sector reform. The restructuring of the Central Bank in 1993 has been complemented by the approval in May 1994 of a law liberalizing the entry of foreign banks. These measures should enhance competitiveness in this vital sector, stimulate private savings, and facilitate financial intermediation. Third, the program aims at maintaining macroeconomic stability. Financial discipline will be maintained through a coordinated reduction of the fiscal deficit and the rate of monetary expansion. Finally, economic liberalization. In this regard, particular emphasis will be placed on import restrictions and tariff reduction, starting with the removal of all quantitative restrictions on agricultural products (except rice) following the ratification of the WTO Agreement later this year.

For 1994, the program targets are: to achieve a growth rate in the range of 3 1/2-4 1/2 percent; to reduce inflation to 8 1/2 percent by year-end; and to limit the current account deficit to 4 3/4 percent of GNP, while rebuilding gross reserves (net of short-term liabilities) to three months of imports. To achieve this, the CPSD is programmed to decline to 2.2 percent of GNP, despite an increase in transfers to local government units and public wage increases, and monetary policy is programmed to be tightened so as to limit broad money growth to about 13 percent. Ceilings have been imposed on both long- and short-term public external borrowing to ensure sustainable and prudent debt management policy.

Data for the first few months of 1994 indicate that developments are broadly as envisaged in the program. First quarter growth, at 4.8 percent, is stronger than expected, while inflation and the external position appear to be on track. Fiscal performance has been satisfactory, with the public sector borrowing requirement standing well below the program target. However, the temporary injunction by the Supreme Court against the extension of the value-added tax (VAT) is a cause for concern. The President has stated publicly his commitment to the new VAT measure and the authorities are making every effort to secure a favorable ruling by the Supreme Court as soon as possible. In the meantime, they have mounted an extensive campaign to foster public support for the tax reform, and have reiterated their commitment to take whatever measures are necessary to ensure that the program remains on track.

* * *

Balance of payments viability is one of the primary goals of the program. The dependence on foreign savings is expected to subside as domestic demand is contained by prudent financial policies, while, at the same time, domestic production capacity is enhanced by higher investment, privatization, and structural reform. Notwithstanding the uncertainties associated with private capital flows, steady improvement in the external position over the course of the program is expected, resulting in the elimination of financing gaps by 1996.

As stated earlier, the current account deficit is projected to decline from 5.9 percent of GNP in 1993 to 2 1/2 percent of GNP in 1997, owing to improvements in both trade and services balances. The capital account surplus is also projected to increase substantially in 1994 and remain stable during the balance of the program period. Eurobond borrowing is expected to be limited to $1 billion in 1994, $300 million in 1995, with further reductions during 1996 and 1997. At the same time, private investment inflows are expected to rise substantially, reflecting increased investor confidence in the policy stance and the prospects for sustained growth.

Following the strengthening of the external position, gross official reserves (net of short-term liabilities) are expected to recover in 1994, after declining to 2.4 months of imports in 1993, and remain at three months of imports over the medium-term. This programmed amount of reserve coverage is considered a minimum level as the recent opening of the capital account leaves the Philippines vulnerable to sudden shifts in market conditions and the possible reversal of short-term capital inflows. The projected current account position is also subject to an uncertain external environment, including the level of world energy prices. For these reasons, the authorities would have preferred a stronger reserve position. They therefore intend that any additional balance of payments financing, including from the Consultative Group, will be used to augment reserves.

Based on the current estimates of capital flows, a residual financing gap of around US$200 million remains for 1994, and US$300 million for 1995. No further financing gaps are projected. To fill these gaps, the authorities are asking for limited coverage of non-previously rescheduled debt for a duration of one and one-half years.

In conclusion, let me stress, Mr. Chairman, that the authorities are making determined efforts to open the economy and promote private sector growth. We believe that their efforts merit creditor support.

REMARKS
PARIS CLUB MEETING ON
THE PHILIPPINES
19 July 1994
by
HON. ROBERTO F. DE OCAMPO
Secretary of Finance

ON BEHALF OF CENTRAL BANK GOVERNOR SINGSON AND THE REST OF OUR DELEGATION, THANK YOU, MR. CHAIRMAN, FOR YOUR INTRODUCTION AND FOR THE WORK THAT YOU AND YOUR COLLEAGUES IN THE SECRETARIAT HAVE DONE TO MAKE THIS MEETING POSSIBLE. WE ALSO WISH TO THANK THE REPRESENTATIVES OF THE PARTICIPATING MEMBER COUNTRIES FOR JOINING US TODAY.

[BEFORE ANYTHING ELSE, ALLOW ME TO TAKE THIS OPPORTUNITY TO CONGRATULATE YOU ON YOUR RECENT APPOINTMENT AS CHAIRMAN OF THIS PRESTIGIOUS BODY. OVER THE YEARS, PARTICULARLY AT THE MOST DIFFICULT AND TRYING TIMES, THE PARIS CLUB HAS BEEN MOST SUPPORTIVE OF DEVELOPMENTAL ASPIRATIONS OF OUR COUNTRY, AS WITH OTHERS SIMILARLY SITUATED.]

WE ARE PLEASED TO INFORM YOU, MR. CHAIRMAN AND DISTINGUISHED DELEGATES, THAT SINCE WE LAST MET WITH YOU IN JUNE 1991, WE HAVE GONE A LONG WAY PUTTING OUR ECONOMIC HOUSE IN ORDER. DESPITE A STRING OF NATURAL DISASTERS AND A CHANGE IN ADMINISTRATION, WE WERE ABLE TO ACHIEVE MACROECONOMIC STABILITY AND UNDERTOOK SIGNIFICANT REFORM MEASURES TO REMEDY THE STRUCTURAL WEAKNESSES THAT HAD INHIBITED GROWTH AND CONTRIBUTED TO RECURRENT BALANCE OF PAYMENTS DIFFICULTIES. WE HAVE ABOLISHED VIRTUALLY ALL FOREIGN EXCHANGE CONTROLS, LIFTED MOST RESTRICTIONS ON FOREIGN INVESTMENTS, PRIVATIZED A NUMBER OF KEY STATE ENTERPRISES, REDUCED TARIFFS, REMOVED MANY QUANTITATIVE RESTRICTIONS ON IMPORTS AND STRENGTHENED, AND AT THE SAME TIME LIBERALIZED THE FINANCIAL SECTOR. OUR EFFORTS HAVE

BEEN SUPPORTED BY THE INTERNATIONAL DONOR COMMUNITY AND THE MULTILATERAL INSTITUTIONS. MOST RECENTLY, THE POWER SHORTAGE PROBLEM WAS ENDED WITH THE FIRM RESOLVE OF GOVERNMENT AND THE ACTIVE PARTICIPATION OF THE PRIVATE SECTOR.

UNDER THE LEADERSHIP OF PRESIDENT RAMOS, THE PHILIPPINE GOVERNMENT IS DETERMINED TO STAY ON THE PATH OF SUSTAINABLE GROWTH WITH THE ADOPTION OF A MEDIUM-TERM ECONOMIC PROGRAM AIMED AT CONSOLIDATING OUR FISCAL POSITION, ENSURING MACROECONOMIC STABILITY AND FURTHER LIBERALIZING THE ECONOMY. THIS PROGRAM IS BEING SUPPORTED BY THE IMF UNDER ITS EXTENDED FUND FACILITY.

FROM NO GROWTH IN 1991, WE HAVE SEEN REAL ECONOMIC GROWTH CLIMB NOW TO ABOUT FIVE PERCENT IN THE FIRST QUARTER OF THIS YEAR, WITH EXPORTS AND INVESTMENT LEADING THE WAY. AT THE SAME TIME INFLATION HAS REMAINED AT SINGLE-DIGIT LEVELS AND TREASURY BILL RATES KEPT DOWN TO 13-14 PERCENT, WHILE THE EXTERNAL ACCOUNTS WERE KEPT MANAGEABLE.

PUTTING OUR HOUSE IN ORDER HAS BEEN A FORMIDABLE TASK MADE POSSIBLE BY THE COOPERATION OF ALL BRANCHES OF GOVERNMENT AS WELL AS THAT OF THE PRIVATE SECTOR. THE REVITALIZATION OF THE ECONOMY HAS BEEN FACILITATED BY THE STEADFAST SUPPORT PROVIDED BY THE INTERNATIONAL DONOR COMMUNITY AND A FAVORABLE EXTERNAL ENVIRONMENT.

SUCH SUPPORT FROM THE PARIS CLUB CREDITORS, WHILE NO LONGER CRITICAL, REMAINS IMPORTANT FOR THE COMING YEARS. WHY?

FIRST, A SMALL RESIDUAL FINANCING GAP OF ABOUT HALF A BILLION OVER THE NEXT THREE YEARS IS ESTIMATED UNDER OUR IMF ENDORSED FINANCIAL PROGRAM. WE ARE REQUESTING YOUR ASSISTANCE TO COVER THIS, ROUGHLY CORRESPONDING

TO ONLY ONE SIXTH OF THE MATURING OBLIGATIONS TO PARIS CLUB CREDITORS UNDER A RESTRUCTURING BASED ON THE SAME TERMS AS OUR LAST AGREED MINUTE..

SECOND, THIS GAP IS PREMISED ON A BUILD-UP IN INTERNATIONAL RESERVES OF ONLY 3 1/2 MONTHS OF IMPORTS. WHILE BOTH THE FUND AND OURSELVES CONSIDERED A LEVEL OF THREE MONTHS' COVERAGE AS ADEQUATE IN THE PAST, UNDER THE CURRENT REALITIES OF HIGH MOBILITY OF SHORT-TERM CAPITAL, SUCH LEVEL IS VIEWED AS A MINIMUM. A RISE IN INTEREST RATES ABROAD AND CAPITAL MARKET VOLATILITY CAN CHANGE THE DIRECTION OF SUCH FLOWS IN A SIGNIFICANT WAY ALREADY, THE PROSPECTS FOR RAISING THE ENTIRE PROJECTED $1.055 BILLION IN NEW BOND ISSUES, PRIMARILY BY THE PRIVATE SECTOR, HAS DIMMED SOMEWHAT BECAUSE OF THE RECENT TURMOIL IN THE INTERNATIONAL BOND MARKET. MOREOVER, THE CONTINUING STRENGTHENING OF THE YEN HAS

INCREASED OUR DEBT SERVICE, AND REQUIRES US TO ASK THE SUPPORT AND UNDERSTANDING, SPECIALLY OF OUR JAPANESE PARTNERS WHO ACCOUNT FOR ABOUT 72 PERCENT OF RESCHEDULABLE PARIS CLUB DEBTS.

THIRD, THE ELEVEN PERCENT PROJECTED IMPORT EXPANSION FOR 1994 ASSUMED IN OUR FINANCIAL PROGRAM IS RELATIVELY LOW COMPARED TO THE 21 PERCENT EXPERIENCED IN 1993 AND 15 PERCENT REGISTERED FOR THE FIRST FIVE MONTHS OF 1994 AS IMPORTATION OF CAPITAL EQUIPMENT AND PRODUCTION INPUTS HAVE REMAINED STRONG. THE RECENT RISE IN OIL PRICES PLACES ADDED PRESSURE ON THE TRADE BALANCE. THERE IS THUS A FAIR POSSIBILITY THAT ACTUAL IMPORTS MAY SURPASS WHAT HAS BEEN ESTIMATED. EVERY PERCENTAGE INCREASE IN IMPORTS BEYOND PROGRAMMED LEVELS TRANSLATES INTO AN ADDITIONAL FINANCING REQUIREMENT OF $175 MILLION.

A FURTHER CONSIDERATION IS THE HEAVY TOLL THAT DEBT SERVICE

CONTINUES TO TAKE OFF OUR BUDGET (UP TO 35 PERCENT ALTHOUGH INTEREST ON FOREIGN DEBT ONLY ACCOUNTS FOR 7 PERCENT).

