

INTERNATIONAL MONETARY FUND

**Review of the Fund’s Strategy on Overdue Financial Obligations**

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

(In consultation with other departments)

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## Executive Summary

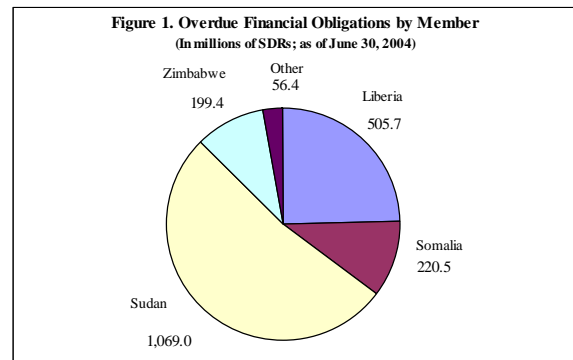
- **This paper reviews progress under the Fund's strengthened cooperative strategy on overdue financial obligations and proposes to extend the availability of the rights approach—which expires on August 31, 2004—by another year.** The rights approach remains an important element of the intensified collaborative approach for arrears clearance for the three members that remain eligible (Liberia, Somalia, and Sudan). A draft decision to this effect is provided for Board approval.
- **The level and structure of arrears to the Fund have remained broadly unchanged since the last review.** Total arrears increased slightly in the year through end-June 2004 to SDR 2,051 million as a result of the continued accumulation of arrears by Iraq, Liberia, Somalia, and Zimbabwe. Sudan, however, has continued to make payments to the Fund in excess of obligations falling due. The majority of the total arrears to the Fund (86 percent) was to the General Resources Account (GRA).
- **During the twelve months through end-June 2004, five members remained in protracted arrears to the Fund—Iraq, Liberia, Somalia, Sudan, and Zimbabwe.** Liberia, Somalia, and Sudan account for 88 percent of total arrears to the Fund, with Sudan alone accounting for more than 52 percent at the end of June 2004.
- **No changes are proposed to the Fund's strategy on arrears, which remains broadly effective, based on the cases that have arisen to date.** Sudan continued its cooperation with the Fund on policies and payments. Liberia's cooperation also improved since the transitional government was formed in October 2003. On Iraq, in July 2004 the Fund decided to deal with the new interim government, as the government of Iraq, and discussions have been initiated on a program that could be supported by emergency post-conflict assistance once Iraq's arrears to the Fund have been cleared. In Zimbabwe's case, lack of sufficient cooperation resulted in the issuance of a complaint by the Managing Director with respect to compulsory withdrawal in February 2004, following the suspension of Zimbabwe's voting and related rights in the Fund in June 2003.
- **Mobilizing the necessary financial resources to address the external debt and arrears problems for Liberia, Somalia, and Sudan will be a major challenge.** A comprehensive peace agreement in Sudan could create conditions for arrears clearance, and Liberia's strengthened cooperation with the Fund could lay the groundwork for moving forward with the de-escalation of remedial measures and eventual arrears clearance. For the Fund alone, resources for HIPC Initiative assistance of about SDR 1.4 billion would need to be mobilized for these three cases.

## I. INTRODUCTION

1. **This paper reviews progress under the Fund’s strengthened cooperative strategy on overdue financial obligations since the last review<sup>1</sup> and proposes to extend the availability of the rights approach by another year.** Section II reviews recent developments regarding overdue financial obligations to the Fund through end-June 2004. Progress under the Fund’s strategy on arrears and developments in major protracted arrears cases are discussed in Section III; this section also summarizes the proposed approach for clearing the arrears to the Fund of the three members still eligible for the rights approach—Liberia, Somalia, and Sudan. A draft decision to extend the availability of the rights approach until end-August 2005 is provided in Section IV.

## II. RECENT DEVELOPMENTS

2. **The number of members in protracted arrears remained at five during the period under review.** As of end-June 2004, Iraq, Liberia, Somalia, Sudan, and Zimbabwe were in protracted arrears to the Fund.<sup>2</sup> The three members with arrears dating back to the mid-1980s—Liberia, Somalia, and Sudan—account for 88 percent of total arrears to the Fund, with Sudan alone accounting for more than 52 percent (Figure 1). Zimbabwe, which became a protracted arrears case on August 14, 2001, accounts for 9.7 percent of total arrears to the Fund. Iraq’s arrears represent 2.7 percent of total arrears and consist only of overdue net SDR charges and assessments as a participant in the SDR Department.<sup>3</sup>



3. **The structure and level of arrears has remained broadly unchanged since the last review.** Eighty-six percent of total arrears to the Fund are to the GRA, with the remainder to the Trust Fund (5.7 percent), SDR department (4.4 percent), the PRGF Trust<sup>4</sup>

<sup>1</sup> *Review of the Fund’s Strategy on Overdue Financial Obligations* (EBS/03/118, 7/14/03). Updated statistical information was provided in *Overdue Financial Obligations to the Fund—Statistical Update* (EBS/04/53, 4/9/04).

