

INTERNATIONAL MONETARY FUND



Staff Country Reports

Sierra Leone: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria, Augmentation of Access, and Financing Assurances Review—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Sierra Leone

In the context of the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility, request for waivers of nonobservance of performance criteria, modification of performance criteria, augmentation of access, and financing assurances review for Sierra Leone, the following documents have been released and are included in this package:

- The staff report for Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria, Augmentation of Access, and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on April 7, 2009, with the officials of Sierra Leone on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 4, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release summarizing the views of the Executive Board as expressed during its June 17, 2009, discussion of the staff report that completed the review.
- A statement by the Executive Director for Sierra Leone.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Sierra Leone*
Memorandum of Economic and Financial Policies by the authorities of Sierra Leone*
Technical Memorandum of Understanding*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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SIERRA LEONE

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria, Augmentation of Access, and Financing Assurances Review

Prepared by the African Department

(In consultation with other departments)

Approved by Michael Atingi-Ego and Dominique Desruelle

June 4, 2009

Fund relations. The Executive Board approved on May 10, 2006 the three-year PRGF arrangement in an amount equivalent to SDR 31.11 million (30 percent of quota). An augmentation of access in an amount equivalent to SDR 10.4 million (about 10 percent of quota) was approved by the Executive Board upon the completion of the third review in December 2008. Four disbursements totaling SDR 20.51 million have been made.

Staff team. The mission comprised Messrs. Toé, Mikkelsen, Nsengiyumva, Fontaine, and Sriram (all AFR). It was assisted by Mr. Hilaire (Resident Representative). Mr. Aboobaker (OED) participated in several policy meetings.

Discussions. Discussions were held in Freetown (March 25–April 7) and in Washington (April 24–28). The mission met with Finance Minister Kamara, Central Bank Deputy Governor Coker, other government officials, parliamentarians, and representatives of the civil society and donors.

Contents	Page
Abbreviations and Acronyms	3
Executive Summary	4
I. Background and Program Performance	5
II. Program Discussions.....	7
A. Objectives and Policies	7
B. Monitoring	13
C. Risks.....	13
III. Staff Appraisal	13
 Figure	
1. Selected Macroeconomic Indicators, 2004–08.....	6
 Tables	
1. Quantitative Performance Criteria and Indicative Targets for 2008.....	15
2. Status of Implementation of Structural Conditionality for 2008–09	16
3. Selected Economic and Financial Indicators, 2007–12	17
4. Central Government Financial Operations, 2008–09	18
5. Central Government Financial Operations, 2007–12	19
6. Monetary Survey, 2007–10.....	20
7. Summary Accounts of Central Bank and Deposit Money Banks, 2007–10.....	21
8. Balance of Payments, 2007–13.....	22
9. Indicators of Capacity to Repay the Fund, 2007–16.....	23
10. Proposed Schedule of Disbursements Under the PRGF Arrangement, 2006–10.....	24
11. Millennium Development Goals, 1990–2007.....	25
12. Financial Soundness Indicators of the Banking System, 2004–08.....	26
 Appendix	
I. Letter of Intent	27
Attachment I. Memorandum of Economic and Financial Policies.....	29
Attachment II. Technical Memorandum of Understanding.....	38

Abbreviations and Acronyms

ACC	Anti-Corruption Commission
AFR	African Department
AGD	Accountant General's Department
BOP	Balance of payments
BSL	Bank of Sierra Leone
CRF	Consolidated revenue fund
DSA	Debt Sustainability Analysis
EPP	Emergency Power Project
EU	European Union
FAD	Fiscal Affairs Department
GDP	Gross domestic product
GST	Goods and services tax
HIPC	Highly indebted poor countries
IMF	International Monetary Fund
MDAs	Ministries, departments, and agencies
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
MoFED	Ministry of Finance and Economic Development
MPC	Monetary Policy Committee
NEER	Nominal effective exchange rate
NPA	National Power Authority
NPLs	Nonperforming loans
NPV	Net present value
NRA	National Revenue Authority
PC	Performance criterion
PFM	Public financial management
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
REER	Real effective exchange rate
SDR	Special drawing rights
TA	Technical assistance
TMU	Technical Memorandum of Understanding
ToT	Terms of trade

Executive Summary

- **Program performance in the second half of 2008 was mixed.** Although economic activity slowed in the last quarter, real GDP grew at an estimated 5.5 percent for the year. However, the domestic revenue target was missed partly due to policy slippages. While progress was made on implementing structural reforms, one structural performance criterion and one structural benchmark were not observed.
- **The global economic downturn has weakened Sierra Leone's economic prospects for 2009.** The mining sector has been particularly hard hit by a decline in world market prices and has scaled back production. Real GDP growth is projected to slow to 4 percent and the external current account deficit is slated to widen. Although excise taxes on fuel imports were raised earlier this year, domestic revenue is expected to fall short of the initial target, mainly because of the downward revision of exports and imports, and weaker income growth.
- **Fiscal policy will aim to maintain capital and poverty-reducing spending in 2009 while safeguarding macroeconomic stability.** This will be achieved by accommodating the revenue shortfall by additional external financing, reducing nonpriority spending, and raising domestic financing moderately. Monetary policy will strive to keep inflation in single digits.
- **A key challenge is to mobilize more domestic revenue by strengthening tax administration and broadening the tax base.** The authorities are moving to make the National Revenue Authority more efficient and raise taxpayer compliance. Preparations are also underway to introduce a goods and services tax later this year.
- **Other structural reforms** will continue to focus on implementing the strategy for financial sector reform adopted in June 2008, restructuring the National Power Authority, tackling corruption, and enhancing transparency.
- **The authorities are requesting an augmentation of access under the PRGF arrangement of SDR 10.37 million, equivalent to 10 percent of quota.** Together with cuts in nonpriority spending and identified additional external financing, this would make it possible to keep gross international reserves steady.