FOR THESE REASONS, THIS PROPOSED RESCHEDULING IS AN IMPORTANT ELEMENT OF OUR OVERALL FINANCING AND DEBT MANAGEMENT STRATEGY: ONE THAT HAS BEEN GROUNDED ON PRUDENCE AND RESPONSIBILITY SINCE THE BEGINNING OF THE DEBT CRISIS. THE OBJECTIVE IS TO ACHIEVE GROWTH CONSISTENT WITH SUSTAINABLE EXTERNAL ACCOUNTS PRIMARILY SUPPORTED BY VOLUNTARY FLOWS. WE ARE PURSUING A "SOFT LANDING" APPROACH TO OUR EXIT FROM EXCEPTIONAL FINANCING, INCLUDING THAT PROVIDED BY THE IMF AND THE PARIS CLUB. THROUGH THIS TACK, WE AIM TO REAP THE BENEFITS OF GRADUATING FROM THE STATUS OF A RESCHEDULING COUNTRY AND ITS ATTENDANT COSTS, WHILE PROVIDING FOR THE NECESSARY CUSHION TO ENSURE THAT SUCH A GRADUATION BECOMES DEFINITIVE AND FINAL. WE BELIEVE SUCH A PRUDENT STANCE IS ONE THAT THE INVESTOR AND CREDITOR COMMUNITY, INCLUDING THOSE REPRESENTED HERE TODAY, SHOULD FIND WORTHY OF SUPPORT. IT IS AN APPROACH THAT HAS BEEN EMBRACED BY THE FILIPINO PEOPLE AND THEIR ELECTED REPRESENTATIVES, AND HAS ENABLED US TO PURSUE THE DIFFICULT AND WIDE-RANGING REFORM MEASURES WHICH I MENTIONED EARLIER.

IT IS IN THIS LIGHT, MR. CHAIRMAN, THAT WE APPROACH YOU AND THE DISTINGUISHED PARTICIPANTS OF THIS MEETING TO SEEK YOUR COLLECTIVE UNDERSTANDING AND COOPERATION. WE ASK YOU TO CONSIDER OUR MODERATED REQUEST FOR WHAT WE HOPE TO BE A FINAL REORGANIZATION OF OUR EXTERNAL DEBT UNDER THE MOST CONCESSIONAL TERMS, SIMILAR TO THE TERMS EXTENDED TO US DURING OUR LAST RESCHEDULING EXERCISE.

OUR PROPOSED RESCHEDULING IS GOVERNED BY THE FOLLOWING PARAMETERS: A CONSOLIDATION PERIOD OF 18 MONTHS, FROM 1 JULY 1994 TO 31

DECEMBER 1995, AND COVERAGE OF 100% OF PRINCIPAL AND INTEREST RELATING TO LOANS OR CREDITS PURSUANT TO A CONTRACT OR OTHER FINANCIAL ARRANGEMENT CONCLUDED BEFORE 1 APRIL 1984. WE LIKEWISE REQUEST YOUR USUAL CONSIDERATION IN ACCORDING US THE SAME DEBT SWAP PROVISION THAT WE HAD UNDER OUR FOURTH ROUND OF RESCHEDULING [AND A GOODWILL CLAUSE TO COVER CONTINGENCIES AFTER DECEMBER 1995.]

I THANK YOU AGAIN FOR YOUR CONTINUED SUPPORT AND LOOK FORWARD TO AN EXPEDITIOUS AND MUTUALLY SATISFACTORY ARRANGEMENT BY THE END OF THE DAY.

The Philippines

Paris Club Meeting -- July 19,1994

Statement by the Representative of the World Bank

The Philippines has made concerted efforts at structural reform since the change of government in 1986. Despite successes, however, the country has lagged behind its neighbors in foreign investment flows, export performance, and overall income growth. Factors underlying this somewhat disappointing performance have been past ~~frequent~~ discontinuities in policy reform -- with consequent hesitant responses by private investors -- and the country's high foreign debt which helped to fuel budget deficits, all accompanied by numerous exogenous shocks, including natural calamities in the early 1990s. Domestic political uncertainty has, at times, compounded investor uncertainty.

Since 1991, however, Government progress in achieving stabilization goals ~~since 1991~~ has ~~now~~ begun to create an emerging track record of sound macroecnomic management. Government responsiveness to the re-emergence of a large current account deficit and of inflation in late 1993 was particularly noteworthy. Progress on structural issues has continued. Quantitative restrictions on most products have been removed. Foreign bank entry into the financial sector has been authorized, and steps taken to deregulate the transport sector. Aggressive action on power pricing and the implementation of fast-track power projects has considerably alleviated persistent power shortages which had long plagued the economy.

A further notable Government achievement has been the completion of a commercial debt restructuring agreement which has contributed to the reduction of debt service to export ratios by over twenty percentage points, and substantially alleviated fiscal pressure. The Brady agreement, along with improved macroeconomic stability and rising reserves, has allowed some large Philippine companies to re-enter the international capital markets.

Taken together, these measure have substantially opened the economy to foreign competition and have corrected major policy-induced distortions, producing a business environment which compares favorably with other reforming countries. Structural adjustment has not been achieved quickly or smoothly, and further consolidation is required, principally in revenue generation, the energy and transport sectors, and in capital market development.

After a decade of reform, the Philippines is now well placed to resume growth on a sustained basis, as long as the macroeconomic environment holds and is reinforced by the political stability which is today evident. We believe the economy can realistically be expected to grow by some 5 percent per annum. This growth prospect is predicated on an overall investment rate of some 25% of GDP, and will require sustained rationalization of the tax, trade and foreign investment regimes, and on sustained improvements in infrastructure, particularly power and transport. The bulk of the required investment will need to generated by the private sector, given the resource constraint faced by Government. And while improved investment efficiency and enhanced domestic savings will cover some part of the country's financing needs, foreign resources will be critical over the medium-term. The Government aims to attract over $ 1 billion in foreign direct investment annually, much of it directed towards power and other infrastructure projects, and linked to build-operate-transfer schemes.

Better growth prospects will also hinge on a strong export drive. The current administration places high priority on international competitiveness through appropriate wage and anti-monopoly policies and strong emphasis on export promotion. In addition to the liberalization of foreign exchange markets and the foreign investment and trade regimes, institutional changes have helped clear the way for export growth. The Export and Investment Development Council, chaired by the President, is contributing to the streamlining of customs procedures, duty drawbacks and the granting of visas and work permits for foreign investors. Export processing zones are being promoted through the licensing of privately-owned industrial parks.

The World Bank's assistance strategy for the Philippines focuses on the following five objectives: i) maintaining a sound macroeconomic framework through, in particular, prudent fiscal management; ii) improving the quality of infrastructure services; iii) improving the business environment for private enterprise through appropriate competition policy and further deregulation; iv) alleviating poverty; and v) protecting the environment.

Recent lending and technical assistance initiatives by the Bank have played a role in strengthening the Government's fiscal ~~performance~~ system. Systemic problems in revenue collection are being addressed by a tax computerization project. Support to privatization helps augment government revenue. The restructuring of the finances of the Central Bank has helped eliminate a major source of past public sector deficits and in establishing a strong and independent monetary authority.

A major emphasis of our prospective assistance will be the rehabilitation and expansion of infrastructure bottlenecks. The financing requirements for infrastructure over the next five years will be enormous, particularly given ~~the~~ past ~~resource~~ cutbacks to the sector attendant on fiscal stabilization. The recently adopted National Energy Action Plan will need vigorous implementation. Improved investment planning and demand management, the definition of privatization possibilities and the rationalization of pricing are all priority pursuits. The Plan also aims to reduce the country's dependence on imported oil through a switch to geothermal and hydro power, a goal supported by the Bank and the Global Environment Facility.

Other infrastructure constraints are in the transport network and the irrigation system . Operation and maintenance need emphasis, with resources mobilized through user charges. To further contribute to improvements in the business environment, the Bank is helping clarify government functions and improve the regulatory framework in power, transport and industry. The Bank is also helping in the conversion of the Subic Naval Base into a free port. It is expected that this project will help act as a catalyst in transforming investor interest into firm investor commitments. The Bank is also supporting the Government's environmental agenda through a sector operation which strengthens the management of natural resources and the protection of biological diversity. We also assist in improved management of national parks and protected areas and in the conduct of environmental impact assessments.

To assist in poverty alleviation efforts, the Bank is supporting agriculture and rural development through the provision of infrastructure, rural finance and human resources development. Since agricultural production and marketing are private sector activities in the Philippines, the Bank will concentrate on supporting the development of farm-to-market roads and the upgrading of research and extension activities. The Bank's human resource agenda encompasses a shift in emphasis from physical quantity expansion towards quality improvement and institutional strengthening. In health, the Bank is supporting government efforts to provide basic services to low income groups, and to those identified as high risk for specific hazards, particularly women of reproductive age and pre-schoolers.

World Bank lending to the Philippines has grown substantially since the reorientation of economic policies after 1986 and has comprised both investment and adjustment lending, support to the debt and debt service reduction operations and to disaster relief in the wake of the earthquake and volcanic eruption. We intend to continue supporting the Philippines at levels similar to those of the recent past, namely $500-700 million per annum, as appropriate projects are prepared and a sound policy framework maintained. In light of the Government's improved external position, we intend to phase out adjustment operations.

In closing, we would like to emphasize that the strides made by the government in rationalizing the policy framework warrant the support of the international community. The Philippines faces many challenges in the years ahead, and its external financing requirements are large. An appropriate mix of debt relief and new financing directed at appropriate investments will help put the country on a path to sustained and robust growth.

PARIS CLUB MEETING ON THE PHILIPPINES

19 July 1994

Statement by the UNCTAD representative

Since the last Paris Club meeting three years ago, the Philippines' economic performance has improved dramatically. The Government has made remarkable progress in stabilization and structural reform. Inflation has declined sharply. Reform efforts have contributed to a substantial strengthening of the external position. Exports have expanded rapidly, especially manufactured exports, whose share has risen to 75 per cent. As a result of the Brady deal with commercial banks, the external debt burden has lightened and the Philippines has regained access to international capital markets. This has allowed the country to improve its international reserve position despite a widening of the current account deficit in 1993. Economic activity is accelerating, after a series of reforms aimed at liberalizing the financial sector, industry and foreign trade.

The Philippine economy, however, has not fully realized the potential of its abundant natural resources and skilled labour force. For years, the Philippines has been a laggard among the fast-growing ASEAN economies. Real per capita income is roughly the same as 15 years ago. As recent trends have shown, rapid growth is likely to trigger a surge in imports, which would contribute to substantial current account deficits over the next few years, despite the expected large increase in exports.

These deficits are unlikely to be fully covered by voluntary lending, especially in view of recent developments in international capital markets. Exceptional financing in the form of rescheduling would be needed to fill the financing gaps which are expected to emerge in 1994 and 1995.

Despite the recent strengthening of the Philippine economy and increased export diversification both by product and geographically, the country is still highly vulnerable to the vagaries of the international economic environment, especially with regard to economic growth in export markets, the volatility of capital flows, and fluctuations in international interest rates, oil prices, and the exchange rates of key currencies.

The Philippines fully deserves to benefit again from the Houston terms, given its GNP per capita of nearly $800 and the predominance of official bilateral debt. Long repayment and grace periods would avoid a bunching of maturities over the next few years, thus resulting in a more manageable debt profile.

Despite the recent improvement in debt indicators, the Philippines is still a heavily indebted country. Its stock of external debt is equivalent to 62 per cent of GNP, well above the average for severely indebted middle-income countries. The scheduled debt service ratio is 23 per cent for 1994 and is expected to decline below the critical level of 20 per cent by the late 1990s on the rather optimistic assumption of an export growth of 13 per cent annually in volume terms during the period 1994-1997.

In assessing the appropriate size and terms for the rescheduling of the Philippine debt, Paris Club creditors may wish to take into account a number of factors. A comprehensive rescheduling would reward Philippines' remarkable economic performance and impeccable debt servicing record. A generous consolidation would also soften the country's overall borrowing terms and cushion it from unexpected external shocks.

As Minister de Ocampo said in a recent speech, the Philippines is like a tiger cub. To elaborate on this analogy, the cub needs to be nurtured, so that it can soon leave the Paris Club and join the "tiger club".