<sup>2</sup> Protracted arrears are those outstanding for six months or more.

<sup>3</sup> In addition to the protracted arrears cases, three members had short-term arrears amounting to about SDR 1.6 million as of end-June 2004. All these arrears were cleared in July 2004.

<sup>4</sup> Zimbabwe is the first case of protracted arrears to the PRGF Trust, with its arrears outstanding to the Trust amounting to SDR 77.4 million at end-June 2004.

(3.9 percent), and the SAF (0.5 percent) (Figure 2). While Sudan continued to make payments to the Fund in excess of its obligations falling due, the arrears of the other protracted cases continued to rise—most notably those of Zimbabwe, which reached SDR 199.4 million by end-June 2004. As a result, total arrears increased by SDR 28 million to SDR 2050.9 million at end-June 2004 (Table 1).

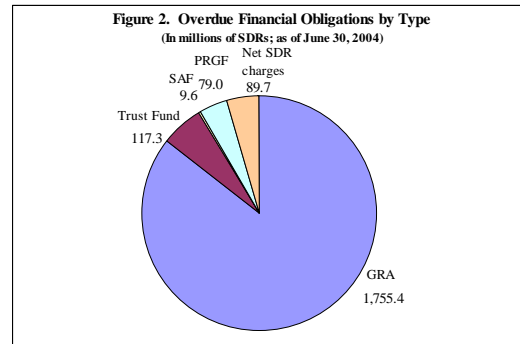


Table 1. Overdue Financial Obligations to the Fund, 2003–2004 1/  
(In millions of SDRs)

	End-June 2003	End-June 2004
<b>Total arrears</b>	<b>2,022.5</b>	<b>2,050.9</b>
Principal	907.6	914.3
GRA	744.1	743.2
PRGF	66.1	73.8
Other 2/	97.4	97.4
Interest	1,114.9	1,136.6
GRA	996.0	1,012.3
PRGF	3.3	5.2
Other 3/	115.6	119.1

Source: Finance Department.

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

2/ Includes overdue Trust Fund and SAF principal.

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

4. **Overdue financial obligations to the Fund continue to impose a significant financial cost on the Fund and its membership.** The ongoing cost of deferred charges to the GRA is borne by the membership through the burden sharing mechanism, which relies on an adjustment to the rate of charge and the rate of remuneration to make up for the income loss associated with the nonpayment of charges. As of end-June 2004, total burden-shared deferred charges of members in protracted arrears to the Fund amounted to about SDR 1 billion, SDR 16 million higher than the level recorded at end-June 2003. Arrears to the Trust Fund, amounting to SDR 117 million at end-June 2004, reduced the amount of resources that would have accrued to the Reserve Account of the PRGF Trust for the benefit of the Fund’s poorest members. Zimbabwe’s arrears to the PRGF Trust also reduced the

balances available in the PRGF Trust Reserve Account, as SDR 74.1 million from its balances had to be drawn to meet payment obligations to PRGF Trust lenders.

5. **A number of short-term arrears (less than six months) occurred during the period under review.** Total short-term arrears by 24 members (64 instances) amounted to SDR 3,543 million, of which SDR 42 million were to the PRGF Trust and SDR 3,501 million to the GRA.<sup>5</sup> All of these arrears were settled before the Executive Board had to be notified (see the timetable of remedial measures under the Fund's arrears strategy for GRA and PRGF resources in Annexes I and II, respectively).

6. **The members with protracted overdue financial obligations to the Fund have also accumulated arrears to other international financial institutions** (Table 2). As of end-June 2004, their arrears amounted to SDR 836 million to the World Bank Group and SDR 436 million to the African Development Bank Group.

Table 2. Arrears to the Fund and Other International Financial Institutions  
(As of end-June 2004; in millions of SDRs)

	Fund 1/	World Bank 2/ 3/	AfDB 4/	Total
<b>Total</b>	<b>2,049.3</b>	<b>835.5</b>	<b>435.5</b>	<b>3,320.3</b>
Iraq	54.8	67.9	--	122.7
Liberia	505.7	287.0	147.4	940.1
Somalia	220.5	81.5	35.8	337.8
Sudan	1,069.0	206.2	93.6	1,368.7
Zimbabwe	199.4	193.0	158.8	551.1

1/ Protracted arrears only.