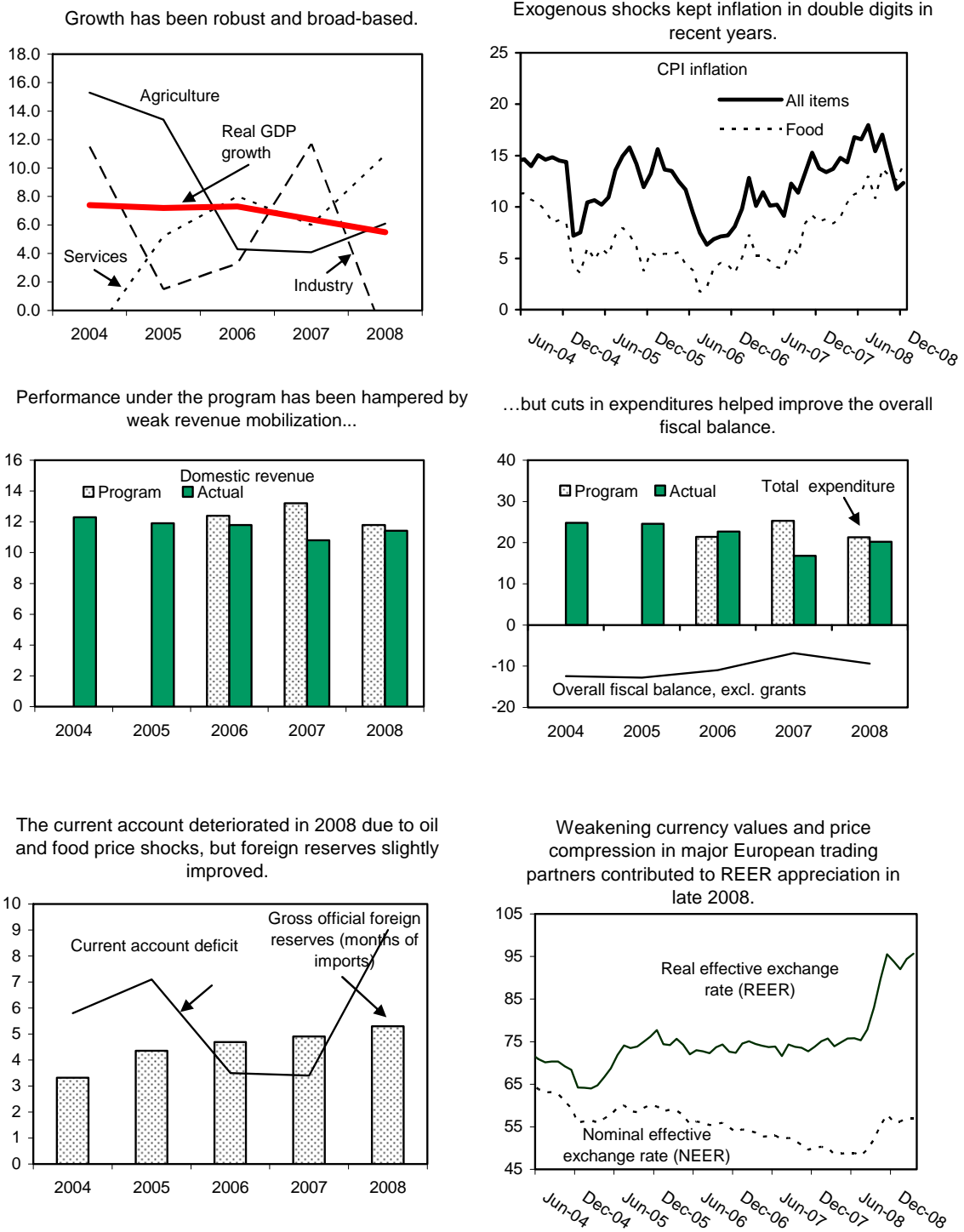
I. BACKGROUND AND PROGRAM PERFORMANCE

1. **The global economic downturn slowed economic activity and export demand toward the end of 2008, but inflation pressures subsided (Figure 1 and Table 3).**

- Despite the economic slowdown in the last quarter, particularly in mining, real GDP grew at an estimated 5.5 percent in 2008. This reflected solid agricultural production and a buoyant service sector.
- Inflationary pressures subsided toward the end of the year as prices on import (mainly fuel) plunged. Annual inflation fell to 12.2 percent at year-end, compared to 13.8 percent in 2007 and a 15.7 percent program target. By end-April, driven mostly by lower food prices, inflation had fallen to 8 percent.
- The external current account deficit, including official transfers, worsened compared to the program on account of the rise in food and fuel prices in the first half of 2008 and lower diamond exports in the second half. International reserves declined, but by less than programmed, to US\$209 million at end-2008. However, reserve coverage increased to 5.2 months of next year's imports because of the projected decline in imports in 2009. By mid-May 2009, reserves had declined to US\$193 million (4.8 months of imports).
- After a long period of stability, the leone depreciated by about 3 percent against the US dollar late in 2008, and by another 4 percent through April 2009. However, the REER appreciated in the last quarter of 2008 because of weakening currency values and price compression among major European trading partners.

2. **Fiscal policy was challenged by shortfalls in domestic revenue and delays in disbursement of external assistance.** The revenue shortfall reached Le 30.6 billion (0.5 percent of GDP), mainly due to lower collection of import duties, excises, mining taxes, and nontax revenues (Table 4). About half of the shortfall relates to a failure to fully implement two revenue-enhancing measures—the transfer of all off-budget revenue collected by ministries, departments, and agencies (MDAs) to the Consolidated Revenue Fund (CRF) and reinstatement of a vehicle license fee that was suspended early in 2008. The remaining shortfall can be attributed to a decline in commodity prices that negatively affected customs and mining revenues. As for external budgetary support, only about 60 percent of the programmed amount was disbursed in 2008 due to delays in meeting structural conditions, but most of the shortfall was received in early 2009. The revenue shortfalls prompted the authorities to cut current expenditures by 0.6 percent of GDP. However, domestic financing still exceeded the programmed amount by 0.9 percent of GDP.

Figure 1. Sierra Leone: Selected Macroeconomic Indicators, 2004–08
(Percent of GDP, unless indicated otherwise)



Sources: Sierra Leonean authorities; and IMFstaff estimates.

3. **Monetary policy was kept tight in 2008.** Reserve money growth was lower than programmed because the BSL actively conducted open market operations by selling from the new holding of treasury bills obtained by converting noninterest-bearing, nonmarketable government securities. Commercial bank credit to the economy continued to grow, primarily in the telecommunications, commerce, and construction sectors. The entry of three new banks in mid-2008 supported the increase in bank credit and the demand for government securities. This and a decline in inflation helped push down the average interest rate on treasury bills from 21.3 percent at end-2007 to about 9 percent at end-2008.

4. **Program implementation in the second half of 2008 was mixed.** All end-December quantitative PCs were met, except the one on domestic government revenue (Table 1). The indicative target for poverty-reducing spending was also met. On the structural targets, the continuous structural PC on the monthly meeting of the Monetary Policy Committee was met (Table 2).¹ However, the PC on adoption of an implementation decree for the GST was missed due to delays in parliament to approve the GST law. Also, the structural benchmark on the adoption of a comprehensive tariff policy for the electricity sector was missed because a supporting study on generation and distribution costs has not yet been completed (see paragraph 18).

II. PROGRAM DISCUSSIONS

5. **The global economic downturn has weakened economic prospects in 2009 and is putting pressure on the fiscal position.** Mission discussions therefore focused on: (i) the implications of the global crisis on Sierra Leone's economic outlook, (ii) macroeconomic policy responses to the crisis; and (iii) the structural reform agenda. The authorities recognized the need for continued prudent economic policies and the importance of mobilizing domestic revenue to ensure long-term fiscal sustainability. These elements have been incorporated into the second generation PRSP that was launched in May 2009.²

A. Objectives and Policies

6. **As in many other sub-Saharan African countries, Sierra Leone's economic conditions and prospects are being profoundly affected by the global economic downturn.** The mining sector is particularly hit hard as the value of exports has fallen, production is being scaled back, and investment projects are being delayed. Other sectors are also affected, notably services, tourism, and construction. On the positive side, output growth should benefit from an improved supply of electricity, initiatives to increase agriculture productivity, and increased public investment in basic infrastructure.

¹ The continuous PC was also met through May 2009.

² A Consultative Group meeting for Sierra Leone is scheduled to take place in London later this year to mobilize additional funding for the implementation of the new PRSP.

7. **The macroeconomic framework has been revised to reflect the impact of the external shocks on the economy.** Real GDP growth is projected to slow to 4 percent in 2009–10, from 5.5 percent in 2008, and to gradually recover to 6 percent in 2012. Lower commodity prices and healthy domestic food production should continue to ease inflation pressure. Annual inflation is projected to decline from 12.2 percent in 2008 to 9 percent in 2009 and 8 percent in 2010. The balance of payments position is expected to be challenged further in 2009, as export receipts continue to decline steeply, but the trend should reverse in 2010 as the global environment improves.