STATEMENT DELIVERED BY HONORABLE DR. JOHN A. KARIMU,
SECRETARY OF STATE FOR FINANCE,
AT THE PARIS CLUB, WEDNESDAY, JULY 20, 1994

Mr. Chairman, Distinguished Ladies and Gentlemen,

1. On behalf of my delegation, and on my own personal behalf, I wish to express our sincere appreciation for the opportunity given by this body for Sierra Leone to share with it the efforts and achievements made in addressing over two decades of economic mismanagement, and inappropriate economic policies, with the support of debt relief.

2. Exactly twenty months ago, on November 20, 1992, the Government of Sierra Leone approached the Paris Club for debt relief. The request was made against the background that sustainability of the momentum of an IMF supported Rights Accumulation Program, and a World Bank Structural Adjustment Program would be severely compromised in the absence of debt relief.

3. I am happy to report that with your support, in providing debt relief under Paris Club V, we have been able to record very strong performance in the implementation of the economic reform programs, despite very difficult circumstances, as detailed in the memorandum which had been circulated earlier.

4. I would however wish to highlight some of these achievements. Inflation rate has been reduced from three digits in 1991 to 15 percent in 1993 by pursuing tight monetary policy. Nominal interest rates have declined and remained positive in real terms since 1992. The exchange rate has stabilized and the premium in the parallel market has virtually disappeared. On the fiscal front the government has shown good performance, and through strict fiscal discipline the fiscal deficit was reduced from 10.2 percent in 1991 to 6.4 percent in 1994. The target of containing expenditure levels at 20 percent of GDP was attained at the end of the 1993/94 fiscal year. The government pursued relentlessly its objective of normalizing relations with external creditors. In this regard, notwithstanding the strains on the budget due to a variety of factors, we managed to meet scheduled payments as agreed with bilateral creditors at the end of the consolidation period, and to remain current with the IMF, the World Bank, and the ADB. Our sacrifices in implementing the Rights Accumulation program which ended in February this year, resulted in our eligibility

for a three-year program under the IMF Enhanced Structural Adjustment Facility (ESAF). Also, earlier this year we completed the World Bank Reconstruction Import Credit (RIC) which was followed by a Structural Adjustment Credit (SAC) covering the period through early 1996.

5. Encouraged as we are by the progress already made, we are determined to press ahead on two fronts. Firstly, to consolidate the gains already made and secondly to achieve a turn around in the economy. The Government remains firmly committed to the process of macroeconomic and structural adjustment. Our main objectives in the medium term as described in the ESAF arrangement are to achieve high and sustainable growth rates of output, income and employment. To this end, we will continue to pursue the objective of macroeconomic stability. These will include a market-determined exchange rate, lower inflation and interest rates, in an environment conducive to sustainable labor-intensive growth and poverty reduction. Specifically, we are aiming at accelerating the rate of growth in output and income to 5 percent in real terms by 1996, and slowing the rate of inflation to 7 percent per annum by 1996. However, achievement of these objectives is constrained by the dire need to address pressing poverty, rehabilitate basic infrastructure, at the same time provide resources for pursuing the rebel war. Sierra Leone stands out today, throughout Africa, as the only country that has had to grapple with the difficulties and rigors of implementing a comprehensive economic reform program and a political transition to democratic civilian rule while simultaneously repelling an unprovoked, senseless and unwarranted external aggression. These three elements, Mr. Chairman, constitute the uniqueness of the Sierra Leone experience and pose heavy demands on our meager human, financial, and material resources.

6. Notwithstanding these challenges, the Government has successfully fulfilled its obligations to Paris Club members during the past twenty months. The Government will continue to discharge its obligations to the Paris Club in full.

7. Mr. Chairman, Distinguished delegates it is against this background that we seek the sympathetic understanding and consideration of Members of the Paris Club for substantial debt rescheduling and cash-flow relief. Although policies are being

put in place to maximize benefits from our natural resources, the attainment of the objective of reform in the medium term would require resources way beyond anything that the Sierra Leone economy can for the time being generate.

8. Debt service as a percentage of merchandise exports averaged 60 percent in 1991, and 1992, and increased to 70 percent in 1993, with similar estimates for 1994. These debt service ratios are against the background of GDP per capita of US$ 250. In the 1993 United Nations Human Development Index, Sierra Leone is ranked the third poorest country. What we seek is sufficiently strong and adequate relief from our debt burden in order to provide a credible basis for the resumption of sustainable growth and enhance Sierra Leone's ability to meet its debt obligation.

9. Mr. Chairman, Distinguished Members of the Club, we are again appealing for your support in our development efforts. We are aware that your deliberations are guided by certain rules and conventions, nevertheless we would request that cognisance be taken of what we have already achieved, and the outlook for the medium term.

10. By current international standards, the volume of our debt is relatively small. However, in our present circumstance, even enhanced concessions, generous though they may be, may fall short of what is needed. Indications from our present cash flow projections show that in the absence of substantial cash flow relief we would have serious difficulties in meeting our payment obligations. Taking into account our cash flow projections, considerable flexibility would be required in the treatment of pre-cut-off date debt, and previously rescheduled debt.

11. Sierra Leone has demonstrated over the past twenty months that it has put behind over two decades of abortive attempts to improve the lot of her people. We now count on your support to help us achieve the much expected turn around of our economy.

12. Mr. Chairman, Distinguished ladies and gentlemen, I thank you all for your kind attention.

Paris Club Meeting on Sierra Leone

July 20, 1994

Statement by the Fund Staff Representative

Sierra Leone embarked upon an economic program supported by the Fund's ESAF resources in March 1994, after successfully completing its rights accumulation program. Performance to date has been generally good, and the program remains on course. The midterm review of the first-year program is scheduled to take place in November 1994.

Sierra Leone has made significant progress in stabilizing and restructuring the economy since it began its rights program over two years ago. The budget deficit, excluding grants, was cut from the equivalent of 9.0 percent of GDP in 1991/92 to 6.4 percent in 1993/94, which is in line with the program target. The improvement in the public finances has enabled money supply growth to be brought firmly under control, and inflation has fallen sharply as a result, from 115 percent in 1991 to 18 percent for the twelve-month period ended May 1994. Interest rates have fallen with inflation, although they have remained at positive real levels for most of the time. The exchange rate has stabilized, and the premium in the parallel foreign exchange market shrunk to a negligible margin. At the same time, the overall balance of payments position has improved, and Sierra Leone's foreign exchange reserves now stand at around US$45 million (or 3 months of imports), compared with less than US$10 million at the beginning of the rights program. These stabilization gains have been particularly impressive in view of the adverse domestic and external conditions under which policy implementation has taken place. In particular, the rebel conflict has disrupted economic activity and imposed considerable strains on the government budget, while foreign exchange earnings and tax revenues have been hurt by weak market conditions for Sierra Leone's mineral exports.

Implementation of structural reforms has also been good. All price controls have been removed, and essential commodities are now freely available. Public enterprises are being liquidated or privatized, and the size of the civil service has been cut by over one-third in three years. Fisheries surveillance has improved and, for the first time in many years, this sector is now generating fiscal revenue. Sierra Leone's growth performance, however, has been disappointing, primarily because of the impact of the security situation on activity in the main diamond-mining and agricultural areas. Real GDP is estimated to have grown by an average of 1.5 percent in 1993, and little progress has been made in alleviating poverty or addressing Sierra Leone's acute social problems.

In the past several months, difficulties have been experienced in collecting taxes from a number of parastatal enterprises, and the indicative end-June benchmark for domestic financing of the budget was not met. All the other financial benchmarks, as well as the money supply objectives, were observed. An action plan for collecting the parastatal tax arrears is now being implemented, and the government budget for 1994/95 has been designed to ensure continued compliance with the program's fiscal and monetary targets. The budget calls for a further reduction in the deficit to 5.2 percent of GDP in 1994/95, with fiscal revenues benefiting from the full-year impact of the large increases in petroleum and sales taxes that were effected in January. The wage bill and military spending will be cut in relation to GDP. The reduction in the deficit should permit continued deceleration in monetary growth, and inflation is expected to fall to 10 percent in 1994. The program envisages an expansion in real GDP of 4.2 percent in 1994, but this target may need to be revised downwards slightly in light of the impact of the ongoing rebel hostilities and depressed demand for Sierra Leone's exports.

Over the medium-term, further fiscal adjustment is envisaged with the aim of lowering inflation to around 6 percent by 1996, which would be in line with that of Sierra Leone's major trading partners. The external current account would decline from 15 percent of GDP in 1994 to 12 percent in 1996, thereby permitting a sizeable reduction in the debt service burden. Sierra Leone's growth potential is considerable and, on the expectation that the security situation is normalized, the program is targeting an increase in growth to 5 percent by 1996.

The structural measures designed to complement the stabilization effort aim at improving resource allocation and easing supply constraints, particularly in the natural resource sectors. Fisheries surveillance is being overhauled with technical assistance from the World Bank, and streamlined mining regulations have been issued with the aim of bringing about a quick and full resumption of diamond production. The civil service retrenchment program is continuing, and those public enterprises not involved in the supply of essential services are being privatized or liquidated.

Sierra Leone has been making good progress in normalizing relations with its creditors. All arrears to the Fund, World Bank, the ADB, and IFAD have been cleared, and current obligations are being paid on schedule in full. A commercial debt buy-back operation is being organized with financial assistance from the World Bank and donors, and completion of this exercise should pave the way for renewed access to commercial credits. In the meantime, to ensure that Sierra Leone's debt service burden is maintained at manageable proportions, the Government is borrowing externally only on concessional terms.

Sierra Leone's gross external financing requirement for 1994 is projected at US$356 million. To cover this requirement, multilateral institutions and donors have committed some US$263 million in balance of payments and project support, while a further US$56 million is expected from private sources and debt reduction operations. To fill the remaining gap, Sierra Leone is requesting from the Paris Club and other bilateral creditors debt relief on terms normally available to low-income countries and is also seeking exceptional assistance in the form of cash-flow relief. The external financing requirements are expected to decline during 1995-96, once all external arrears have been cleared. The foreign exchange situation is

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nonetheless expected to remain difficult, particularly in light of the outlook for exports, and financing gaps are likely to persist through the period. Additional donor resources and cash-flow relief from creditors will therefore be needed.

In conclusion, under the most difficult of circumstances, Sierra Leone has established an impressive economic track record in recent years, which will help provide the basis necessary for sustained growth and external viability. Much remains to be accomplished, of course, and the Government is pressing ahead in the vigorous implementation of its economic recovery program. We believe that this program represents a well-designed strategy for dealing with Sierra Leone's macroeconomic and structural problems and, as such, warrants the full support of the international financial community.

SIERRA LEONE - PARIS CLUB MEETING

Statement by the World Bank Representative

July 20, 1994

The Government's performance under ~~the~~ its structural adjustment program, supported by both multilateral and bilateral donors, continues to be good, particularly on the macroeconomic stabilization front, as you just heard from the IMF representative.
(Minister and the

On the structural front, civil service employment has been reduced by 40 percent since mid-1991, and pay relativities have improved. The public enterprise sector has been rendered more efficient; it now contributes to the budget. Liberalization of the trade regime has improved the availability of essential products, including rice and petroleum products. Trade reform has so far focused on removal of import and export licensing requirements (except for gold and diamonds) and all quantitative restrictions on imports, and the abolition of Government trading monopolies. Duty rates on imported goods were further rationalized, effective July 1993, to improve administration and compliance by importers; the investment code has been repealed and replaced with a uniform incentive framework incorporated in the revised income tax and customs laws. The Sierra Leone Export Development and Investment Corporation was established in January 1994 to promote exports and investment across all sectors. Revenue collection has improved substantially through strengthening of the key revenue departments, renegotiation of agreements with mining companies, and streamlining of the distribution, pricing, and taxation policies in the petroleum sector.