2/ Members in non-accrual status with disbursements suspended.

3/ At the exchange rate of US\$/SDR as of June 30, 2004.

4/ As of mid-June 2004.

7. **Overdue currency valuation adjustments of 18 members at end-June 2004 amounted to SDR 2 billion.** In order to maintain the value of the Fund's holdings of a member's currency in terms of the SDR, the Fund, at a minimum, adjusts its holdings of the member's currency at the end of each financial year. Such adjustments may result in an obligation by the member to pay additional currency to the Fund and vice-versa, depending on exchange rate movements. While overdue currency valuation adjustments do not generally affect the Fund's financing capacity, they, nevertheless, represent an essential element of members' financial obligations to the Fund, and the staff actively pursues their settlement.

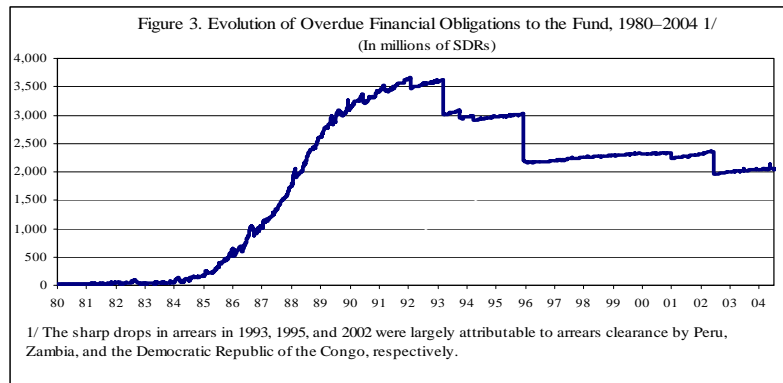
<sup>5</sup> The vast majority of these arrears were cleared within two days.

### III. PROGRESS UNDER THE STRENGTHENED COOPERATIVE STRATEGY

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

8. **The Fund's strategy on arrears has remained broadly effective in dealing with cases that have arisen to date, and no changes are therefore proposed.** The strategy—initiated in 1990 in response to mounting concerns about rising arrears during the 1980s (Figure 3)—is comprised of three elements: prevention, intensified collaboration (including the rights approach), and remedial measures.<sup>6</sup> The preventive element of the strategy has generally worked well in bringing about the quick clearance of new arrears, thereby avoiding new cases of protracted arrears. The success of the intensified collaborative element of the strategy was evidenced by Sudan's strengthened cooperation with the Fund, with

continued strong performance under the 2003 staff-monitored program (SMP), the adoption of a new SMP for 2004 of comparable strength to a rights accumulation program (RAP), and payments to the Fund in excess of its obligations falling due. In Liberia's case, following the formation of a new transitional government in October 2003, cooperation with the Fund has improved. In March 2004, the Board approved the resumption of technical assistance, and, since January 2004, the authorities have honored their commitment to make monthly payments to the Fund of US\$50,000, representing about 8 percent of obligations falling due. In contrast, for Zimbabwe, lack of sufficient cooperation with the Fund led to the Board's decision to suspend the voting and related rights of Zimbabwe, effective June 6, 2003,<sup>7</sup> and the subsequent initiation of the procedure on compulsory withdrawal from the Fund.



9. **The rights approach remains an important element of the intensified collaborative approach for arrears clearance for the three members that remain eligible (Liberia, Somalia, and Sudan).** The rights approach was initiated in 1990 and was

<sup>6</sup> At the review on August 22, 2001, the Executive Board adopted strengthened remedial procedures for arrears to the PRGF Trust, paralleling, to the extent possible, the timetable of remedial measures for arrears to the GRA (Annexes I and II). The Board also took decisions to strengthen transparency with respect to the publication of information on arrears.

<sup>7</sup> Decision No. 13020-(03/53), adopted June 6, 2003.

used in clearing the arrears to the Fund of three members—Peru (1993), Sierra Leone (1994), and Zambia (1995).<sup>8</sup> Under this approach, an eligible member must establish a track record of cooperation on policies with the Fund by undertaking an economic program with conditionality equivalent to that of upper credit tranche Fund arrangements. The member is also expected to make payments to the Fund that, at a minimum, are sufficient to meet new obligations falling due. By establishing such a track record, the member accumulates “rights” to future drawings of Fund resources following the clearance of its arrears. At the end of the rights accumulation program, bilateral creditors would provide a bridge loan to clear the member’s arrears to the Fund, which would be repaid with a front-loaded disbursement under a successor financial arrangement from the Fund. While use of the rights approach is not required for the eligible members, it provides a tested approach that has worked effectively in large protracted arrears cases. Box 1 provides an overview of the resource costs and an illustrative timeline of arrears clearance for those remaining members qualifying for the rights approach—Liberia, Somalia, and Sudan.