Sierra Leone: Medium-Term Macroeconomic Indicators, 2008–12

(Percent of GDP, unless otherwise indicated)

	2008		2009		2010	2011	2012
	Prog. ¹	Est.	Prog. ¹	Rev. Prog.				Proj.
Real GDP (annual percentage change)	5.5	5.5	5.5	4.0	4.0	5.5	6.0
Consumer prices (percentage change; end of period)	15.7	12.2	9.8	9.0	8.0	7.5	7.0
Consumer prices (percentage change; annual average)	15.6	14.8	12.7	10.6	8.5	7.8	7.3
Gross domestic investment	15.7	14.8	16.7	14.8	15.3	15.9	16.1
External current account balance, including official transfers	-7.1	-9.0	-5.2	-8.5	-8.5	-7.6	-6.8
External current account balance, excluding official transfers	-10.6	-11.5	-8.1	-12.3	-11.4	-10.7	-10.1
Gross official reserves (months of imports)	3.9	5.2	4.2	5.0	4.7	4.4	4.3

Sources: Sierra Leonean authorities, and IMF staff estimates and projections.

¹ IMF Country Report No. 09/2 (January 12, 2009).

Fiscal policy

8. **Fiscal policy will aim to maintain capital and poverty-reducing spending while safeguarding macroeconomic stability (MEFP, ¶13).** Domestic revenue is projected to

decline by 0.4 percentage points of GDP to 11 percent in 2009, falling short of the program target by 1.5 percent of GDP (Table 5).

While the shortfall reflects a downward revision of imports, declining mining activity, and weaker corporate income, about 0.3 percent of GDP is explained by policy slippages—including delays in mandating all government

Sierra Leone: External Budget Support in 2008–09				
(US\$ millions)				
	2008		2009	
	Prog.	Actual	Prog.	Rev. Prog.
United Kingdom (DfID)	25.1	18.4	25.1	21.9
European Union	22.4	7.6	16.6	32.4
World Bank	10.0	13.1	10.0	10.0
AfDB	8.0	0.0	8.0	8.0
Peace Building Fund ¹	0.0	5.0	0.0	3.8
Total budget support	65.5	44.1	59.7	76.1

Source: Sierra Leonean authorities.

¹ Support to the Emergency Power Project

agencies to transfer collected revenue to the CRF and temporary replacement of the ad valorem import duty by a presumptive per-container tax—and about 0.2 percent of GDP is due to the postponement of installation of the ASYCUDA customs computer system. The expected revenue shortfall will be accommodated by (i) identified additional external budgetary support (0.7 percent of GDP); (ii) a reduction in current spending, including domestic interest payments

Sierra Leone: Fiscal Indicators, 2008–12

(Percent of GDP, unless otherwise indicated)

	2008		2009		2010	2011	2012
	Prog. ¹	Act.	Prog. ¹	Rev. Prog.				Proj.
Revenue and grants	18.1	15.9	18.4	18.2	18.1	18.4	18.9
Domestic revenue	11.8	11.4	12.3	11.0	11.7	12.2	12.5
Total expenditure and net lending	21.2	20.7	22.2	22.2	21.6	21.7	21.6
Of which: current expenditure	15.2	14.6	14.9	14.8	14.0	13.9	13.7
capital expenditure	6.0	6.2	7.3	7.4	7.6	7.8	8.0
Domestic primary fiscal balance	-2.8	-2.4	-1.7	-3.3	-1.9	-1.7	-1.0
Overall fiscal balance, commitment basis							
Excluding grants	-9.4	-9.4	-9.9	-11.2	-9.9	-9.5	-9.2
Including grants	-3.2	-4.8	-3.5	-4.0	-3.4	-3.3	-2.7
Domestic financing	1.8	2.7	1.3	1.7	1.6	1.5	1.0
Domestic debt (end-period)	21.5	24.5	21.5	22.9	22.0	21.2	19.8
Poverty-reducing expenditures	5.6	5.7	4.9	5.1	5.3	5.5	5.7

Sources: Sierra Leonean authorities, and IMF staff estimates and projections.

¹ IMF Country Report No. 09/2 (January 12, 2009).

due to a steep decline in interest rates on treasury bills (0.4 percent of GDP);³ and (iii) additional domestic financing (0.4 percent of GDP).⁴ As a result, the overall fiscal deficit is projected to increase to 4 percent of GDP, against 3.5 percent of GDP previously projected and 4.8 percent in 2008, and domestic financing will increase to 1.7 percent of GDP—still below the levels in the last two years.

9. **The authorities recognize the need to step up efforts to improve tax administration and broaden the tax base (MEFP, ¶14).** At 11 percent of GDP in 2009, domestic revenue is among the lowest among in sub-Saharan Africa. Measures to make the National Revenue Authority more efficient include (i) strengthening of the Large Taxpayer Office; (ii) modernizing customs operations, particularly by upgrading the IT system; and (iii) establishing a Domestic Taxation Department for all domestic tax administration operations. In parallel, the NRA has undertaken to intensify field audits and enforce the payment of tax arrears. Parliament enacted legislation introducing the GST in early June and the implementation regulations have been adopted by Cabinet. The GST launch was delayed to September 2009 to finalize all preparatory work.⁵ The authorities have also undertaken actions to simplify the tax regime for small taxpayers whose turnover does not exceed the GST threshold.

³ The revised program also incorporates provisions for the cost of fuel to continue the Emergency Power Project for another three months. The supply of electricity from the Bumbuna hydroelectric project was expected to start by June 2009, but a few months delay is likely.

⁴ The authorities are also in discussion with the EU of additional budget support grants for 2009. If they become available the need for the additional domestic financing would correspondingly be reduced.

⁵ The GST is expected to be revenue-neutral in 2009, but to generate at least 0.4 percent of GDP in additional annual revenue subsequently.

10. **There is a need to deepen public financial management (PFM) reforms and build capacity for effective delivery of basic public services.** A new integrated PFM reform program, supported by several development partners, is under preparation to consolidate the progress made so far in public expenditure management (MEFP, ¶15).

Monetary and exchange rate policies

11. **Monetary policy will aim at maintaining single-digit inflation.** Reserve money is targeted to grow by about 13 percent, which, given the government's domestic financing requirement, would allow for adequate expansion in credit to the private sector (Tables 6 and 7). To support the conduct of monetary policy, the government will complete conversion of Le 60 billion of noninterest-bearing liabilities into marketable securities. Further, to enhance the independence of the BSL, the authorities are exploring ways to give it the authority to change the reserve requirement ratio without parliamentary approval (MEFP, ¶17).

12. **The banking sector so far has withstood the global financial crisis, but it will be necessary to remain vigilant against the risks.** All 13 banks met the minimum capital requirement of Le 12 billion as of March 2009 and the requirement will increase it to Le 15 billion by year-end. However, despite recent declines, nonperforming loans (NPLs) remain large at about 23 percent of gross loans at end-2008 (Table 12). While banks are moving to increase provisioning and recover large bad loans, the rapid credit expansion in recent years may expose further vulnerabilities. Moreover, although Sierra Leone's banks have limited exposure to international markets, the financial crisis could cause problems if banks lose some of their deposits with troubled foreign correspondent banks. Mindful of these risks, the BSL is monitoring developments closely, especially bank open positions in foreign currencies and compliance with prudential indicators.

