



THE PARIS CLUB AND SIERRA LEONE AGREE TO A DEBT RESTRUCTURING

Paris Club creditors agreed on October 16, 2001 with the Government of Sierra Leone to a restructuring of its public external debt, following the approval of a Poverty Reduction and Growth Facility with the International Monetary Fund on September 25, 2001.

This agreement treats roughly US\$ 180 million, of which 63% of ODA loans. This amount consists of US\$ 130 million of arrears in principal and interest as at September 30, 2001 and US\$ 50 million of maturities in principal and interest falling due from October 1, 2001 up to September 30, 2004.

The agreement is concluded under the so-called "Naples terms" : pre cut-off-date ODA credits are to be repaid over 40 years, with 16 years of grace, at interest rates at least as favourable as the original concessional rates applying to those loans ; 67% of pre cut-off-date commercial credits are cancelled, taking into account previous cancellations undertaken by Paris Club creditors ; the remaining amounts are rescheduled over 23 years, with 6 years of grace, at market rates of interest (see attached table).

This debt relief will lead to the immediate cancellation by Paris Club creditors of about US\$ 72 million of Sierra Leone's external debt. These measures are expected to reduce debt service due to Paris Club creditors between October 1, 2001 and September 30, 2004 from around US\$ 180 million down to around US\$ 45 million. The remaining payments consist of interests on the rescheduled amounts as well as debt service on post-cut off date debt.

Sierra Leone is a country eligible to the enhanced HIPC Initiative.

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Background notes

1. The Paris Club was formed in 1956. It is an informal group of creditor governments from major industrialized countries. It meets on a monthly basis in Paris with debtor countries in order to agree with them on restructuring their debts.

2. The members of the Paris Club which participated in the reorganization of Sierra Leone's debt were representatives of the governments of Austria, Belgium, France, Germany, Italy, Japan, the Netherlands, Norway, Switzerland, the United Kingdom and the United States of America.

Observers at the meeting were representatives of the governments of Denmark and the Russian Federation, 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.

The delegation of Sierra Leone was headed by Mr Peter KUYEMBEH, JP, Minister of Finance. The meeting was chaired by Mr Ambroise FAYOLLE, Deputy Assistant Secretary at the Treasury of the French Ministry of Economy, Finance and Industry, Vice-President of the Paris Club.

Technical notes

1. A loan under the Poverty Reduction and Growth Facility in support of Sierra Leone's economic program was approved by the International Monetary Fund on September 25, 2001.

2. The total stock of Sierra Leone's public sector debt was estimated as of December 31, 2000 to be US\$ 1.190 billion (source : IMF HIPC preliminary document, dated July 16, 2001 published on the IMF web site www.imf.org). The stock of debt owed to Paris Club creditors as at December 31, 2000 was estimated to be US\$ 313 million, out of which US\$ 215 million of pre cut-off-date debt, and US\$ 98 million of post cut-off-date debt.

The cut-off-date (July 1, 1983 for Sierra Leone) is used by Paris Club creditors for the sole internal purposes of the Paris Club agreement. When a debtor country first meets with Paris Club creditors, the "cut-off-date" is defined and is not changed in subsequent Paris Club treatments and credits granted after this cut-off-date are not subject to rescheduling. Thus, the cut-off-date helps restore access to credit for these debtor countries.

3. Interest rates to be applied on the restructuring are to be negotiated with each creditor country by the Government of Sierra Leone in the bilateral agreements implementing the Paris Club agreement. ODA loans will be rescheduled at a below-market interest rate not higher than the interest rate of the original credits. Other loans will be rescheduled at a market interest rate (known as "appropriate market rate") defined on the basis of risk-free rates for the currency considered, plus a management margin.

4. As in any Paris Club agreement, Sierra Leone agreed to seek comparable treatment from non-Paris Club creditors. In the present case, the comparable treatment shall imply an equivalent assistance of non-Paris Club official creditors and of commercial creditors. The delegation of Sierra Leone indicated its willingness to meet these creditors soon in order to negotiate the terms of a comparable rescheduling.