## **B. Developments in Major Protracted Arrears Cases**

10. **During the period under review, two members strengthened their cooperation with the Fund.** For one member, however, lack of sufficient cooperation led the Executive Board to apply further remedial measures. Two other members were unable to provide adequate information to fully assess their cooperation with the Fund.

### ***Progress in Intensified Collaboration***

- **Liberia:** Following the Executive Board’s decision to suspend the member’s voting and related rights in March 2003, the security situation worsened, with a renewed outbreak of fighting among several rebel groups. Moreover, Liberia’s cooperation with the Fund continued to deteriorate in terms of policies and payments. However, since the formation of the National Transitional Government of Liberia in October 2003 (following the ouster of President Taylor), cooperation with the Fund has strengthened. In a clear departure from the past, the new government took a number of measures to strengthen economic management and address pressing governance issues. The authorities also resumed monthly payments of US\$50,000 to the Fund, beginning in January 2004. In light of the improvement in Liberia’s cooperation with the Fund, the Executive Board decided to

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<sup>8</sup> Eligibility to use the rights approach was restricted to the eleven members that had protracted arrears to the Fund at end-1989. While Peru, Sierra Leone, and Zambia took advantage of the rights approach, five of the eligible members—Cambodia, Guyana, Honduras, Panama, and Vietnam—found alternative means to clear their arrears to the Fund.



### **Box 1. Sudan, Liberia and Somalia: Arrears Clearance and Debt Relief**

**Resource mobilization will be a major challenge in addressing the external debt and arrears problems of Sudan, Liberia, and Somalia.** With total external public debt in Sudan, Liberia, and Somalia estimated at almost US\$30 billion, restoring external viability will require exceptionally deep debt relief from all creditors. In total, HIPC debt relief of about US\$24 billion in NPV terms may be needed.

**The Fund's participation in the resolution of these members' external arrears will require considerable financial resources.** The clearance of these members' arrears to the Fund through bridge loan-successor arrangements, followed by assistance under the HIPC Initiative thereafter, will require both loan and subsidy resources from the PRGF Trust and grant resources from the PRGF-HIPC Trust. Current projections indicate that available loan and subsidy resources under the interim PRGF may be sufficient to meet the needs of one of these countries.

**Most importantly, no allowance was made in funding the PRGF and PRGF-HIPC Trusts for the eventual HIPC Initiative assistance for these members.** For the Fund alone, HIPC Initiative assistance will require resources of US\$2.0 billion (SDR 1.4 billion). These resources could be mobilized from a mix of internal and external sources. In the past, bilateral contributions have been a significant source of funding for PRGF-HIPC operations.

**Arrears clearance and debt relief (with the ultimate goal of achieving external viability and reintegration into the international financial community) would likely be a multi-stage process during which these members would need to pursue appropriate macroeconomic and structural policies.** As a first step, however, Sudan would need a comprehensive peace agreement; Liberia, a sustained track record of cooperation on policy and payments, leading to the restoration of voting rights; and Somalia, a recognized government in place. Afterwards, an illustrative four-stage process, assuming arrears clearance under the rights approach, is described below:

- **Securing financing assurances for the RAP and pledges of HIPC Initiative grant contributions** (and PRGF loan resources, as needed, beyond the interim PRGF period). Other international financial institutions would also need to formulate plans for arrears clearance and HIPC Initiative debt relief.
- **Implementation of the RAP** (which, in the case of Sudan, could be shortened by consideration of the track record gained under successive SMPs), **followed by arrears clearance and the approval of a successor arrangement.** A bridge loan from bilateral creditors is lined up for the clearance of arrears. Bilateral creditors provide traditional debt relief through flow rescheduling. All creditors finalize arrangements for new lending programs.
- **Reaching the HIPC Initiative decision point.** Final grant contributions are received, and at least 70 percent of creditors agree to participate in the debt relief operations.
- **Reaching the HIPC Initiative completion point.** Bilateral creditors continue to provide debt rescheduling. At least 80 percent of creditors agree to provide HIPC Initiative debt relief to the members.

resume technical assistance to Liberia on March 1, 2004.<sup>9</sup> The Board also welcomed Liberia's resumption of regular monthly payments to the Fund and discussed the modalities of future Fund engagement with Liberia, stressing that a sustained track record of cooperation on policies and payments would lay the basis for normalizing relations with the Fund and other creditors. If these conditions were met, the Board noted that it could support a flexible application of the Fund's policy on de-escalation of remedial measures.