13. **The authorities reiterated their commitment to keep the exchange rate flexible to allow for an appropriate market response to external shocks.** BSL interventions in the foreign exchange market will be dictated by the need to meet its foreign reserve target and it will continue to balance treasury bill sales and foreign exchange auctions to achieve an appropriate monetary policy mix.

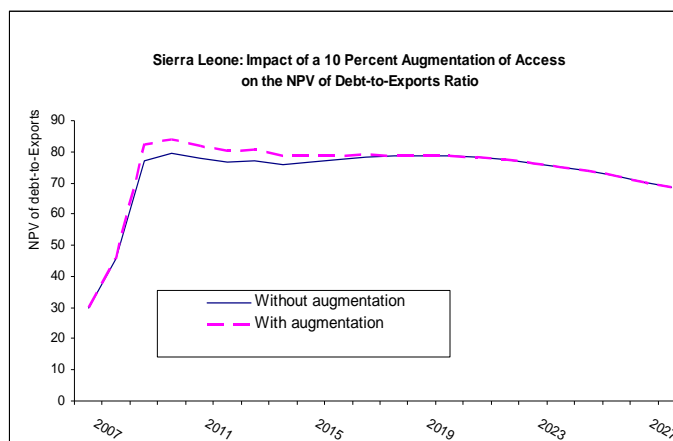
External sector

14. **Sierra Leone's balance of payments outlook has worsened significantly due to deteriorating mining exports (Table 8).** The value of exports is projected to fall by about 27 percent in 2009, reflecting a decline in average world prices and export volumes of the main minerals—diamonds, rutile, and bauxite. A major bauxite mine has been shut down and diamond mining has been cut back due to low demand and prices. On the import side, the value of fuel imports is projected to decline with falling world market prices and less domestic demand as hydro-generated electricity replaces diesel-generated. Relative to the program, the current account deficit (including official transfers) is projected to widen by 3.2 percentage points of GDP to 8.5 percent. The earlier program objective of accumulating

US\$39 million in international reserves in 2009 is now beyond reach. Instead, the program will target an increase of about US\$9 million which would bring reserves to 5 months of next year's imports at end-2009. This increase in reserve coverage compared to the original program target reflects a projected decline in imports for 2010. The Sierra Leonean authorities stressed the need to target at least a moderate increase in the dollar value of reserves to buttress market confidence in the leone and be better prepared to withstand any unexpected market pressures, such as more fallout from the global crisis. Also, the precipitous fall in export receipts and high export concentration in a few minerals call for a relatively high reserve cover to foster confidence among market participants. Furthermore, the authorities are conscious that coverage will decline when import demand returns to normal levels in the coming years—reserves are projected to fall to about 4 months of imports in the medium term.

15. **To achieve the targeted increase in reserves, the external financing gap is projected at \$15.8 million.** The authorities are requesting an augmentation of access under the PRGF arrangement equivalent to 10 percent of quota to close this gap (about 0.3 months of imports). This would bring Sierra Leone's total access to SDR 51.88 million, equivalent to about 50 percent of quota (Table 10). Given the fiscal adjustment already made through spending cuts and identified additional external financing amounting to about US\$16 million (see paragraph 8), the augmentation would be appropriate to support maintenance of international reserves. Moreover, the authorities are prepared to keep the exchange rate flexible, which will be important for adjustment if there are additional external shocks. Without the augmentation, reserves would likely decline in 2009. Sierra Leone's capacity to repay the Fund remains favorable. Total debt service obligations to the Fund are projected to peak in 2015 at 2.5 percent of exports of goods and services and to decline thereafter (Table 9).

16. **The DSA completed in June 2008 found that Sierra Leone was at a moderate risk of debt distress.** While debt indicators relative to exports have weakened following the drop in exports, all indicators remain below the DSA thresholds for Sierra Leone.⁶ The NPV of debt-to-export ratio is estimated to increase to 77 percent in 2009 and gradually



⁶ This calculation is based on a preliminary update of the 2008 DSA, with new borrowing based on the authorities' latest medium-term fiscal framework through 2012 and thereafter assumed to be roughly constant as a percent of GDP. A DSA update prepared with the World Bank will be presented together with the staff report for the fifth PRGF review.

decline to about 70 percent thereafter. The NPV of debt-to-GDP ratio will increase slightly to about 9 percent in 2009 and remain well below the 30 percent threshold thereafter. The proposed augmentation of the PRGF arrangement will increase the NPV of debt-to-export ratio by an additional 5 percentage points in 2009, but the effect will gradually disappear.

17. **The government is making good faith efforts to resolve external arrears to commercial creditors.** The authorities continue to engage these creditors, they have made goodwill payments to some of them, and a debt buy-back operation on external commercial debt is being prepared, with World Bank assistance.⁷ The status of Sierra Leone's relations with its external creditors provides sufficient financing assurances for the Fund-supported program.

Other structural reforms

18. **Structural reforms will continue to focus on macrocritical areas to raise economic growth and improve public services.** Efforts in 2009 will emphasize

- Implementing the comprehensive strategy for reform of the financial sector that was adopted in June 2008. The plan calls for strengthening bank supervision, enhancing competition in the sector, increasing access to commercial bank credit, and improving the payment system (MEFP, ¶20). Regulations are also being prepared to ensure that the AML/CFT provisions comply with international standards.
- Restructuring the National Power Authority (NPA) and improving its finances. The authorities are preparing a study to inform a comprehensive electricity tariff policy to be adopted by December 2009 (MEFP, ¶21). Measures will also be put in place to better oversee the financial and technical operations of the NPA, in consultation with several donors active in the sector.
- Tackling corruption and enhancing transparency in the use of public resources. Following the launch in 2008 of the national Anti-Corruption Strategy, an anti-corruption act was passed to strengthen the power of the Anti-Corruption Commission (ACC). The ACC will intensify education and outreach activities to enhance public awareness of corruption (MEFP ¶22).

⁷ In February 2009, the World Bank approved a grant to fund the preparatory work for the operation, including financing for legal and financial advisors, documentation, and audits. Unreconciled records suggest that the stock of external debt to commercial creditors could be as high as US\$246 million. The cost to finance a buy-back of all remaining eligible commercial external debt is currently estimated at US\$7-15 million.

B. Monitoring

19. **The program will be monitored semiannually.** Quantitative performance criteria for June and December 2009 and indicative targets for September have been modified to make them consistent with the revised macroeconomic framework (MEFP, Table 1). Structural performance criteria for 2009 have been converted into structural benchmarks (MEFP, Table 2). The structural program conditionality focuses on strengthening tax administration, enhancing bank supervisions, and improving the financial viability of the public electricity utility. Reviews of structural policies will be based on assessment of progress on the authorities' reform program, particularly where benchmarks have been set.

C. Risks

20. **There are risks to the program.** First, there are downside risks to projected economic growth in 2009-10 and the strength of the subsequent recovery. The global recession may affect the Sierra Leonean economy more severely or it may deepen further, suppressing revenues more and further slowing domestic activity. Revenue shortfalls will require additional fiscal adjustment or external financing. Second, the financial crisis could impact negatively on the balance sheet of commercial banks, constraining the availability of bank credit. Although the risks may be limited due to the local banks' low integration with global financial markets, the BSL is closely monitoring developments in the financial sector against a set of early warning indicators.