The Government has initiated a comprehensive review of public sector activities in order to identify those that could be contracted out to the private sector. A semi-autonomous Road Authority, funded by taxes levied on the sales of gasoline and diesel fuel, has been established to manage road maintenance. The Public Enterprise Reform and Divestiture Commission (PERDIC) was set up in 1992 to implement public enterprise reform. Progress was initially slow, but has begun to accelerate. To date, of 44 public enterprises, 5 public utilities have entered into performance-based management contracts; 3 financial institutions have undergone management audits and are in the process of restructuring; the 2 largest public enterprises (petroleum refinery and diamond mining) are being liquidated; and 13 smaller trading and manufacturing companies are being privatized. The commission has initiated a review of the remaining 21 public enterprises, with a view to including them under the next phase of the reform program.

Notwithstanding the strong performance on policy implementation, the supply response has been slow. Real GDP growth in the early 1990s barely kept pace with population growth; indeed, has, at times, been negative, due mainly to the security situation, which has depressed cash crop and mining outputs. World market prices for bauxite and rutile, and, to a lesser extent, diamonds which fell in 1993, have stayed soft. The overall terms of trade dropped by 17 percent in 1993/94. Encouragingly, growth performance improved last fiscal year to 3 percent in real terms, primarily because of good weather. We believe that a reasonable growth target for the economy is in the range of 4-5 percent per annum over the medium-term.

Agriculture is projected to be the main source of income and employment and mining the main source of foreign exchange earnings. The Government strategy for agricultural development focuses on rehabilitation of selected feeder roads, increasing access to farm inputs and tools, and enhancing the capacity of the research and extension services to assist farmers to use their resources in a more effective and sustainable manner.

Resumption of alluvial diamond mining activities and large-scale investment in kimberlite diamond, rutile, and bauxite mining, which is already getting under way, is projected to result in a steady growth in mining output and exports over the medium-term. A revised Mining Act provides the framework for mining investment, taxation, profit repatriation, and the environmental treatment of mining activities in a manner that guards against land degradation, promotes sound mining practices, and avoids special (distorting) fiscal incentives. To maximize the benefits to the economy, priority has been given to measures aimed at the resumption of diamond mining activities in the resource-rich Kono area, including securing the area from illicit activity by armed bands.

Marine fisheries have considerable potential for growth in the medium term. The past management of the sector has suffered from lack of a clear and transparent legal and regulatory framework; one result has been negligible fiscal revenues. After an unsuccessful attempt, the Government is now developing, ~~with external support~~, a new framework for the management of the sector. It plans to revise the licensing system, fees, and royalties, and to introduce a sustainable fisheries-management regime supported by an appropriate judicial and legal framework and private sector surveillance arrangements.

Sierra Leone's external financing gap for 1994, estimated at $54 million, is expected to be closed, following indications received at the Consultative Group (CG) meeting held in March 1994, and the official debt rescheduling under consideration today. The remaining financing gap for 1995-97 is projected to be filled by additional balance of payments support from bilateral donors and from IDA.

Subsequent to the clearance of payment arrears in April 1992, the Bank resumed implementation of four existing operations in the agriculture, power, health and education sectors. In addition, two adjustment operations, three investment operations, and one technical assistance project have since been approved. Progress towards the implementation of key structural measures agreed under the Bank's adjustment operation has been steady. A review of the Government's progress in the implementation of the SAC second tranche release conditions is planned for September 1994. The review, if satisfactory, will recommend to the Bank's ~~Executive~~ Board the release of funds amounting to US$15 million. Over the medium-term, Bank assistance will focus on the rehabilitation of physical and social infrastructure as well as the development of economic infrastructure in support of private sector development. Poverty reduction and institution building will be major focus of such operations. Annual commitments from IDA are projected at about US$45-55 million. Bank economic and sector work ~~informs its policy dialogue with Sierra Leone; it~~ will include a civil service and institutional reform study and extended poverty study, as well as a collaborative study with the Government to define its long-term growth strategy and development prospects.

An IDA grant facility of US$1 million has been approved to finance the services of financial and legal advisors to assist the Government in the preparation of a proposed Debt Buy-Back operation by the end of 1994 under the IDA ~~Only Countries~~ Debt Reduction Facility.

In our view, Sierra Leone's ~~robust~~ strong adjustment program merits the support of the international community, including an appropriate rescheduling of official debt under consideration today.

Thank you.

PARIS CLUB MEETING ON SIERRA LEONE

20 July 1994

Statement by the UNCTAD representative

Sierra Leone comes back to the Paris Club with a track record of successful implementation of stabilization policies and structural reforms. Previous speakers have emphasized the positive results in these areas. Such achievements are all the more impressive because they have taken place against the background of shortfalls in donor assistance and severe economic and social disruptions associated with the civil war in Liberia.

Rebel incursions in the most productive areas have resulted in a substantial drop in cocoa and coffee production and in diamond mining. Security problems have stifled the economy by impairing private sector confidence, by causing severe damage to infrastructure and by exerting considerable pressure on the Government budget.

Despite the remarkable progress made under the economic reform programme, Sierra Leone's economy remains extremely weak. The ratio of gross domestic investment to GDP is as low as 10 per cent, a level which is not even sufficient to maintain the existing capital stock. With a domestic savings rate of only 5 per cent, macroecomic imbalances are still very large. The current account deficit - excluding official transfers - is projected at 20 per cent of GDP for 1994.

These structural weaknesses are not surprising for a country with an income per capita of about $200. Sierra Leone's social indicators are equally disquieting. Infant mortality is one of the highest in the world and life expectancy among the lowest.

These economic and social problems are compounded by the external debt overhang. The ratio of debt to exports, in present value terms, is about 600 per cent, a level far higher than the critical threshold of 200 per cent.

As a recent World Bank report has pointed out, for countries like Sierra Leone growing out of the debt problem will be very difficult, if not impossible. Only if the export growth rate were at least 30 per cent per annum in nominal terms over the next five years, the country would be able to lower its ratio of debt to exports to 200 per cent.

Sierra Leone's debt problem also results in a severe liquidity constraint. The scheduled debt service ratio is about 70 per cent for 1994 and is expected to remain above 35 per cent until 1996. The budgetary repurcussions of the debt burden are equally worrisome. Scheduled debt service for the current fiscal year represents 40 per cent of Government revenue. Debt relief would allow additional resources to be allocated to social sectors and priority investment.

Paris Club creditors can play a significant role in alleviating Sierra Leone's debt burden, as they account for about half of scheduled debt service over the period 1994-96. The enhanced Toronto terms would certainly improve Sierra Leone's debt profile, but would not remove its debt overhang. Additional action is needed on the part of the Paris Club and other creditors.

Sierra Leone is the first low-income country coming to the Paris Club after the Naples summit. On that occasion, the Group of Seven countries expressed themselves in favour of "reduction in the stock of debt and an increase in concessionality for those countries facing special difficulties". We believe that Sierra Leone belongs to that category of countries in view of its poverty level, the debt overhang, and the security situation. We hope that Sierra Leone can soon benefit from new terms involving much deeper stock-of-debt reduction.

Fax reçu de : 254 2 215825

MINISTRY OF FINANCE

Telegrams: "FINANCE", Nairobi
Telephone: Nairobi 338111
When replying please quote

Office of the Minister
P.O. Box 30007
Nairobi
Kenya

Ref. Conf 300/07
and date

14th June, 1994

Mr. Christian Noyer
The Chairman of the
Club of Paris/Director
of the Treasury
139 3 RUE DUE BERCY
FRANCE

Fax No 33 1 40041691

Dear Mr Noyer,

RESCHEDULING OF KENYA'S NON PARIS CLUB COMMERCIAL DEBT ARREARS

Further to the Agreed Minute on the consolidation of the Debt arrears of the Republic of Kenya signed on 19th January, 1994, I am pleased to inform you that so far Kenya has concluded Bilateral Agreements with Canada, France, United Kingdom, Austria, Belgium, Netherlands and Switzerland. By the end of July, we anticipate to conclude agreements with Italy, Finland, Denmark, Sweden, Germany and the United States of America.

Under the general recommendations the Government of the Republic of Kenya committed itself to seek from its external creditors, including other official creditors, banks and supplier, rescheduling or refinancing arrangements on terms comparable to those set forth in the Agreement for credits of comparable maturity, making sure to avoid inequality between different categories of creditors. From the figures presented to the Paris Club for rescheduling of the arrears, we were anticipating to reschedule about US$100 million of Non Paris Club arrears owed to commercial banks and other Non OECD Bilateral Creditors. It has turned out that some of the loans on which arrears had accumulated were covered by the Paris Club rescheduling as they were insured by the concerned Country's Export Insurance Guarantee Agency. On a closer analysis of the loans and on the basis of the confirmation received from various commercial banks it now appears that the arrears due to commercial banks amount to US$26.6 million. We also owe the Commonwealth Development Corporation of United Kingdom US$6.8 million which is also not covered by the Export Credit Guaranteed Department.

Under such circumstances it is not worthwhile to reschedule this amount which is owed to six banks as per the attached schedule. Rescheduling of arrears of such a small magnitude could also send wrong signals to the market as they would signify that Kenya has a difficulty in repaying such an amount. We also feel that repaying them off outright would open up new lines of credit from these commercial banks.

It is true that the Paris Club Agreement requires that similar treatment should be sought from other non OECD Creditors and commercial banks. We feel that the Paris Club may not be averse to total repayment of arrears owed to commercial banks and other non OECD Creditors if the quantum involved is not very large and the repayment of loans would open up new lines of credit. Kenya also intends to seek new loans to refinance some of the more expensive loans and thereby reduce the cost of debt service. Therefore we feel that it would be advantageous to settle the arrears due to commercial banks, the Commonwealth Development Corporation, all amounting to approximately US$33.4 million.

In this regard in view of the improved level of our reserves position, we wish to inform you that we would prefer to pay off the commercial bank, the Commonwealth Development Corporation so that new lines of credit open up. I will be eagerly waiting for your favourable reply so that the necessary arrangement can be made to pay off these creditors.

HON. MUSALIA MUDAVADI
MINISTER FOR FINANCE

AGREED MINUTE
ON THE CONSOLIDATION OF THE DEBT
OF THE PHILIPPINES

I- PREAMBLE

1. The representatives of the Governments of Austria, Belgium, Denmark, France, Germany, Japan, Spain and the United States of America, hereinafter referred to as "Participating Creditor Countries", met in Paris on July 19, 1994 with representatives of the Government of the Philippines in order to examine the request to alleviate the Philippines' external debt service obligations. Observers of the Governments of Australia, Canada, Finland, Italy, the Netherlands and the United Kingdom as well as the International Monetary Fund, the International Bank for Reconstruction and Development, the Secretariat of the U.N.C.T.A.D. and the Organization for Economic Cooperation and Development also attended the meeting.

2. The Delegation of the Philippines described the economic and financial difficulties faced by its country and its strong determination to reduce the economic and financial imbalances and to attain the targets of the program supported by the extended arrangement with the International Monetary Fund.

3. The representatives of the International Monetary Fund described the Philippines' economic situation and the major elements of the adjustment program adopted by the Government of the Philippines and supported by the extended arrangement with the International Monetary Fund approved by the Executive Board of the Fund on June 24, 1994. This extended arrangement, covering the period ending on June 23, 1997, involves specific commitments in both the economic and financial fields.

4. The representatives of the Governments of the Participating Creditor Countries noted that the Philippines is a highly indebted lower middle income country and they also took note of the measures of adjustment in the economic and financial program adopted by the Government of the Philippines ; they stressed the importance they attach to the continued and full implementation of this program.

II- RECOMMENDATIONS ON TERMS OF THE REORGANIZATION

In view of the payment difficulties faced by the Philippines, the representatives of the Participating Creditor Countries agreed to recommend to their Governments or their appropriate institutions that they provide, through rescheduling or refinancing, debt relief for the Philippines on the following terms :

1. Debts concerned

The debts to which this reorganization will apply are the following :

a) loans from Governments or appropriate institutions of the Participating Creditor Countries, having an original maturity of more than one year, and which were extended to the Government of the Philippines or to one of its agencies, organizations or institutions, or covered by the guarantee of payment of the Government of the Philippines or one of its agencies, organizations or institutions, pursuant to a contract or other financial arrangement concluded before April 1, 1984 ;

b) commercial credits guaranteed or insured by the Governments of the Participating Creditor Countries or their appropriate institutions, having an original maturity of more than one year, and which were extended to the Government of the Philippines or to one of its agencies, organizations or institutions, or covered by the guarantee of payment of the Government of the Philippines or one of its agencies, organizations or institutions, pursuant to a contract or other financial arrangement concluded before April 1, 1984 ;

It is understood that debt service due as a result of debts described above in the present Agreed Minute and effected through special payment mechanisms or other external accounts is included in the present reorganization. Participating Creditor Countries will reschedule, refinance, or take other appropriate measures to ensure that this category of debt is treated in a manner comparable to other debt subject to this Agreed Minute.