- **Sudan:** Sudan's policy performance was in line with its staff-monitored program (SMP) for 2003, and a successor SMP has been put in place for 2004. Sudan made the agreed payments to the Fund of US\$27 million in 2003 and committed to further increase its payments to US\$30 million in 2004. In the final review of the 2003 SMP on June 16, 2004,<sup>10</sup> the Executive Board commended the authorities for the favorable economic performance and welcomed the regular monthly payments to the Fund, as well as the intention to increase payments in 2004. A comprehensive peace agreement in Sudan could create conditions that would make it possible to tackle Sudan's external debt and arrears problems, and Sudan's arrears to the Fund could be cleared relatively soon thereafter, provided the necessary financial resources can be mobilized.<sup>11</sup> However, while the prospects for ending the two-decade-long civil war between the North and South are better than ever, the situation has been complicated by the humanitarian crisis in Darfur.<sup>12</sup>

#### *Further Remedial Measures*

- **Zimbabwe:** Over the past year, the Executive Board determined that cooperation on policies and payments had not been sufficient to prevent the application of further remedial measures. The Board, therefore, noted—in its December 3, 2003 review of Zimbabwe's overdue financial obligations to the Fund following the suspension of voting rights (effective June 6, 2003)—its intention to initiate promptly the procedure for the compulsory withdrawal of Zimbabwe from membership in the Fund. This was followed

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<sup>9</sup> *Liberia—Overdue Financial Obligations to the Fund—Review Following Suspension of Voting and Related Rights in the Fund* (EBS/04/23, 2/12/04) and *Liberia—Report on Post-Conflict Economic Situation and Prospects for January-June 2004* (EBS/04/24, 2/12/04).

<sup>10</sup> *Sudan—Report on Final Review of the 2003 Staff-Monitored Program and the 2004 Staff-Monitored Program* (EBS/04/72, 6/03/04).

<sup>11</sup> In the case of the Fund, resources of SDR 0.8–0.9 billion would need to be mobilized to help Sudan clear its arrears and obtain assistance under the enhanced HIPC Initiative.

<sup>12</sup> On July 30, 2004, the U.N. Security Council adopted a resolution that calls for imposing an arms embargo on Darfur militias and rebels and for the government to disarm the militias.

by the issuance on February 6, 2004 of a complaint by the Managing Director with respect to Zimbabwe's compulsory withdrawal. In their consideration of that complaint on July 7, 2004,<sup>13</sup> the Board expressed grave concern over the continued and sharp decline in economic and social conditions, and urged the authorities to adopt a more comprehensive economic adjustment program, as a matter of urgency. They noted, however, that Zimbabwe had resumed quarterly payments to the Fund of US\$1.5 million, and had taken some initial, albeit limited, steps to arrest the economic decline. In light of these initial steps, and recognizing the severity of the decision at hand, the Board decided to postpone by six months a recommendation to the Board of Governors for compulsory withdrawal, providing Zimbabwe with another opportunity to strengthen its cooperation with the Fund in terms of economic policies and payments.

### ***Insufficient Information***

- **Iraq:** The Executive Board has not formally considered the overdue financial obligations of Iraq since the last review, as insufficient information has been available for a full assessment of their cooperation with the Fund. Nevertheless, the Board has been kept informed of developments in Iraq through status reports and information notes.<sup>14</sup> A preliminary debt sustainability analysis (DSA) prepared by staff indicated that Iraq would need substantial debt relief to achieve external and fiscal viability. The DSA was discussed by Paris Club creditors on June 8 and July 21, respectively, and the G8 leaders noted at the Sea Island summit in June 2004 that debt reduction would be expected to be in conjunction with a Fund-supported program. On July 6, 2004, the Fund decided to deal with the new interim Iraqi government as the government of Iraq, and discussions have been initiated on a program that could be supported by emergency post-conflict assistance once Iraq's arrears to the Fund have been cleared. Meanwhile, the International Advisory and Monitoring Board met several times to review progress with the external audit of oil export sales and the Development Fund for Iraq.
- **Somalia:** The Executive Board has not considered the overdue financial obligations of Somalia since the last review, as no information has been available for a meaningful assessment of their cooperation with the Fund. Specifically, the non-existence of a central government continued to limit staff's contact and access to information. As a result, the Board further postponed the review of Somalia's arrears to the Fund on two occasions during the period under review.

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<sup>13</sup> *Zimbabwe—Overdue Financial Obligations to the Fund—Consideration of Complaint with Respect to Compulsory Withdrawal* (EBS/04/80, 6/14/04), *Zimbabwe—Staff Report for the 2004 Article IV Consultation* (SM/04/187, 6/14/04), and *Chairman's Summing Up* (SUR/04/64, 7/9/04).