III. STAFF APPRAISAL

21. **After a period of robust growth, the global economic downturn is slowing economic activity in Sierra Leone.** The mining industry, the country's main export sector, is being hard hit by declining prices and sluggish demand. Services and construction sectors are also negatively affected. On the positive side, agricultural production remains robust, electricity capacity is expected to rise, and the country is benefiting from the decline in world fuel prices.

22. **Shortfalls in domestic revenue are challenging fiscal policy.** The authorities are responding appropriately by safeguarding the budgeted expansion in investment and poverty-reducing expenditures and minimizing the impact on the domestic financing requirement by cutting current, nonpriority spending and seeking additional external financing. Because revenue collection is low by regional standards, it will be critical to step up the efforts to strengthen tax administration, broaden the tax base, and deepen PFM reforms to improve delivery of basic public services. In this respect, the GST launch planned for September 2009 is an important step.

23. **Monetary policy should aim at keeping inflation in single digits in 2009.**

Conversion of the noninterest-bearing, nonmarketable government liabilities on the balance sheet of the BSL into marketable securities should strengthen the conduct of monetary policy.

24. **Vigilance against financial sector risks is crucial.** Although the banking sector has coped well thus far with the effects of the global financial crisis, the BSL should carefully monitor banks open positions in foreign currencies and compliance with prudential regulations. Notwithstanding they have declined recently, NPLs as a percent of total gross loans remain a cause of concern, particularly after a period of very strong growth in bank credit to the private sector.

25. **Staff supports the authorities commitment to maintain exchange rate flexibility.** Flexibility would provide an important buffer against fluctuations in commodity prices and other external shocks.

26. **There is a need to step up structural reforms to raise economic growth and improve delivery of public services.** The focus is appropriately on deepening the financial sector, reforming the electricity sector to provide reliable and cost-efficient service throughout the country, and promoting good governance and enhancing transparency in the use of public resources.

27. **Staff recommends the completion of the fourth PRGF review and the financing assurances review.** Staff further recommends that the authorities' request for waivers for the nonobservance of one quantitative and one structural performance criteria be granted in view of the corrective actions taken, the external shocks the country has experienced, and the authorities' continued commitment to sound macroeconomic policies.

28. **Staff also recommends that the requested augmentation of access under the PRGF arrangement be granted.** This would help ease adjustment to the external shock and keep international reserves at a level that would sustain confidence in the domestic currency. The augmentation is justified by significant external vulnerabilities, a moderate external debt burden, and demonstrable capacity to repay the Fund.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2008

(Cumulative change from beginning of calendar year to end of month indicated; Le millions, unless otherwise indicated) ¹

	2008												
	March	June				September				December			
	Act.	Performance Criteria	Adjusted Targets	Act.	Met or Not Met	Indicative Targets	Adjusted Targets	Act.	Met or Not met	Performance Criteria	Adjusted Targets	Act.	Met or Not met
Performance criteria													
Net domestic bank credit to the central government (ceiling)	45,861	116,820	127,531	101,489	Met	85,039	174,229	160,897	Met	127,200	218,709	217,687	Met
Unadjusted target (ceiling)			116,820				85,039				127,200		
Adjustment for the shortfall (excess) in external budget support			32,230				57,638				64,460		
Adjustment for the issuance of treasury securities to the private sector			-21,519				31,552				27,049		
Net domestic assets of the central bank (ceiling)	21,810	90,080	122,310	66,137	Met	58,043	115,681	69,918	Met	179,209	243,669	100,038	Met
Unadjusted target (ceiling)			90,080				58,043				179,209		
Adjustment for the shortfall (excess) in external budget support			32,230				57,638				64,460		
Domestic primary fiscal balance of the central government (floor)	-31,787	-81,355	-81,355	-104,590	Not met	-107,265	-107,265	-141,117	Not met	-165,720	-165,720	-140,650	Met
Subsidies to National Power Authority (ceiling) ³	0	0	0	0	Met	0	0	0	Met	0	0	0	Met
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	-9.0	4.45	-25.82	-17.44	Met	-9.75	-27.32	-3.20	Met	-23.2	-39.04	-5.63	Met
Unadjusted target (floor)			4.45				-9.75				-23.22		
Adjustment for the shortfall (excess) in external budget support ⁴			-30.6				-17.88				-20.00		
Adjustment for the shortfall in the US\$ value of IMF disbursement			0.32				0.32				4.18		
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			0.00				0.00				0.00		
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) ³	0	0	0	0	Met	0	0	0	Met	0	0	0	Met
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) ³	0	0	0	0	Met	0	0	0	Met	0	0	0	Met
External payment arrears of the public sector (ceiling) ³	0	0	0	0	Met	0	0	0	Met	0	0	0	Met
Total domestic government revenue (floor)	150,955	326,874	326,874	318,077	Not met	508,354	508,354	492,625	Not met	692,697	692,697	662,134	Not met
Indicative target													
Poverty-related expenditures (floor)	67,619	157,680	157,680	210,422	Met	243,362	243,362	305,143	Met	326,700	326,700	330,400	Met
Memorandum items:													
External budgetary assistance ⁵	0	32,230	32,230	0		143,043	143,043	85,405		211,200	211,200	115,380	
Net credit to government by nonbank private sector ⁶	20,646	10,574	10,574	32,093		14,258	14,258	-17,294		-6,909	-6,909	-33,958	
Disbursements under the PRGF (US\$ millions)	0	6.92	6.92	7.24		6.92	6.92	7.24		13.84	13.84	18.02	

Sources: Sierra Leonean authorities; and IMF staff calculations.

¹ The performance criteria and indicative targets shown in this table are defined in the Technical Memorandum of Understanding (TMU).

² IMF Country Report No. 09/2 (January 12, 2009)

³ These apply on a continuous basis.

⁴ The reserve accumulation target, unlike the monetary targets, was calculated to include foreign aid disbursements that did materialize in the period.

⁵ Including program grants and program loans.

⁶ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

Table 2. Sierra Leone: Status of Implementation of Structural Conditionality for 2008-09

Measures	Timing	Status
Structural performance criteria		
Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that include the monthly projections for government revenue and expenditures made available by the Ministry of Finance to the Bank of Sierra Leone to produce a monthly liquidity forecast	On a continuous basis, starting in June 2008.	Met
Promulgate the interest rate and penalties for under/late payment of tax and make them effective starting October 1, 2008	End-September 2008	Met
Adoption by the cabinet of the implementation decree for the Goods and Services Tax (GST).	End-December 2008	Not met
Structural benchmarks		
Adoption by the cabinet and submission to parliament of the legislation for the introduction of the GST.	End-June 2008	Met
Introduce a Tax Identification Number (TIN) system and make it effective	End-September 2008	Met
Adopt a comprehensive tariff policy for the electricity sector that will strengthen the financial position of the National Power Authority	End-December 2008	Not met