It is understood that debt service due as a result of the consolidation agreements concluded according to the Agreed Minutes dated December 20, 1984, January 22, 1987, May 26, 1989 and June 20, 1991 is not affected by the present reorganization.

2. Terms of the consolidation

The debt relief will apply as follows :

A/ As regards Official Development Aid loans mentioned in paragraph 1 a) above :

100% of the amounts of principal and interest (excluding late interest) due from August 1, 1994 up to December 31, 1995 inclusive and not paid will be rescheduled or refinanced.

Repayment by the Government of the Philippines of the corresponding sums will be made in 20 equal and successive semi-annual payments, the first payment to be made on October 15, 2005 (end of the grace period) and the final payment to be made on April 15, 2015 (end of the repayment period).

B/ As regards other credits mentioned in paragraph 1 above :

100% of the amounts of principal and interest (excluding late interest) due from August 1, 1994 up to December 31, 1994 inclusive and not paid and 100% of the amounts of principal due from January 1, 1995 up to December 31, 1995 inclusive and not paid will be rescheduled or refinanced.

Repayment by the Government of the Philippines of the corresponding sums will be made in 14 equal and successive semi-annual payments, the first payment to be made on October 15, 2003 (end of the grace period) and the final payment to be made on April 15, 2010 (end of the repayment period).

C/ On a voluntary basis, the Government of each creditor country or its appropriate institutions may sell or exchange, in the framework of debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps :

(i) the amounts of outstanding loans mentioned in paragraph 1 above as regards official development aid loans and direct government loans ;

(ii) the amounts of other outstanding credits mentioned in paragraph 1 above, up to 10% of the amounts of outstanding credits as of June 30, 1991 or up to an amount of 20 million US dollars, whichever is higher.

D/ Late interest charges are those interest charges accruing between the contractual payment date of principal and interest due and not paid, and a date to be fixed in the bilateral agreements concluded for the implementation of the present Agreed Minute.

3. Rate of interest

The rates and the conditions of interest on the financial arrangements covered by this Agreed Minute will be determined bilaterally between the Government of the Philippines and the Government or appropriate institutions of each Participating Creditor Country on the basis of the appropriate market rate.

As regards official development aid loans, the rates and the conditions of interest should be at least as favourable as the concessional rates applying to those loans.

III - GENERAL RECOMMENDATIONS

1. In order to secure comparable treatment of public and private external creditors on their debts, the Government of the Philippines commits itself to seek from its external creditors, including banks and suppliers, rescheduling or refinancing arrangements on terms comparable to those set forth in this Agreed Minute for credits of comparable maturity, making sure to avoid inequality between different categories of creditors.

2. The Government of the Philippines will seek to secure from each of the creditor countries not participating in this Agreed Minute rescheduling or refinancing arrangements on terms comparable to those set forth in this Agreed Minute. The Government of the Philippines agrees not to accord any such creditor country repayment terms more favourable than those accorded to the Participating Creditor Countries.

3. The Government of the Philippines agrees that it will promptly negotiate rescheduling or refinancing arrangements with all other creditors on debts of a comparable term.

The Government of the Philippines will inform in writing the Chairman of the Paris Club not later than February 28, 1995 of the progress made for this purpose in negotiations with other creditors.

4. The provisions set forth in this Agreed Minute do not apply to creditor countries with principal and interest falling due during the reorganization period on debts specified in Article II paragraph 1, of less than SDR 1,000,000. The payments owed to these countries should be made on the original due dates. Payments already due and not paid should be made as soon as possible and, in any case, not later than October 31, 1994.

5. Each of the Participating Creditor Countries agrees to make available, upon the request of another Participating Creditor Country, a copy of its bilateral agreement with the Government of the Philippines which implements this Agreed Minute. The Government of the Philippines acknowledges this arrangement.

6. Each of the Participating Creditor Countries agrees to inform the Chairman of the Paris Club of the date of the signature of its bilateral agreement, of the interest rates, of the amounts of debts involved and of any implementation of debt conversions in application of paragraph II 2. C) above. The Government of the Philippines acknowledges this arrangement.

7. The Government of the Philippines will inform the Chairman of the Paris Club of the content of its bilateral agreements with creditors mentioned in paragraphs 1, 2 and 3 above.

8. The Government of the Philippines undertakes to pay all debt service due and not paid as at the date of the present Agreed Minute, on consolidations, on loans, on credits or pursuant to contracts or other financial arrangements payable on cash terms, extended or guaranteed by the Governments of the Participating or Observer Creditor Countries or their appropriate institutions, and not covered by this Agreed Minute, as soon as possible and, in any case, not later than October 31, 1994. Late interest will be charged on those amounts.

9. The Government of the Philippines guarantees the immediate and unrestricted transfer of the foreign exchange counterpart of all amounts paid in local currency by the private debtors in the Philippines for servicing their foreign debt owed to or guaranteed by the Participating or Observer Creditor Countries or their appropriate institutions, and not subject to the present consolidation.

IV - IMPLEMENTATION

The detailed arrangements for the rescheduling or refinancing of the debts will be accomplished by bilateral agreements to be concluded by the Government or the appropriate institutions of each Participating Creditor Country with the Government of the Philippines on the basis of the following principles :

1. The Government or the appropriate institutions of each Participating Creditor Country will either :

- refinance debts by placing new funds at the disposal of the Government of the Philippines according to existing payment schedules during the reorganization period and for the above mentioned percentage of payment. These funds will be repaid by the Government of the Philippines according to schedules mentioned above in paragraph II.2 ;

- or reschedule the corresponding payments.

2. All other matters involving the rescheduling or the refinancing of the debts will be set forth in the bilateral agreements which the Government of the Philippines and the Governments or the appropriate institutions of the Participating Creditor Countries will seek to conclude with the least delay and in any case before February 28, 1995.

3. a) The provisions of the present Agreed Minute will continue to apply until May 31, 1995 inclusive provided that the Government of the Philippines continues to have an appropriate arrangement with the International Monetary Fund.

b) The provisions of the present Agreed Minute will also continue to apply from June 1, 1995 up to December 31, 1995 provided that the Executive Board of the International Monetary Fund has completed by May 31, 1995, the second review of the extended arrangement with the Government of the Philippines and provided that the Government of the Philippines has made on due date all the payments to the Participating Creditor Countries referred to in the present Agreed Minute. Nevertheless, in the event the review has not been completed, the Participating Creditor Countries may decide to continue to apply the provisions of the present Agreed Minute.

c) For this purpose, the Government of the Philippines agrees that the International Monetary Fund will inform the Chairman of the Paris Club regarding the status of the Philippines' relations with the International Monetary Fund.

4. The representatives of the Governments of each of the Participating Creditor Countries and of the Government of the Philippines agreed to recommend to their respective Governments or appropriate institutions that they initiate bilateral negotiations at the earliest opportunity and conduct them on the basis of the principles set forth herein.

Done in Paris, on July 19, 1994,
in two versions, English and French,
both texts equally authentic,

The Chairman of the Paris Club

The Head of the Delegation of the Philippines

Delegation of Austria

Delegation of Germany

Delegation of Belgium

Delegation of Japan

Delegation of Denmark

Delegation of Spain

Delegation of France

Delegation of the United States of America

PRESS RELEASE

Representatives of the Governments of Austria, Belgium, Denmark, France, Germany, Japan, Spain and the United States of America, hereinafter referred to as "Participating Creditor Countries", met in Paris on July 19, 1994 with representatives of the Government of the Philippines in order to examine the request to alleviate the Philippines' external debt service obligations.

Observers of the Governments of Australia, Canada, Finland, Italy, the Netherlands and the United Kingdom as well as the International Monetary Fund, the International Bank for Reconstruction and Development, the Secretariat of the U.N.C.T.A.D. and the Organization for Economic Cooperation and Development also attended the meeting.

Representatives of the Participating Creditor Countries welcomed the efforts at economic recovery undertaken by the Government of the Philippines. They noted with satisfaction the adoption by the Government of the Philippines of an economic and financial program supported by the extended arrangement with the International Monetary Fund approved by the Executive Board of the Fund on June 24, 1994.

It is in this spirit that the representatives of the Participating Creditor Countries agreed to recommend to their respective Governments a reorganization of the external debt of the Philippines resulting from loans and guaranteed credits extended by Participating Creditor Countries to the Philippines.

This reorganization applies to payments due on these debts. Repayment will be made by the Government of the Philippines over a 20 year period as concerns the official development aid loans and over a 15 year period as concerns other credits. On a voluntary basis, each creditor country may also undertake limited debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps.

The delegation of the Philippines was headed by Mr. Roberto F. DE OCAMPO, Secretary of Finance and Mr. Gabriel C. SINGSON, Governor of the Central Bank. The meeting was chaired by Mr. Francis MAYER, Assistant Secretary for International Affairs at the Treasury at the Ministry of Economy.

The delegation of the Philippines expressed its thanks to the Participating Creditor Countries of the Paris Club for their efforts in assisting the Philippines to achieve a sound economic and financial situation.

AGREED MINUTE
ON THE CONSOLIDATION OF THE DEBT
OF SIERRA LEONE

I- A/ PREAMBLE

1. The representatives of the Governments of Belgium, France, Germany, Italy, the Netherlands, Norway, Switzerland, the United Kingdom and the United States of America, hereinafter referred to as "Participating Creditor Countries", met in Paris on July 20, 1994 with representatives of the Government of Sierra Leone in order to examine the request to alleviate Sierra Leone's external debt service obligations. Observers of the Governments of Austria and Denmark as well as the International Monetary Fund, the International Bank for Reconstruction and Development and the Secretariat of the U.N.C.T.A.D. also attended the meeting.

2. The Delegation of Sierra Leone described the serious economic and financial difficulties faced by its country and its strong determination to reduce the economic and financial imbalances and to attain the targets of the program supported by arrangements under the Enhanced Structural Adjustment Facility with the International Monetary Fund.

3. The representatives of the International Monetary Fund described Sierra Leone's economic situation and the major elements of the adjustment program adopted by the Government of Sierra Leone and supported by arrangements under the Enhanced Structural Adjustment Facility with the International Monetary Fund. The arrangement approved by the Executive Board of the Fund on March 28, 1994 covers the period ending on March 27, 1997 and involves specific commitments in both the economic and financial fields.

4. The representatives of the Governments of the Participating Creditor Countries noted the strong measures of adjustment in the economic and financial program adopted by the Government of Sierra Leone and stressed the importance they attach to the continued and full implementation of this program and, in particular, the revitalization of the productive sector of the economy and the improvement of public finances and foreign exchange management.

They took note of Sierra Leone's chronic balance of payments problems and very heavy debt service obligations, in conjunction with very low per capita income, which were deemed, given the strong adjustment program noted above, to warrant exceptional treatment of the debt.

B/ DEFINITIONS

1. For the purpose of the present Agreed Minute, **"the Appropriate Market Rate"** means the rate, rounded to the nearest 1/16th of a point, and conditions of interest which will be determined bilaterally between the Government of Sierra Leone and the Government or the appropriate institutions of each Participating Creditor Country.

2. The authenticated Tables attached to the present Agreed Minute and referred to hereafter form an integral part of the present Agreed Minute. As concerns the repayment schedules indicated in Tables A, B1 and D, it is understood that "semester" means a period of six successive months. The first semester referred to in the Tables is the period beginning on January 15, 1996. For each semester, it is understood that the due date is the first day of the corresponding semester.