<sup>14</sup> The latest status report and information note on Iraq was provided in EBS/03/178 (12/30/03) and FO/Dis/04/68 (6/23/04).

#### **IV. PROPOSED DECISION**

11. It is proposed that the availability of the rights approach be extended for another year, to end-August 2005, based on the considerations elaborated in Section III. The following draft decision is, therefore, proposed for adoption by the Executive Board:

“The Fund has reviewed progress under the strengthened cooperative strategy with respect to overdue financial obligations to the Fund as described in EBS/04/122.

The Fund reaffirms its support for the strengthened cooperative strategy and agrees to extend the availability of the rights approach until end-August 2005.”

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

	In continuous arrears since	Complaint issued (noted)	Declaration of ineligibility	Declaration of non-cooperation	Suspension of voting rights	Complaint for compulsory withdrawal
Iraq	11/1/90	1/30/91 (2/6/91)				
Liberia	12/19/84	4/4/85 (4/24/85) 4/8/2002 2/ (4/16/02)	1/24/86	3/30/90	3/5/03	
Somalia	7/2/87	9/8/87 (9/15/87)	5/6/88			
Sudan	7/12/84	12/12/84 (1/9/85) 1/22/97 (1/24/97) 4/	2/3/86	9/14/90; lifted on 8/27/99	8/9/93; lifted on 8/1/00	4/8/94 3/
Zimbabwe	2/14/01	5/4/01 (5/15/01) 10/17/02 5/ (10/24/02)	9/24/01 6/	6/13/02	6/6/03	2/6/2004 7/

1/ Under the Articles of Agreement and the Fund's Procedures for dealing with members with overdue financial obligations to the General Department and the SDR Department, a complaint is issued by the Managing Director when a member falls into arrears to the Fund for two months or more. The complaint may lead to different sanctions under Article XXVI of the Fund's Articles of Agreement: declaration of ineligibility to use Fund Resources, suspension of voting rights in the Fund, and compulsory withdrawal depending upon the member's persistence in its failure to fulfill its obligations. A complaint can be withdrawn only after the arrears have been cleared.

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

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

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

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

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

7/ On February 6, 2004, a complaint with respect to compulsory withdrawal for Zimbabwe was issued. The Board considered this complaint on July 7, 2004.

Table 4. Overdue Financial Obligations to the Fund by Duration, 1981–2004  
(In millions of SDRs; end of period)

	No. of Members	Duration			Total Amount
		0-1 month	1-6 months	6 months- or more	
1981	20	6	5	23	34
1982	16	5	0	24	29
1983	14	18	13	30	60
1984	24	29	95	55	178
1985	25	67	289	266	621
1986	21	85	340	611	1,036
1987	26	79	340	1,333	1,752
1988	17	65	401	2,146	2,612
1989	14	30	272	2,797	3,099
1990	15	25	212	3,185	3,421
1991	13	7	159	3,458	3,625
1992	20	23	85	3,488	3,596
1993	12	10	78	2,882	2,969
1994	11	14	59	2,900	2,972
1995	8	10	36	2,130	2,176
1996	10	11	39	2,159	2,209
1997	11	13	32	2,215	2,260
1998	11	11	31	2,252	2,294
1999 1/	8	1	26	2,290	2,316
2000	9	1	32	2,211	2,243
2001	13	7	59	2,253	2,319
2002	7	6	45	1,948	1,999
2003	9	3	26	2,011	2,040
2004					
Jun.	8	4	25	2,022	2,051

Source: Finance Department.

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

Table 5. Overdue Financial Obligations to the Fund by Type, 1981–2004  
(In millions of SDRs; end of period)

	GRA		Net SDR Charges	Trust Fund/SAF/PRGF		Total		Total 3/
	Repurchases	Charges 1/		Repayments	Interest 2/	Repayments and Repurchases	Charges and Interest	
1981	24	9	--	--	1	24	10	34
1982	23	5	--	--	2	23	7	29
1983	50	9	0	--	--	50	10	60
1984	124	37	8	8	1	132	46	178
1985	430	135	15	39	3	468	153	621
1986	753	205	15	60	3	813	223	1,036
1987	1,269	352	23	102	7	1,371	381	1,752
1988	1,854	562	36	150	10	2,004	608	2,612
1989	2,074	802	44	165	15	2,238	861	3,099
1990	2,209	987	45	161	20	2,370	1,051	3,421
1991	2,270	1,131	39	158	26	2,428	1,197	3,625
1992	2,176	1,174	47	167	32	2,343	1,253	3,596
1993	1,713	1,037	48	142	30	1,854	1,114	2,969
1994	1,688	1,063	44	150	28	1,838	1,134	2,972
1995	1,108	820	51	169	28	1,277	899	2,176
1996	1,064	856	62	197	30	1,261	948	2,209
1997	1,044	894	75	217	31	1,260	999	2,260
1998	999	940	89	233	32	1,232	1,062	2,294
1999 4/	969	971	101	241	33	1,210	1,106	2,316
2000	876	998	94	241	34	1,116	1,126	2,243
2001	864	1,040	106	270	38	1,134	1,184	2,319
2002	732	987	92	156	31	888	1,111	1,999
2003	743	1,004	88	171	33	914	1,125	2,040
2004								
Jun.	743	1,012	89	171	35	914	1,136	2,051