Table 3. Sierra Leone: Selected Economic and Financial Indicators, 2007–12

	2007	2008		2009		2010	2011	2012
	Act.	Prog. ¹	Est.	Prog. ¹	Rev. Prog.		Proj.	
(Annual percentage change, unless otherwise indicated)								
Income and prices								
Real GDP	6.4	5.5	5.5	5.5	4.0	4.0	5.5	6.0
GDP deflator	10.8	12.0	11.2	8.3	8.8	7.6	6.2	5.9
Nominal GDP	17.9	18.2	17.3	14.3	13.1	12.0	12.1	12.3
Consumer prices (end of period)	13.8	15.7	12.2	9.8	9.0	8.0	7.5	7.0
Consumer prices (annual average)	11.7	15.6	14.8	12.7	10.6	8.5	7.8	7.3
Money and credit								
Broad money	25.9	20.9	26.4	14.1	16.9	13.7	11.2	10.3
Velocity (level)	4.4	4.3	4.1	4.3	4.0	3.9	3.9	4.0
Domestic credit ²	27.2	41.9	65.5	20.8	26.2	22.6	13.9	11.6
Government ²	17.6	49.1	71.9	21.9	35.5	19.6	...	...
Private sector	39.4	34.6	56.8	20.0	15.5	28.0	...	...
Reserve money	26.0	18.2	10.2	13.6	13.2	12.0	9.5	8.6
Interest rate ³	21.3	...	9.1	...	...	...	...	...
External sector								
Exports (US\$)	2.9	0.0	-12.9	12.0	-26.6	18.4	17.4	16.5
Imports (US\$)	2.2	17.4	13.4	-1.8	-10.9	10.4	8.7	8.9
Export volumes	-5.9	...	-27.3	...	-8.6	7.4	13.3	13.1
Import volumes	0.2	...	-4.8	...	3.6	3.8	4.8	6.1
Terms of trade (– = deterioration)	-2.1	...	-3.2	...	-4.1	4.2	0.2	0.6
Real effective exchange rate (– = depreciation; eop)	0.6	...	8.0	...	...	...	...	...
(Percent of GDP)								
Saving and Investment								
Gross national saving	9.7	8.6	5.7	11.6	6.2	6.8	8.3	9.3
Gross domestic saving	6.1	5.1	3.4	8.9	3.2	4.1	5.3	6.1
Government	0.3	-0.9	-0.6	0.0	-1.6	0.2	0.7	1.4
Private	5.8	6.0	4.0	8.8	4.8	3.8	4.5	4.7
Gross domestic investment	13.2	15.7	14.8	16.7	14.8	15.3	15.9	16.1
Government	3.5	6.0	6.2	7.3	7.4	7.6	7.8	8.0
Private	9.7	9.7	8.6	9.5	7.4	7.8	8.1	8.1
External sector								
Current account balance, including official transfers	-3.4	-7.1	-9.0	-5.2	-8.5	-8.5	-7.6	-6.8
Current account balance, excluding official transfers	-7.0	-10.6	-11.5	-8.1	-12.3	-11.4	-10.7	-10.1
Overall balance of payments	1.9	-2.7	-1.2	0.8	-1.4	-0.2	0.4	0.7
Central government								
Government domestic revenue	10.8	11.8	11.4	12.3	11.0	11.7	12.2	12.5
Total expenditure and net lending	17.7	21.2	20.7	22.2	22.2	21.6	21.7	21.6
Of which: current expenditure	13.3	15.2	14.6	14.9	14.8	14.0	13.9	13.7
Overall fiscal balance								
(excluding grants and MDRI)	-6.8	-9.4	-9.4	-9.9	-11.2	-9.9	-9.5	-9.2
(including grants and MDRI) ⁴	25.2	-3.2	-4.8	-3.5	-4.0	-3.4	-3.3	-2.7
Domestic primary fiscal balance ⁵	-1.9	-2.8	-2.4	-1.7	-3.3	-1.9	-1.7	-1.0
Domestic financing	2.2	1.8	2.7	1.3	1.7	1.6	1.5	1.0
(Percent of exports of goods and nonfactor services, unless otherwise indicated)								
Debt service due after debt relief, incl. to IMF ⁶	4.2	4.1	2.3	3.6	3.9	6.7	8.0	8.0
Net present value of debt-to-exports ratio	29.7	49.9	45.7	56.2	82.2	84.0	82.0	80.4
Net present value of debt-to-GDP ratio	6.2	...	7.2	...	9.2	10.3	10.8	11.3
(US\$ millions, unless otherwise indicated)								
External current account balance, excluding official transfers	-115.9	-209.4	-223.7	-173.0	-257.0	-255.8	-257.0	-259.5
Gross international reserves	215.5	180.1	209.5	219.3	218.0	223.0	228.0	238.0
(months of imports) ⁷	4.9	3.9	5.2	4.2	5.0	4.7	4.4	4.3
GDP	1,663.7	1,968.9	1,952.8	2,130.7	2,091.1	2,235.6	2,396.7	2,578.4
GDP (Le billions)	4,966.5	5,873.4	5,823.8	6,711.8	6,586.9	7,377.4	8,268.7	9,282.1

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.

¹ IMF Country Report No. 09/2 (January 12, 2009)² The numbers reflect the impact of the MDRI.³ 91-day treasury bill rate (end of period).⁴ For 2007, MDRI relief from IDA and AfDF (both as stock of debt relief).⁵ Domestic revenue minus total expenditure and net lending, excluding interest payments, and externally financed capital expenditure.⁶ Percent of exports of goods and services; after Naples (2001) and Cologne flow reschedulings (2002–04) and delivery of full HIPC Initiative and MDRI assistance.⁷ Months of imports of goods and services of subsequent year.

Table 4. Sierra Leone: Central Government Financial Operations, 2008–09
(Cumulative; Le billions, unless otherwise indicated)

