



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Seventy-Fourth Session

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SETTLEMENT OF ARREARS BY THE REPUBLIC OF SIERRA LEONE

I. INTRODUCTION

1. The present document contains a recommendation by the President of IFAD to implement a settlement plan for arrears incurred by the Republic of Sierra Leone. The recommendation is based on negotiations between representatives of the Government of Sierra Leone and IFAD on 18-19 October 2001. An arrears settlement plan was approved by the Executive Board at its Sixty-Seventh Session in September 1999 (document EB 99/67/R.6), but political and economic conditions prevailing in Sierra Leone have undermined the Government's capacity to implement the plan as agreed.

2. The World Bank and the International Monetary Fund have resumed operations in Sierra Leone within the framework of their post-conflict strategy/policies. In preparing to become eligible for assistance under the Debt Initiative for Heavily Indebted Poor Countries (HIPC), the Government is striving to normalize its debt-servicing relationships (i.e. negotiating more manageable arrears settlement plans) with external financing partners, including those with which they have accumulated arrears such as IFAD, the European Union/European Investment Bank, the Arab Bank for the Economic Development of Africa and the Organization of the Petroleum Exporting Countries (OPEC) Fund. Paris Club debt restructuring under 'Naples Terms', concluded in October 2001, covers USD 130 million of arrears incurred as of 30 September 2001 and USD 50 million of maturities falling due between 1 October 2001 and 30 September 2004, and provides the country with significant assistance in terms of grace periods.

II. BACKGROUND

3. IFAD has been supporting Sierra Leone's poverty eradication efforts since 1979, and has so far funded four projects in the country: (a) the Magbosi Integrated Agricultural Development Project; (b) the Northern Integrated Agricultural Development Project II (NIADP II); (c) the Agricultural Sector Support Project; and (d) the North-Central Agricultural Development Project. The first three projects are closed, while the fourth, effective since September 1993, has been under suspension since September 1997. The total approved value of the portfolio amounts to SDR 26.15 million.



4. Project implementation in the country has been severely affected by the civil war that began in 1991 and led to the internal displacement of 1.3 million people and the killing of 22 000 others; another 600 000 persons had to leave Sierra Leone, becoming refugees in neighbouring countries. Large areas of the country, including important agricultural production areas, were taken over by rebels for extended periods of time. On 7 July 1999 a peace agreement was finally reached between the conflicting parties, and this has allowed the country to resume normal activities over time.

III. PROPOSED ARREARS SETTLEMENT PACKAGE

5. Sierra Leone is faced with an extremely tight balance-of-payment and fiscal situation. Therefore, in view of the conditions of the Paris Club debt-restructuring package, and within the framework of IFAD's Policy Framework for Managing Partnerships with Countries in Arrears (document GC 21/L.7), the following agreement has been reached with the Government:

Nominal value of arrears as of 4 December 2001:	USD 1 864 159
Net present value of above-mentioned arrears as of 4 December 2001:	USD 2 051 799

6. The value of arrears, based on an annual interest rate of 5.57%¹ from 4 December 2001 to 1 November 2006, will amount to USD 2 544 955. Not later than 1 March 2002 the Government will make a down-payment of USD 400 000, which will be used to pay in full the payments due on 1 January 2002 and 1 March 2002, for a total amount of USD 377 912.46. The remaining USD 22 088 will be used to offset the arrears. A two-year grace period will be granted from 1 May 2002 to 30 April 2004, during which time no repayments will be made on the arrears. Starting on 1 May 2004, the Government of Sierra Leone will pay six semi-annual instalments of USD 424 159, as set forth in the table below:

Settlement Plan (USD)	
Down-payment	400 000
1 May 2004	424 159
1 November 2004	424 159
1 May 2005	424 159
1 November 2005	424 159
1 May 2006	424 159
1 November 2006	424 159

7. All due billings as of 15 July 2002 will be paid on the respective due dates, subject to the Executive Board's decision, expected in 2002, regarding debt relief to Sierra Leone under the Debt Initiative for HIPC.

8. The country portfolio for Sierra Leone will be reactivated once the Executive Board has endorsed the arrears settlement plan and the Government has confirmed its agreement with the terms thereof. The Government will be expected to adhere strictly to the terms of the settlement plan. Should it fail to make any payment on time, whether with respect to arrears or ongoing loan payments, the settlement plan will become null and void, all amounts in arrears will become immediately due and all ongoing projects in Sierra Leone will be suspended.

¹ IFAD rate applied to ordinary term loans.



IV. RECOMMENDATION

9. The Executive Board is herewith requested to approve the above-mentioned arrears settlement plan and to endorse the reactivation of the country portfolio for Sierra Leone, subject to the Government's confirmation of its agreement to the terms of the plan.