Source: Finance Department.

1/ Includes quarterly charges, semiannual charges, stand-by charges on arrangements, and special charges on overdue GRA obligations (equivalent to SDR 126.9 million as of June 30, 2004).

2/ Includes special charges on overdue Trust Fund obligations (equivalent to SDR 19.7 million as of June 30, 2004) and additional interest on overdue SAF/PRGF obligations (equivalent to SDR 3.3 million as of June 30, 2004).

3/ Includes SDR member assessments.

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

Table 6. Number of Members Incurring Arrears to the Fund, 1991–2004

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

Source: Finance Department.

1/ Twelve months to June 30, 2004.

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

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

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



Table 7. Members with Protracted Overdue Financial Obligations to the Fund 1/  
(As of June 30, 2004)

	Total Indebtedness 2/		Of which: Overdue (SDR millions)		
	(SDR millions)	(% of quota)	Principal	Interest	Total
Iraq	54.8	10.8	--	54.8	54.8
Liberia	505.7	707.6	223.7	282.0	505.7
Somalia	220.5	497.5	112.0	108.5	220.5
Sudan	1,069.0	631.5	393.7	675.3	1,069.0
Zimbabwe	212.4	60.2	183.8	15.5	199.4
<b>Total</b>	<b>2,062.3</b>		<b>913.2</b>	<b>1,136.1</b>	<b>2,049.3</b>

Source: Finance Department.

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

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

Table 8. Obligations Falling Due and Payments to the Fund  
by Current Protracted Arrears Cases, 1995–2004  
(In millions of SDRs)

	Iraq	Liberia	Somalia	Sudan	Zimbabwe	Total
<b>Obligations falling due 1/</b>						
1995	4.2	12.5	7.9	34.8	9.3	68.7
1996	3.7	10.5	6.9	28.0	14.3	63.4
1997	3.9	10.8	6.2	27.6	26.2	74.7
1998	4.3	11.1	5.4	26.8	43.2	90.8
1999	3.7	9.4	4.6	21.1	51.9	90.7
2000	4.7	12.1	5.9	25.4	61.4	109.5
2001	4.4	11.1	5.4	21.1	73.3	115.3
2002	2.7	6.9	3.4	12.3	78.5	103.9
2003	2.1	5.5	2.7	9.5	50.8	70.6
Jan. -Jun. 2004	1.0	2.6	1.3	4.3	18.4	27.6
<b>Payments made to the Fund 2/</b>						
1995	--	0.1	--	33.8	9.3	43.2
1996	--	--	--	31.7	14.3	46.1
1997	--	0.0	--	44.0	26.2	70.2
1998	--	0.4	--	44.4	43.2	88.0
1999	--	0.4	--	29.4	51.9	81.7
2000	--	0.5	--	43.3	61.4	105.2
2001	--	0.4	--	43.1	9.2	52.7
2002	--	0.4	--	15.5	2.5	18.4
2003	--	0.1	--	19.6	3.4	23.2
Jan. -Jun. 2004	--	0.3	--	9.6	6.2	16.1
<b>Payments made as percent of obligations falling due</b>						
1995	--	0.8	--	97.1	100.0	62.9
1996	--	--	--	113.5	100.0	72.7
1997	--	0.3	--	159.4	100.0	94.0
1998	--	3.6	--	165.7	100.0	96.9
1999	--	4.3	--	139.3	100.0	90.1
2000	--	3.8	--	170.8	100.0	96.1
2001	--	3.5	--	204.1	12.5	45.7
2002	--	5.8	--	125.6	3.2	17.7
2003	--	2.6	--	207.6	6.6	32.8
Jan. -Jun. 2004	--	10.4	--	223.4	33.8	58.3

Source: Finance Department.

1/ Less reductions resulting from settlements of deferred charges by members in protracted arrears and retroactive reductions in the rate of charge.