	2008					2009			
	March	June	Sept.	Dec.		March	June	Sept.	Dec.
				Prog. ¹	Act.					Est	Proj.
Total revenue and grants	211.6	400.4	687.0	1,060.9	926.7	288.8	574.1	832.0	1,199.4
Domestic revenue	152.0	318.1	492.6	692.7	662.1	155.2	343.0	533.2	724.7
Income Tax Department	45.0	96.0	149.6	196.5	195.6	46.2	101.0	158.7	215.3
Customs and Excise Department	82.4	174.5	267.3	370.9	363.1	89.4	190.6	295.9	398.3
Mines Department	3.6	5.8	15.3	26.2	18.5	1.9	6.8	12.1	18.8
Other departments	9.0	18.3	26.2	45.3	38.7	5.7	17.6	25.2	36.2
Road user charges	12.1	23.5	34.2	53.8	46.2	12.1	26.9	41.3	56.1
Grants	59.5	82.3	194.3	368.2	264.6	133.5	231.1	298.8	474.7
Program	0.4	1.7	92.7	209.3	143.8	74.9	119.3	132.9	249.8
Of which: HIPC assistance	0.4	1.7	7.3	10.7	13.4	0.7	3.4	5.2	12.8
Peace Building Fund	0.0	0.0	0.0	0.0	15.0	0.0	0.0	11.8	11.8
Projects	59.1	80.6	101.6	159.0	120.8	58.7	111.7	166.0	224.9
Total expenditure and net lending	310.7	626.1	958.3	1,246.6	1,207.3	313.8	722.1	1,097.9	1,462.7
Current expenditure	195.2	443.1	661.2	894.6	848.3	191.0	477.5	730.4	977.1
Wages and salaries	78.7	161.9	248.1	340.2	334.4	80.1	191.9	299.9	400.2
Current noninterest, nonwage expenditure	85.5	217.7	320.0	433.6	393.5	90.5	238.8	356.0	461.1
Goods and services	61.2	144.9	223.0	302.7	284.6	61.6	167.3	246.5	312.3
Of which: Emergency Power Project	19.4	45.3	68.6	98.2	83.5	20.8	41.6	41.6	41.6
Transfers to local councils	5.1	32.1	35.4	41.5	27.1	8.6	28.9	44.2	60.1
Grants to educational institutions	6.0	13.4	22.5	27.2	29.2	8.0	15.4	23.5	31.9
Transfers to Road Fund	12.1	23.5	34.2	53.8	46.2	12.1	26.9	41.3	56.1
Elections	1.1	3.8	5.0	7.5	6.3	0.1	0.2	0.3	0.4
Interest payments	31.0	63.5	93.2	120.9	120.5	20.5	46.9	74.6	115.8
Domestic	29.1	58.2	84.1	109.6	108.7	19.6	41.9	68.0	104.0
Foreign	1.9	5.3	9.0	11.2	11.7	0.9	4.9	6.5	11.8
Capital expenditure and net lending	115.5	183.0	297.1	351.9	359.1	122.8	244.5	367.5	485.6
Capital expenditure	115.5	183.0	297.1	353.8	359.1	122.8	244.9	368.3	486.8
Externally financed	86.9	139.9	231.4	267.3	284.1	113.0	211.3	310.9	406.0
Loans	27.8	59.3	129.7	108.3	163.3	12.6	25.3	37.9	12.6
Grants	59.1	80.6	101.6	159.0	120.8	21.7	43.5	65.2	21.7
Domestically financed	28.6	43.1	65.7	86.6	75.0	9.8	33.6	57.5	80.8
Net lending	0.0	0.0	0.0	-1.9	0.0	0.0	-0.4	-0.8	-1.2
Overall balance (commitment basis)									
Excluding grants	-158.7	-308.0	-465.6	-553.9	-545.2	-158.6	-379.1	-564.7	-738.0
Including grants and MDRI assistance from IDA and AfDF	-99.1	-225.8	-271.3	-185.6	-280.6	-25.0	-148.0	-265.9	-263.3
Total financing	99.1	225.8	271.3	185.6	280.6	25.0	148.0	265.9	263.3
Foreign	23.7	52.5	120.0	77.4	143.3	53.3	89.7	132.8	154.6
Borrowing	27.8	59.3	129.7	108.3	163.3	54.3	99.6	144.9	181.1
Project	27.8	59.3	129.7	108.3	163.3	54.3	99.6	144.9	181.1
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-4.1	-6.9	-9.7	-30.9	-20.0	-1.0	-10.0	-12.1	-26.6
Domestic	90.6	172.4	168.5	108.2	158.0	-15.9	70.7	142.7	108.7
Bank financing	45.9	101.5	160.9	127.3	217.7	-12.3	71.3	136.5	122.5
Of which: change in MDRI-related deposits	57.2	80.3	115.6	98.3	118.5	17.7	63.5	99.8	99.8
Nonbank financing	44.8	71.0	7.6	-19.1	-59.6	-3.6	-0.5	6.2	-13.8
Claims on gov. by nonbank sector	20.6	32.1	-17.3	-6.9	-34.0	-16.1	-5.0	3.2	7.3
Privatization and other receipts	0.0	0.0	0.0	13.9	4.1	6.0	11.9	17.9	23.9
Change in arrears	-1.5	-2.2	-13.8	-41.9	-45.6	-15.8	-29.7	-37.1	-45.0
Float (checks payable and outstanding commitments)	25.6	41.0	38.8	15.8	15.8	22.3	22.3	22.3	0.0
Unaccounted (– = overfinancing of the budget)	-15.3	0.9	-17.3	0.0	-20.8	-12.3	-12.4	-9.7	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>									
Nominal GDP (Le billions)	5,824	5,824	5,824	5,873	5,824	6,587	6,587	6,587	6,587
Total HIPC assistance (percent of GDP)	0.0	0.0	0.1	0.2	0.2	0.0	0.1	0.1	0.2
Total poverty expenditures (percent of GDP)	1.3	3.6	1.6	7.1	5.7	0.9	2.7	4.1	5.1
(Le billions)	75.1	210.4	94.7	415.3	330.4	61.4	178.7	267.2	337.5
	(Percent of GDP, unless otherwise indicated)								
Domestic revenue	2.6	5.5	8.5	11.8	11.4	2.4	5.2	8.1	11.0
Total expenditure and net lending	5.3	10.8	16.5	21.2	20.7	4.8	11.0	16.7	22.2
Of which: current expenditure	3.4	7.6	11.4	15.2	14.6	2.9	7.2	11.1	14.8
capital expenditure	2.0	3.1	5.1	6.0	6.2	1.9	3.7	5.6	7.4
Overall fiscal balance									
Including grants and MDRI	-1.7	-3.9	-4.7	-3.2	-4.8	-0.4	-2.2	-4.0	-4.0
Excluding grants	-2.7	-5.3	-8.0	-9.4	-9.4	-2.4	-5.8	-8.6	-11.2
Domestic primary balance ²	-0.7	-1.8	-2.4	-2.8	-2.4	-0.4	-1.8	-2.7	-3.3
(Le billions)	-40.8	-104.6	-141.1	-165.7	-140.7	-25.1	-120.9	-179.3	-216.2
Domestic financing	1.6	3.0	2.9	1.8	2.7	-0.2	1.1	2.2	1.7
Total wages and salaries	1.4	2.8	1.5	5.8	5.7	1.2	2.9	4.6	6.1
Total wages and salaries (percent of domestic revenue)	51.7	50.9	50.9	49.1	50.5	51.6	55.9	56.2	55.2

Sources: Sierra Leonean authorities, and IMF staff estimates and projections.

¹ IMF Country Report No. 09/2 (January 12, 2009)

² Domestic revenue minus total expenditure and net lending, excluding interest payments and externally financed capital expenditures.

Table 5. Sierra Leone: Central Government Financial Operations, 2007–12
(Le Billions, unless otherwise indicated)