3. Late interest charges are those interest charges accruing between the contractual payment date of principal and interest due and not paid, and a date to be fixed in the bilateral agreements concluded for the implementation of the present Agreed Minute.

II- RECOMMENDATIONS ON TERMS OF THE REORGANIZATION

In view of the serious payment difficulties faced by Sierra Leone, the representatives of the Participating Creditor Countries agreed to recommend to their Governments or their appropriate institutions that they provide, through rescheduling or refinancing, debt relief for Sierra Leone on the following terms :

1. Debts concerned

The debts to which this reorganization will apply are the following :

a) commercial credits guaranteed or insured by the Governments of the Participating Creditor Countries or their appropriate institutions, having an original maturity of more than one year, pursuant to an agreement concluded before July 1, 1983 ;

b) loans from Governments or appropriate institutions of the Participating Creditor Countries, having an original maturity of more than one year, pursuant to an agreement concluded before July 1, 1983 ;

c) repayments of principal and interest due as a result of the consolidation agreements concluded or to be concluded according to the Agreed Minutes dated February 8, 1984 and November 19, 1986.

It is understood that debt service, due as a result of debts described above in the present Agreed Minute and effected through special payment mechanisms or other external accounts, is included in the present reorganization. Participating Creditor Countries will reschedule, refinance, or take other appropriate measures to ensure that this category of debt is treated in a manner comparable to other debt subject to this Agreed Minute.

It is understood that debt service due as a result of the consolidation agreements concluded according to the Agreed Minute dated November 20, 1992 is not affected by the present reorganization.

2. Terms of the consolidation

The debt relief will apply as follows :

A/ As regards credits or loans granted or guaranteed by the Governments of France, Germany, the Netherlands and Norway or their appropriate institutions

a) 50% of the amounts of principal and interest (including late interest) due as at July 31, 1994 inclusive and not paid and 50% of the amounts of principal and interest (excluding late interest) due from August 1, 1994 up to December 31, 1995 inclusive and not paid on credits, loans and consolidations mentioned in paragraphs 1.a), 1.b) and 1.c) above and not concerned by paragraph C/ below will not need to be repaid by the Government of Sierra Leone ;

b) 50% of the amounts of principal and interest (including late interest) due as at July 31, 1994 inclusive and not paid and 50% of the amounts of principal and interest (excluding late interest) due from August 1, 1994 up to December 31, 1995 inclusive and not paid on credits, loans and consolidations mentioned in paragraphs 1.a), 1.b) and 1.c) above and not concerned by paragraph C/ below will be rescheduled or refinanced. Repayment by the Government of Sierra Leone of the corresponding sums will be made as described in Table A attached to the present Agreed Minute ;

c) the rates and the conditions of interest on the rescheduling or refinancing arrangements covered by paragraph b) above will be determined bilaterally between the Government of Sierra Leone and the Government or appropriate institutions of the concerned Participating Creditor Countries on the basis of the Appropriate Market Rate.

B/ <u>As regards credits or loans granted or guaranteed by the Governments of Belgium, Italy, Switzerland and the United Kingdom or their appropriate institutions</u>

a) 100% of the amounts of principal and interest (including late interest) due as at July 31, 1994 inclusive and not paid and 100% of the amounts of principal and interest (excluding late interest) due from August 1, 1994 up to December 31, 1995, inclusive and not paid on credits, loans and consolidations mentioned in paragraphs 1.a), 1.b) and 1.c) above and not concerned by paragraph C/ below will be rescheduled or refinanced.

Repayment by the Government of Sierra Leone of the corresponding sums will be made as described in Table B1 attached to the present Agreed Minute.

b) The rates and the conditions of interest on the rescheduling or refinancing arrangements covered by paragraph a) above will be determined bilaterally between the Government of Sierra Leone and the Government or appropriate institutions of the concerned Participating Creditor Countries on the basis of the Appropriate Market Rate, according to Table B2 attached to the present Agreed Minute.

C/ <u>As regards Official Development Assistance loans (ODA) granted by the Governments of the Participating Creditor Countries listed in paragraphs A/ and B/ above, or their appropriate institutions, as well as by the Government of the United States of America or its appropriate institutions</u>

a) The present paragraph applies to Official Development Assistance (ODA) loans, according to OECD definition, extended to the Government of Sierra Leone by the Governments or appropriate institutions of the Participating Creditor Countries concerned by paragraphs A/ and B/ above as well as by the Government of the United States of America or its appropriate institutions, pursuant to an agreement concluded before July 1, 1983, as well as to the consolidation of such loans or to be concluded according to the Agreed Minutes dated February 8, 1984 and November 19, 1986 ;

b) recognizing the great value of contributions already made by the Participating Creditor Countries through various means in order to alleviate further the burden of servicing these debts, 100% of the amounts of principal and interest (including late interest) due as at July 31, 1994 inclusive and not paid and 100% of the amounts of principal and interest (excluding late interest) due from August 1,1994 up to December 31, 1995 inclusive and not paid on loans and consolidations mentioned in paragraph a) above will be rescheduled or refinanced ;

c) repayment by the Government of Sierra Leone of the corresponding sums will be made as described in Table D attached to the present Agreed Minute ;

d) the rates and the conditions of interest on the rescheduling or refinancing arrangements covered by paragraph b) above will be determined bilaterally between the Government of Sierra Leone and the Government or appropriate institutions of the concerned Participating Creditor Countries. These rates and conditions of interest should be at least as favourable as the concessional rates applying to those loans.

3. <u>Debt swaps</u>

On a voluntary and bilateral basis, the Government of each creditor country or its appropriate institutions may sell or exchange, in the framework of debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps :

(i) the amounts of outstanding loans mentioned in paragraph 1. above as regards official development aid loans and direct government loans ;

(ii) the amounts of other outstanding credits mentioned in paragraph 1. above, up to 10% of the amounts of outstanding credits as of October 31, 1992 or up to an amount of 10 million US dollars, whichever is higher.

III - GENERAL RECOMMENDATIONS

1. In order to secure comparable treatment of public and private external creditors on their debts, the Government of Sierra Leone commits itself to seek from external creditors, rescheduling or refinancing arrangements on terms not less favourable than those set forth in this Agreed Minute for credits of comparable maturity.

2. The Government of Sierra Leone will seek to secure, from each of its creditor countries not participating in this Agreed Minute, rescheduling or refinancing arrangements on terms comparable to those set forth in this Agreed Minute. The Government of Sierra Leone agrees not to accord any such creditor country repayment terms more favourable than those accorded to the Participating Creditor Countries.

3. The Government of Sierra Leone agrees that it will promptly negotiate rescheduling or refinancing arrangements with all other creditors on debts of a comparable term.

The Government of Sierra Leone will inform in writing the Chairman of the Paris Club not later than February 28, 1995 of the progress made for this purpose in negotiations with other creditors.

4. The provisions set forth in this Agreed Minute do not apply to creditor countries with principal and interest falling due during the reorganization period on debts specified in Article II, paragraph 2., including arrears, of less than SDR 250,000. The payments owed to these countries should be made on the original due dates. Payments already due and not paid should be made as soon as possible and, in any case, not later than October 31, 1994. Interest will be charged on those amounts.

5. Each of the Participating Creditor Countries agrees to make available, upon the request of another Participating Creditor Country, a copy of its bilateral agreement with the Government of Sierra Leone which implements this Agreed Minute. The Government of Sierra Leone acknowledges this arrangement.

6. Each of the Participating Creditor Countries agrees to inform the Chairman of the Paris Club of the date of the signature of its bilateral agreement, of the interest rates, of the amounts of debts involved and of any implementation of debt conversions in application of paragraph II 3. above. The Government of Sierra Leone acknowledges this arrangement.

7. The Government of Sierra Leone will inform the Chairman of the Paris Club of the content of its bilateral agreements with creditors mentioned in paragraphs 1., 2. and 3. above.

8. The Government of Sierra Leone undertakes to pay all debt service due on consolidations, on loans, on credits or pursuant to contracts or other financial arrangements payable on cash terms, extended or guaranteed by the Governments of the Participating or Observer Creditor Countries or their appropriate institutions, and not reorganized under Article II of the present Agreed Minute as follows :

a) 100% of the amounts due as at July 31, 1994 inclusive and not paid and 100% of the amounts due from August 1, 1994 up to December 31, 1995 inclusive and not paid referred to in Article III. 8.b) of the Agreed Minute dated November 20, 1992, will be paid in 5 equal and successive semi annual instalments, the first one to be made on June 30, 1996 and the last one to be made on June 30, 1998. These amounts will not be subject to any further deferral ;

b) the other amounts due and not paid as at the date of the present Agreed Minute will be paid as soon as possible and, in any case, not later than October 31, 1994.

Late interest will be charged on those amounts.

c) All other amounts will be paid on due dates.

9. The Government of Sierra Leone will take the relevant administrative measures or extend existing measures to ensure that the private debtors in Sierra Leone will be permitted to pay into the Central Bank the local currency counterpart of their obligations past due or falling due, corresponding to their debt of any nature owed to or guaranteed by the Participating or Observer Creditor Countries or their appropriate institutions.

IV - IMPLEMENTATION

The detailed arrangements for the rescheduling or refinancing of the debts will be accomplished by bilateral agreements to be concluded by the Government or the appropriate institutions of each Participating Creditor Country with the Government of Sierra Leone on the basis of the following principles :

1. The Government or the appropriate institutions of each Participating Creditor Country will :

- either refinance debts by placing new funds at the disposal of the Government of Sierra Leone, according to existing payment schedules, during the reorganization period and for the above mentioned percentages of payment. These funds will be repaid by the Government of Sierra Leone according to the terms and conditions set out in Article II, paragraph 2. above ;

- or reschedule the corresponding payments.

2. All other matters involving the rescheduling or the refinancing of the debts will be set forth in the bilateral agreements which the Government of Sierra Leone and the Governments or the appropriate institutions of the Participating Creditor Countries will seek to conclude with the least delay and in any case before February 28, 1995.

3. Each Participating Creditor Country reserves the right to change its option chosen in the present Agreed Minute among options described in Article II paragraphs 2. A/ and 2. B/ hereabove not later than the date of the signature of the corresponding bilateral agreement.

4. a) The provisions of the present Agreed Minute will continue to apply until June 30, 1995 inclusive provided that the Government of Sierra Leone continues to have an appropriate arrangement with the International Monetary Fund ;

b) they will also continue to apply from July 1, 1995 up to December 31, 1995 provided that the Executive Board of the International Monetary Fund has approved before June 30, 1995, a second annual arrangement under the Enhanced Structural Adjustment Facility with the Government of Sierra Leone and provided that Sierra Leone has made on due dates the payments referred to in this Agreed Minute ;

c) for this purpose, the Government of Sierra Leone agrees that the International Monetary Fund will inform the Chairman of the Paris Club regarding the status of Sierra Leone's relations with the International Monetary Fund.

5. To facilitate the implementation of this Agreed Minute, the Government of Sierra Leone will deposit in the special account established with the Bank of England, the equivalent of at least SDR 400,000 at the end of each month, commencing in August 31, 1994 through December 31, 1995 inclusive. The Government of Sierra Leone undertakes to have this Bank notify the Chairman of the Paris Club as soon as each deposit has been made. The total amount approximates the amounts estimated to be payable to all Participating Creditor Countries from August 1, 1994 up to December 31, 1995 inclusive under the terms of the bilateral agreements to be concluded pursuant to this Agreed Minute. As specific payments under these agreements become due, the Government of Sierra Leone will draw on the special account to meet these payments ; no drawing will be made on the special account for any other use before all payments due from August 1, 1994 up to December 31, 1995 inclusive under these agreements have been made. Any drawing on this account will be made after a previous 15-day notice to the above Bank, which this Bank will notify immediately to the Chairman of the Paris Club. This scheme could be continued by agreement between the parties.