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

Table 9. Deferred Charges of Countries with Protracted Arrears to the Fund, FY 2001–2005 1/  
(In millions of SDRs)

	FY 2001		FY 2002		FY 2003		FY 2004		FY 2005		
	Balance Apr. 30, 2000	Net deferrals	Balance Apr. 30, 2001	Net deferrals	Balance Apr. 30, 2002	Net deferrals	Balance Apr. 30, 2003	Net deferrals	Balance Apr. 30, 2004	Net deferrals	Balance Jun. 30, 2004
Liberia	224.0	10.7	234.7	6.7	241.4	4.9	246.3	3.9	250.3	0.9	251.1
Somalia	83.0	5.2	88.2	3.2	91.4	2.5	93.9	2.0	95.9	0.4	96.3
Sudan	603.4	22.6	626.0	12.9	638.9	9.3	648.2	7.2	655.4	1.5	657.0
Zimbabwe	--	--	--	5.3	5.3	3.0	8.3	2.4	10.8	0.5	11.3
<b>Total</b>	<b>910.5</b>	<b>38.5</b>	<b>948.9</b>	<b>28.1</b>	<b>977.0</b>	<b>19.7</b>	<b>996.7</b>	<b>15.6</b>	<b>1,012.3</b>	<b>3.4</b>	<b>1,015.7</b>

Source: Finance Department.

1/ Deferred charges only include periodic charges and special charges to the GRA. Note that Iraq is not included in the table, as Iraq's arrears are comprised only of net SDR charges and assessments.

Table 10. Members with Overdue Currency Valuation Adjustments 1/  
(In millions of SDRs; as of June 30, 2004)

Member	FY 2005
Angola	215.2
Belarus	169.8
Burundi	22.3
Cambodia	8.5
Djibouti	1.3
Ghana	64.6
Haiti	19.6
Liberia	265.8
Mozambique	54.9
Nepal	5.1
Panama	19.4
Samoa	1.1
Solomon Islands	3.3
Somalia 2/	120.1
Sudan 3/	527.3
Suriname 4/	72.6
Turkmenistan	1.8
Zimbabwe	441.7
<b>Total</b>	<b>2,014.4</b>

Source: Finance Department.

1/ The Fund revalues members' currencies at least annually, at the end of the Fund's financial year (April 30). Members are notified of the adjustments arising from the revaluation, which are required to be settled promptly (within thirty days from date of notification). Adjustments are payable in local currency and are not included among overdue obligations. The amounts shown have been outstanding since April 30, 2003.

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

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

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

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

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

Time after emergence of arrears	Action
6–12 months	The Executive Board will review its decision on limitation within three months, with the possibility of a second review if warranted. Depending on the Executive Board's assessment of the specific circumstances and of the efforts being made by the member to fulfill its obligations to the Fund, a declaration of ineligibility will be considered to take effect not more than twelve months after the emergence of arrears. The sending of communications to all Fund Governors and the heads of selected international financial institutions regarding the member's continued failure to fulfill its financial obligations to the Fund is to be considered at the same time as the declaration of ineligibility.
Up to 15 months	A declaration of noncooperation will be considered within three months after the dispatch of the communications. Upon a declaration of noncooperation, technical assistance to the member will be suspended unless the Executive Board decides otherwise.
Up to 18 months	A decision on suspension of voting and representation rights will be considered within three months after the declaration of noncooperation.
Up to 24 months	The procedure on compulsory withdrawal will be initiated within six months after the decision on suspension.

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

Overdue Financial Obligations to the Poverty Reduction and Growth Facility Trust—  
Timetable of Remedial Measures 1/

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

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Time after emergence of arrears	Action
6 months	<p data-bbox="618 411 1187 443">following the decision to lift such limitation.</p> <p data-bbox="618 489 1406 774">The Executive Board reviews its decision on limitation and may remove the member from the list of PRGF-eligible countries. Any reinstatement of the member on the list of PRGF-eligible countries will require a new decision of the Executive Board. A press release is issued following the Executive Board's decision to remove a member from the list of PRGF-eligible countries. A similar press release will be issued upon reinstatement of the member on the list.</p>
12 months	<p data-bbox="618 856 1406 1257">A declaration of noncooperation with the PRGF Trust may be issued by the Executive Board depending on the Board's assessment of the member's performance in the settlement of its arrears to the Trust and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Upon a declaration of noncooperation, the Fund could decide to suspend the provision of technical assistance. The Managing Director may also limit technical assistance provided to a member, if it is in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdues to the Trust.</p>

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1/ Based on Decision No. 12545-(01/84) PRGF, adopted on August 22, 2001.