6. In response to the request of the representatives of the Government of Sierra Leone, the Participating Creditor Countries agreed in principle to a meeting to consider the matter of Sierra Leone's debt service payments falling due after December 31, 1995 and relating to loans or credits pursuant to a contract or other financial arrangement concluded before July 1, 1983 provided :

- that Sierra Leone continues to have an appropriate arrangement with the International Monetary Fund ;

- that Sierra Leone has reached with other creditors effective arrangements meeting the conditions described in Article III paragraphs 1., 2. and 3. above and has reported in writing to the Chairman of the Paris Club, pursuant to Article III paragraphs 3. and 7. above ;

- and that Sierra Leone has complied with all conditions set out in this Agreed Minute.

7. If as at December 31, 1995, the Government of Sierra Leone has maintained satisfactory relations with the Participating or Observer Creditor Countries, and notably has fully implemented all agreements signed with them and continues to have an appropriate arrangement with the International Monetary Fund, the Participating Creditor Countries agree in principle to hold a meeting to consider the matter of Sierra Leone's stock of debt.

8. The representatives of the Government of each of the Participating Creditor Countries and of the Government of Sierra Leone agreed to recommend to their respective Governments or appropriate institutions that they initiate bilateral negotiations at the earliest opportunity and conduct them on the basis of the principles set forth herein.

Done in Paris, on July 20, 1994
in two versions, English and French,
both texts equally authentic,

The Chairman of the Paris Club

The Head of the Delegation of Sierra Leone

Delegation of Belgium

Delegation of the Netherlands

Delegation of France

Delegation of Norway

Delegation of Germany

Delegation of Switzerland

Delegation of Italy

Delegation of the United Kingdom

Delegation of the United States of America

PRESS RELEASE

Representatives of the Governments of Belgium, France, Germany, Italy, the Netherlands, Norway, Switzerland, the United Kingdom and the United States of America, referred to as "Participating Creditor Countries", met in Paris on July 20, 1994 with the representatives of the Government of Sierra Leone, in order to examine the request to alleviate that country's external debt service burden.

Observers of the Governments of Austria and Denmark as well as the International Monetary Fund, the International Bank for Reconstruction and Development and the Secretariat of the U.N.C.T.A.D. also attended the meeting.

Representatives of the Participating Creditor Countries welcomed the efforts at economic recovery adopted by the Government of Sierra Leone. They noted with satisfaction the adoption by the Government of Sierra Leone of an economic and financial program supported by an arrangement under the Enhanced Structural Adjustment Facility with the International Monetary Fund approved by the Executive Board of the Fund on March 28, 1994. They thought it relevant to make a positive contribution to the improvement of this country's external payments prospects in order to facilitate its economic recovery.

They welcomed the IMF supported adjustment program and noted that Sierra Leone's low per capita income and heavy debt burden call for exceptional treatment of debt. This is why they agreed to recommend to their Governments to implement rescheduling options providing for the reduction of the net present value of the amounts rescheduled up to 50% debt.

This reorganization, which applies to payments due on the external debt of Sierra Leone resulting from credits and loans extended or guaranteed by Participating Creditor Countries to Sierra Leone, will be effected by Participating Creditor Countries as follows :

- write-off one half of debt service obligations due under non concessional loans and credits with the remaining half to be consolidated at market rates over a period of 23 years (including a grace period of 6 years) ;

or

- consolidate at concessional rates, so as to reduce by 50% in net present value the payments due on non concessional loans and credits, with a repayment period of 23 years.

Recognizing the great value of contributions already made by the Participating Creditor Countries in order to alleviate the burden of servicing ODA debt, the maturities on ODA loans will be consolidated on a very long term basis.

In a voluntary manner, each Participating Creditor Country may also undertake limited debt for nature, debt for aid, debt for equity swaps or other local currency swaps.

Participating Creditor Countries also agreed under certain conditions to hold a meeting to consider, after December 31, 1995, the matter of Sierra Leone's stock of debt.

The delegation of the Government of Sierra Leone was headed by Dr John A. KARIMU, Secretary of State for Finance. The meeting was chaired by Mr. Bertrand de MAZIERES, Deputy Assistant Secretary for Aid and Debt Affairs at the Treasury at the Ministry of Economy.

The delegation of Sierra Leone expressed its thanks to the Participating Creditor Countries of the Paris Club for their efforts in assisting its country to achieve a sound economic and financial situation.

Facsimile transmission

Morgan Grenfell & Co. Limited
Member of The Securities and Futures Authority

Banking Division

23 Great Winchester Street
London EC2P 2AX

Telephone 071-588 4545

Direct line 071-826 7157

Telex 896106 MG BFI G
Fax 071-826 7130

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Total pages	Two (including this header)	
Date	15 July 1994	
To	M Jean-Francois Cirelli Paris Club Secretariat, Ministère de l'Économie des Finances et du Budget, Direction du Trésor, Paris	
Fax No.	010 331 4004 2926	
From	Ken Thomas	
Extension	7157	

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Message

Dear Jean-Francois,

RUSSIA

You are aware that we represent the United Kingdom Trade Creditors Group and, in co-operation with the leaders of other national groups, are endeavouring to complete the restructuring of Russian uninsured trade credit debt, consistent with the 1993 Agreed Minute.

You may also recall our telephone conversation in the Springtime when I expressed concern at the delaying tactics being adopted by the Russian Ministry of Finance in reaching an agreement and the implementation of this restructuring. In that context, we discussed the 1994 Paris Club meeting and how we had hoped that the Russians might be willing to conclude this outstanding item consistent with the 1993 Agreed Minute, prior to their appearance in 1994.

At that time, I was somewhat cynical in my thinking, as I mentioned to you, in that I feared that once the 1994 meeting had been concluded, the incentive on Russia to conclude our restructuring might be lost. Also, I feared that the Russians might obtain much more favourable terms in 1994 and subsequently lose interest in any restructuring under the 1993 Agreed Minute.

Authorised by

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M Jean-Francois Cirelli
Paris Club Secretariat

Sadly, my cynicism appears to have been justified. We have made no progress with the Ministry of Finance since 2 June Paris Club meeting. The term sheets for the restructuring of uninsured short term debt (all debts matured 1989 - 1991 and were less than 1 year), consistent with the 1993 Agreed Minute, remain to be ratified by the Government Commission on External Debt. Indeed, we have now heard that the Government Commission wants these terms to be adjusted so that they become consistent with the 1994 Agreed Minute, Article III(b).

The result of this move is that the short term trade creditors (holding debts from 1989 - 1991) are requested to be rescheduled over 5 years commencing 30.09.1997. These creditors are not lending institutions. However, they have accepted to share the debt burden by being restructured under the 1993 Agreed Minute with 5 years commencing 01.01.95.

I believe this action is totally inconsistent with the spirit of the Paris Club and that your members should be seriously concerned at two aspects of principle:

i) having established the yardstick for restructuring, your members require comparability between the different classes of creditors for comparable maturities.

ii) the commitment of a sovereign debtor to an Agreed Minute brings forward further aid from the multilateral agencies and renewed credit from the bilaterals. The refusal by a sovereign debtor to adhere to the intent to engage in the restructuring of other sectors of debt, especially when consistent with the Paris Club terms, is against the spirit and intent of the restructuring process.

These breaches by the Russian Government could represent an unwelcome precedent in the restructuring process and, if imitated by others, could severely damage the concept of the sharing of the debt burden between different classes of creditors.

Yes!

I am aware that, next week, your tour de raison meeting incorporates "Russia" on its Agenda. Is it possible for this matter to be raised from the chair in order that the delegates may comment. The trade creditors accept that they are, inevitably, the lowest category of creditors, but they are also the weakest. The principle of restructuring under the parameters established by the Paris Club results in their inevitable compliance; there seems to be some justification that at least moral support is forthcoming from the Paris Club when abuse of the system is apparent by the debtor.

Any assistance would be most helpful. Indeed, a level of understanding from the Paris Club would be supportive.

Kind regards

Ken Thomas

Ken Thomas
Senior Assistant Director

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File Title	Barcode No.
Paris Club - 94-03 (July 18-20, 1994 meeting)	1238869

Document Date	Document Type
18 July, 1994	Report

Correspondents / Participants

Subject / Title
Summaries of Paris Club Discussions

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Tonya Ceesay	4/20/2016

RUSSIA'S PARTICIPATION TO THE PARIS CLUB AS A CREDITOR

There has been no official request from Russia so far to participate into the Paris Club. However, several Russian officials have expressed this wish publicly, so that we have to discuss what a possible answer should be in case such a request were to be formulated.

1/ <u>Current situation</u>

- Russia has inherited from the former USSR claims on other countries, that she estimates worth $ 140 billion (Russian estimate).

- Most of these claims are on developing countries, generally with very little solvency.

- At this stage and to our knowledge, repayments on these claims are very scarce. This is probably the main reason why Russia would like to become a member of the Paris Club. It hopes to secure some repayment of its claims.

2/ <u>Two issues remain unsolved as of Russia's claims</u> :

(i) Many debtors consider that the <u>legal status of these claims</u> is not entirely settled. They claim that there is no firm legal basis for Russia's ownership of all assets of the FSU ; indeed, not all Republics, by far, have signed "zero option" agreements with Russia (if only not Ukraine).

(ii) The <u>valuation of these claims</u> is highly uncertain. Most of them appear to be in transferable rubles, of which the dollar value is anything but settled. Russia has apparently advocated for a 1 to 1 exchange rate, or even more in some cases. This is clearly unacceptable to most debtor countries, who want the current value of the ruble to be taken into account. This is often the reason why no agreement has been found between Russia and its debtors.

3/ <u>Elements of position</u>

(i) <u>Paris Club membership is open</u>. In the past, several debtor countries have also participated into some meetings as creditors (Brazil, Morocco). However, a consensus in needed to invite a new member. So far, we have taken into account the country's track record as a debtor to invite it or not to our meetings. The case of Russia is all the more complicated that Russia is the main concern of the Club.

(ii) <u>We do not question the validity of Russia's claims</u> on other countries ; however, a firm legal basis establishing Russia's ownership of FSU claims on other countries is needed if we want to be able to treat these claims.

(iii) <u>It is not the role of the Paris Club to settle the issue of the valuation of claims denominated in transferable rubles.</u> We have no legitimacy to impose a valuation to either Russia or its debtors. This issue will have to be settled bilaterally between Russia and its debtors before such claims could be treated by the Paris Club. It must be made clear to Russia that its claims on developing countries could be treated by the Paris Club only once their valuation agreed by both parties. **In this regard, Russia's participation to the Paris Club as a creditor is premature**.

(iv) On the other hand, <u>closer links could be established between Russia as a creditor and the Paris Club.</u> These links cannot take the form of an observer status in the Paris Club. There is no reason for a country whose claims would not be treated by the Paris Club to attend our meetings. Another approach could be, at this stage, to develop contacts between the Chairmanship (and Secretariat) of the Paris Club and the Russian authorities, to exchange information on Paris Club proceeding and to better assess Russia's claims. Furthermore, it is not clear, for example, if Russia could be interested by the type of treatments applied by the Paris Club to developing countries, which do not favour rapid cash flows to the creditor... It would also be interesting to have a clearer picture of the nature and legal status of Russia's claims.

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PARIS LE 27/06/94

DU TRESOR SON NUMERO 94/308/ER

POUR M. ERWIN KRUGER, MINISTRE DE LA COOPERATION EXTERIEURE DU NICARAGUA.

MR MINISTER,

I REFER TO YOUR LETTER DATED MARCH 16, 1994.

THE CREDITOR COUNTRIES HAVE BEEN VERY PLEASED TO LEARN THAT NICARAGUA HAS BEEN ABLE TO REACH AN AGREEMENT WITH THE INTERNATIONAL MONETARY FUND. THE CREDITOR COUNTRIES AGREE IN PRINCIPLE TO A MEETING TO CONSIDER THE MATTER OF THE NICARAGUA'S DEBT SERVICE DUE TO THEM ONCE THE EXECUTIVE BOARD OF THE IMF WILL HAVE APPROVED THE PROGRAM. HOWEVER, CREDITOR COUNTRIES WOULD LIKE TO REMIND YOU THAT BEFOREHAND ALL NEGOTIATIONS ACCORDING TO ARTICLE IV, PARAGRAPH 2, OF THE DECEMBER 17, 1991 AGREED MINUTE HAVE TO BE CONCLUDED. THE CREDITOR COUNTRIES EXPRESS THE HOPE THAT THIS CONDITION WILL BE FULFILLED VERY SOON.

PLEASE ACCEPT, MR MINISTER, THE ASSURANCES OF MY HIGHEST ESTEEM.

SIGNE : BERTRAND DE MAZIERES

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Message: 105 -.. emis Le 28/06/94 a 05 h 46 Duree : 04 mn 13

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ARRIVEE

28 FEV. 1994

LE MINISTRE DE L'ECONOMIE
ET DES FINANCES DU TOGO

A
MADAME ARIANE OBOLENSKY

TRESOR - PARIS (FRANCE)

TELEX NO 017/MEF/94

HONNEUR ACCUSER RECEPTION VOTRE TELEX DU 12/01/94 RELATIF A LA CONSOLIDATION DE LA DETTE TOGOLAISE DU 19/06/1992.

AVONS PLAISIR DE PORTER A VOTRE CONNAISSANCE LES INFORMATIONS SUIVANTES EN REPONSE AUX QUESTIONS SOULEVEES DANS LE TELEX.

1. CONFORMEMENT AU PROCES VERBAL AGREE RELATIF A LA CONSOLIDATION DU 19/06/1992, SEPT ACCORDS BILATERAUX SUR DIX ONT ETE SIGNES AVANT LE 30 NOVEMBRE 1992.

POUR LES TROIS AUTRES, LE CALENDRIER DES PAYS CONCERNES N'A PAS PERMIS LA TENUE DES NEGOCIATIONS BILATERALES AVANT LE DECLENCHEMENT DE LA GREVE GENERALE QUI A PARALYSE NOTRE PAYS PENDANT PLUS DE NEUF MOIS, ENTRE NOVEMBRE 1992 ET AOUT 1993.

AU DEBUT DE CETTE ANNEE 1994, DES ECHANGES DE CORRESPONDANCE AVEC LES TROIS PAYS CONCERNES ONT PERMIS D'ARRETER DES DISPOSITIONS EN VUE DE PROCEDER A LA SIGNATURE DES ACCORDS DANS LES PROCHAINS JOURS.

2. LES NEGOCIATIONS AVEC UNE MISSION DU FMI QUI A SEJOURNE AU TOGO DU 23 JANVIER AU 11 FEVRIER 1994 ONT PERMIS AU GOUVERNEMENT DE PARAPHER UNE LETTRE D'INTENTION POUR L'ANNEE 1994 ET UN DOCUMENT CADRE DE POLITIQUES MACROECONOMIQUES 1994-1996.

CES DOCUMENTS QUI SERONT PRESENTES TRES PROCHAINEMENT AU CONSEIL D'ADMINISTRATION DU FMI DEVRAIENT ABOUTIR A UN NOUVEL ACCORD POUR LE TOGO.

LES ARRIERES ACCUMULES AU 31/12/1993 ET L'APPLICATION DES DISPOSITIONS DU PROCES VERBAL DU 19/06/1992 AUX ECHEANCES COMPRISES ENTRE LE 1ER JUILLET 1993 ET LE 30 JUIN 1994, SERONT DISCUTEES DANS LE CADRE DE CE NOUVEL ACCORD.

LE GOUVERNEMENT SAISIRA LE CLUB DE PARIS APRES L'APPROBATION DES DOCUMENTS PAR LE FMI.

CONSIDERATIONS DISTINGUEES

DO-FRANCK FAAKO FIANYO

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PARIS LE 12/01/94

DE TRESOR SON N 94/28 MC
POUR M.. DO. FRANCK FAAKO FIANYO, MINISTRE DE L'ECONOMIE ET DES FINANCES DE LA REPUBLIQUE TOGOLAISE.

MONSIEUR LE MINISTRE,

LE PROCES-VERBAL AGREE RELATIF A LA CONSOLIDATION DE LA DETTE DE LA REPUBLIQUE TOGOLAISE EN DATE DU 19 JUIN 1992 PREVOIT QUE L'ACCORD CONTINUERA A S'APPLIQUER DU 1ER JUILLET 1993 AU 30 JUIN 1994, A CONDITION QUE LE CONSEIL D'ADMINISTRATION DU FONDS MONETAIRE INTERNATIONAL AIT APPROUVE UN QUATRIEME ACCORD ANNUEL AU TITRE DE LA F.A.S.R. AVEC LE GOUVERNEMENT DE LA REPUBLIQUE TOGOLAISE AVANT LE 31 AOUT 1993.

LES PAYS CREANCIERS MEMBRES DU CLUB DE PARIS ONT EU LE REGRET DE CONSTATER QU'A CE JOUR, LE FMI N'AVAIT PAS APPROUVE UN TEL ACCORD. ILS M'ONT DONC DEMANDE DE VOUS FAIRE PART DE LEUR PREOCCUPATION SUR CE POINT AINSI QUE SUR LE RETARD PRIS POUR LA SIGNATURE DE CERTAINS ACCORDS BILATERAUX EN APPLICATION DU DERNIER PROCES-VERBAL (QUI FIXAIT LA DATE LIMITE POUR LA SIGNATURE DE TELS ACCORDS AU 30 NOVEMBRE 1992), ET SUR L'ACCUMULATION D'ARRIERES SUR LES MONTANTS DUS AU TITRE D'ACCORDS ANTERIEURS. ILS VOUS DEMANDENT INSTAMMENT DE TOUT METTRE EN OEUVRE POUR CONCLURE TRES RAPIDEMENT UN ACCORD AVEC LE FMI, FAUTE DE QUOI ILS SE VERRONT DANS L'OBLIGATION DE CONSTATER QUE LA DEUXIEME PHASE DE L'ACCORD DU 19 JUIN 1992 N'A PAS ETE MISE EN OEUVRE ET QUE LES ECHEANCES DUES A PARTIR DU 1ER JUILLET 1993 SONT DUES A BONNE DATE ET DANS LEUR INTEGRALITE.

JE VOUS PRIE DE CROIRE, MONSIEUR LE MINISTRE, A L'EXPRESSION DE MA HAUTE CONSIDERATION.

SIGNE : ARIANE OBOLENSKY

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PARIS LE 27/06/94

DU TRESOR SON NUMERO 94/304/ER

POUR MONSIEUR RICUPERO, MINISTRE DES FINANCES DU BRESIL.

MR MINISTER,

THE CREDITOR COUNTRIES ASKED ME TO INFORM YOU THAT MOST OF THEM HAVE REPORTED ARREARS WITH RESPECT TO PAYMENT OBLIGATIONS DUE TO THEM BOTH ON PRE AND POST CUT OFF DATE DEBT, IN SPITE OF THE DECISION OF BRAZIL TO MAINTAIN ALL PAYMENTS DUE TO PARIS CLUB CREDITORS ON A CURRENT BASIS, AS EXPRESSED IN THE LETTER OF MR FERNANDO HENRIQUE CARDOSO DATED SEPTEMBER 24, 1993.

THE CREDITOR COUNTRIES WOULD LIKE TO STRESS THE IMPORTANCE THAT THEY ATTACH TO YOUR COMMITMENT. THEY ARE PREPARED TO DO ALL EFFORTS NEEDED FROM THEIR PART TO INFORM YOU, ON DUE TIME, ON ALL OUTSTANDING ARREARS. THEY ARE STRONGLY CONVINCED THAT THE SETTLEMENT OF THESE ARREARS IS OF THE GREATEST IMPORTANCE FOR BRAZIL INTERNATIONAL CREDITWORTHINESS AND THEY URGE YOU TO DO YOUR UTMOST TO CLEAR THEM AS SOON AS POSSIBLE.

PLEASE ACCEPT, MR MINISTER, THE ASSURANCES OF MY HIGHEST ESTEEM AND BEST REGARDS.

SIGNE : BERTRAND DE MAZIERES

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THE CHAIRMAN OF THE PARIS CLUB

HL94192.AM

Paris, June 29, 1994

Mr Governor,

Paris Club Creditor Countries have noted with a very deep concern that the first review of the Extended Fund Facility approved by the Executive Board of the International Monetary Fund on September 20, 1993 has not yet been concluded.

Paris Club Creditor Countries are not in a position at this time to take a decision on a final debt reduction and reorganization stage of the Paris Club Agreed Minute dated May 25, 1991.

Therefore, as from July 1, 1994, I would like to confirm to you that the payment obligations due by Egypt vis-à-vis Paris Club Creditor Countries will have to be made according to tables C2A1, C2B1, C2C1, C2A2, C2B2, C2C2, C4, 1NCA1, 1NCB1, 2NCA1, 2NCB1, 3NCA1, 3NCB1, 1NC2A2, 1NC2B2, 2/3NC2B2 and 4NC, i.e. on the basis of the implementation of the second stage of the Paris Club Agreed Minute dated May 25, 1991.

Paris Club Creditor Countries are prepared to discuss again this question as soon as the Executive Board of the International Monetary Fund has approved a review or a modification to the existing Extended Fund arrangement or another appropriate arrangement.

Please accept, Mr Governor, the assurance of my highest esteem and best personal regards.

Christian NOYER

Mr Ismail HASSAN
Governor
of the Central Bank of Egypt

Rue Kasr El Nil
Le Caire

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Ministro de Economía
y Obras y Servicios Públicos

Buenos Aires, June 15th, 1994

Regarding the Agreed Minutes signed on July 22, 1992, I wish to inform you that Argentina has decided not to request to the official creditors gathered in the Paris Club, any additional consolidation of its debts following the termination on March 31, 1995 of the current fifth round of reschedulings.

I would very much appreciate if you could announce this decision to the participating creditor countries. Please also convey to them our appreciation for the support that Argentina received during the difficult years of debt reschedulings. I am convinced that their Export Credit Agencies will continue to be involved in the process of securing solid growth for the Argentine economy.

Yours sincerely,

DR. DOMINGO F. CAVALLO

Mr. Christian Noyer
Chairman of the
PARIS CLUB

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17/06 '94 16:30 ☎256 41 230163 MIN OF FINANCE 001

Telephones: Minister:
Kampala 243054 & 232370
Office:
Kampala [illegible] (10 Lines)
Telex: 61170
Telegrams: FINSEC.
In any correspondence on this subject please quote No. M/MF/LS

THE REPUBLIC OF UGANDA

Ministry of Finance and
Economic Planning,
P.O. Box 8147,
Kampala,
Uganda

17 June 1994

Club de Paris
M. Jean-Claude Trichet, President
Directeur du Tresor
Ministre de l'Economie
139, rue de Bercy
75572 PARIS CEDEX 12
FRANCE

Dear M. Trichet

As you know, the rescheduling consolidation period under the extension of additional ESAF arrangement with the IMF will expire at the end of June 1994. An IMF Mission visited Kampala during the first half of June and we have successfully concluded negotiations with them on a new 3-year arrangement under the renewed and enlarged ESAF facility. The 1994/95 Budget which I presented to Parliament yesterday contained all the measures we agreed with the IMF for implementation in the first year of the 3 year programme.

Despite the improved performance in our balance of payments, coming largely from international coffee prices, the Fund team has pointed out that there still will be substantial financing gaps over the programme period. Therefore, we expect again to request a Paris Club meeting later this year, after Fund approval of the new ESAF facility, to ask for debt relief.

We wish to pursue the possibility of a debt stock reduction with Paris Club creditors, if eligible at the time of our next meeting. According to preliminary calculations by the Fund staff, it appears that such an operation could raise our debt service payments in the medium term before any savings begin, unless the reduction was sufficiently large, possibly of the order of 80%. The mechanics of the debt stock reduction and the role of the cut-off date are still not entirely clear to us. While we believe that the debt reduction operation offers the best genuine method of resolving our bilateral debt problem, the strain of substantially larger debt service payments may not be sustainable. We would very much welcome any further information that you could provide to us in regard to such an operation.

Yours sincerely

J.S. Mayanja-Nkangi
MINISTER OF FINANCE & ECONOMIC PLANNING