	2007	2008		2009		2010	2011	2012	
	Actual	Prog. ¹	Act.	Prog. ¹	Rev. Prog.		Proj.		
Total revenue and grants	2,129.3	1,060.9	926.7	1,249.9	1,199.4	1,337.2	1,522.3	1,755.3	
Domestic revenue	536.9	692.7	662.1	824.0	724.7	862.4	1,006.6	1,157.6	
Income Tax Department	146.2	196.5	195.6	230.8	215.3	265.0	300.5	345.6	
Customs and Excise Department	308.4	370.9	363.1	458.8	398.3	470.6	565.2	650.0	
Mines Department	18.6	26.2	18.5	29.2	18.8	26.9	36.8	42.3	
Other departments	29.4	45.3	38.7	49.0	36.2	42.6	45.4	52.2	
Road user charges	34.4	53.8	46.2	56.2	56.1	57.3	58.7	67.5	
Grants	1,592.5	368.2	264.6	425.9	474.7	474.8	515.7	597.7	
Program	168.7	209.3	143.8	201.0	249.8	219.3	230.6	259.9	
Of which: HIPC assistance	35.0	10.7	13.4	12.8	12.8	11.4	11.9	0.0	
Peace Building Fund	8.0	...	15.0	...	11.8	...	...	...
Projects	70.6	159.0	120.8	224.9	224.9	255.5	285.1	337.8	
MDRI assistance from IDA and AfDF	1,353.2	...	...	...	...	...	...	...
Total expenditure and net lending	876.6	1,246.6	1,207.3	1,486.7	1,462.7	1,591.7	1,794.6	2,007.8	
Current expenditure	660.9	894.6	848.3	1,000.9	977.1	1,034.1	1,151.9	1,268.6	
Wages and salaries	296.5	340.2	334.4	400.2	400.2	455.0	508.1	567.2	
Of which: social security payments	14.0	18.1	20.4	21.7	21.7	21.7	21.7	21.7	
Current noninterest, nonwage expenditure	252.3	433.6	393.5	460.2	461.1	435.6	488.8	520.4	
Goods and services ²	157.3	302.7	284.6	304.4	312.3	262.0	302.2	310.0	
Of which: Emergency Power Project	...	98.2	83.5	41.6	51.7	...	...	...
Transfers to local councils	19.3	41.5	27.1	60.1	60.1	69.9	77.0	86.4	
Grants to educational institutions ²	27.4	27.2	29.2	38.9	31.9	45.5	50.1	56.2	
Transfers to Road Fund	34.4	53.8	46.2	56.2	56.1	57.3	58.7	67.5	
Elections	13.8	7.5	6.3	0.4	0.4	0.6	0.6	0.0	
Interest payments	112.1	120.9	120.5	140.5	115.8	143.5	155.0	181.0	
Domestic	96.3	109.6	108.7	127.6	104.0	129.9	140.7	162.1	
Foreign	15.9	11.2	11.7	12.9	11.8	13.6	14.3	18.9	
Capital expenditure and net lending	176.7	351.9	359.1	485.8	485.6	557.6	642.7	739.2	
Capital expenditure	173.8	353.8	359.1	486.8	486.8	557.6	642.7	739.2	
Externally financed	132.4	267.3	284.1	406.0	406.0	444.8	494.7	573.0	
Domestically financed	41.4	86.6	75.0	80.8	80.8	112.7	148.0	166.1	
Net lending	2.9	-1.9	0.0	-1.0	-1.2	0.0	0.0	0.0	
Contingency spending related to MDRI	39.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance (commitment basis)									
Excluding grants	-339.7	-553.9	-545.2	-662.7	-738.0	-729.3	-788.0	-850.2	
Including grants	1,252.7	-185.6	-280.6	-236.8	-263.3	-254.5	-272.3	-252.5	
Total financing	-1,252.7	185.6	280.6	236.8	263.3	254.5	272.3	252.5	
Foreign	-1,333.8	77.4	143.3	150.3	154.6	139.4	144.6	163.7	
Borrowing	61.8	108.3	163.3	181.1	181.1	189.3	209.6	235.3	
Project	61.8	108.3	163.3	181.1	181.1	189.3	209.6	235.3	
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Amortization ³	-1,395.6	-30.9	-20.0	-30.8	-26.6	-49.9	-65.0	-71.5	
Domestic	110.2	108.2	158.0	86.4	108.7	115.1	127.7	88.8	
Bank financing	54.8	127.3	217.7	100.2	122.5	146.3	155.3	93.7	
Central bank	56.8	98.3	119.9	88.2	99.8	81.7	116.3	68.0	
Of which: change in MDRI-related deposits	39.0	98.3	118.5	88.2	99.8	81.7	116.3	68.0	
Commercial banks	-2.0	29.0	97.8	12.0	22.7	64.6	39.0	25.7	
Nonbank financing	55.4	-19.1	-59.6	-13.8	-13.8	-31.3	-27.6	-4.9	
Claims on gov. by nonbank sector	11.3	-6.9	-34.0	7.3	7.3	-19.2	-5.0	-4.9	
Privatization and other receipts	5.2	13.9	4.1	12.0	23.9	0.0	0.0	0.0	
Change in arrears	39.0	-41.9	-45.6	-33.1	-45.0	-12.0	-22.6	0.0	
Of which: arrears to local councils	0.0	-15.3	-15.3	0.0	0.0	0.0	0.0	0.0	
Float (checks payable and outstanding commitments)	0.0	15.8	15.8	0.0	0.0	0.0	0.0	0.0	
Unaccounted (= overfinancing of the budget)	-29.1	0.0	-20.8	0.0	0.0	0.0	0.0	0.0	
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<i>Memorandum items</i>									
Nominal GDP	4,966.5	5,873.4	5,823.8	6,711.8	6,586.9	7,377.4	8,268.7	9,282.1	
Total HIPC assistance (percent of GDP)	0.7	0.2	0.2	0.2	0.2	0.2	0.1	0.0	
Total poverty expenditures (percent of GDP)	3.0	7.1	5.7	4.9	5.1	5.3	5.5	5.7	
(Le billions)	147.8	415.3	330.4	330.6	337.5	394.0	456.2	524.6	
		(Percent of GDP, unless otherwise indicated)							
Domestic revenue	10.8	11.8	11.4	12.3	11.0	11.7	12.2	12.5	
Total expenditure and net lending	17.7	21.2	20.7	22.2	22.2	21.6	21.7	21.6	
Of which: current expenditure	13.3	15.2	14.6	14.9	14.8	14.0	13.9	13.7	
capital expenditure	3.5	6.0	6.2	7.3	7.4	7.6	7.8	8.0	
Overall fiscal balance (commitment basis)									
Including grants	25.2	-3.2	-4.8	-3.5	-4.0	-3.4	-3.3	-2.7	
Excluding grants	-6.8	-9.4	-9.4	-9.9	-11.2	-9.9	-9.5	-9.2	
Domestic primary balance ⁴	-1.9	-2.8	-2.4	-1.7	-3.3	-1.9	-1.7	-1.0	
(Le billions)	-95.2	-165.7	-140.7	-116.2	-216.2	-141.0	-138.3	-96.2	
Domestic financing	2.2	1.8	2.7	1.3	1.7	1.6	1.5	1.0	
Domestic debt stock, at end-period	25.6	23.3	24.5	21.5	22.9	22.0	21.2	19.8	
Total wages and salaries	6.0	5.8	5.7	6.0	6.1	6.2	6.1	6.1	
Total wages and salaries (percent of domestic revenue)	55.2	49.1	50.5	48.6	55.2	52.8	50.5	49.0	

Sources: Sierra Leonean authorities, and IMF staff estimates.

¹ IMF Country Report No. 09/2 (January 12, 2009).

² In the revised program for 2009, Le 7 billion of grants to educational institutions have been reclassified in current expenditure on goods and services.

³ The amount for 2007 includes MDRI relief from IDA and AfDF (as stock of debt relief).

⁴ Domestic revenue minus total expenditure and net lending, excluding interest payments and externally financed capital expenditure.

Table 6. Sierra Leone: Monetary Survey, 2007–10

(Le billions; at actual exchange rates unless otherwise indicated)

	2007	2008		2009								2010
	Dec.	Dec.		Mar.		June		Sept.		Dec.		Dec.
	Act.	Prog. ¹	Act.	Prog. ¹	Proj.	Prog. ¹	Rev. Prog.	Prog. ¹	Rev. Prog.	Prog. ¹	Rev. Prog.	Proj.
Monetary survey												
Net foreign assets	882.6	741.5	832.2	788.9	814.5	939.5	741.9	913.4	654.8	919.4	725.2	645.5
Net domestic assets	245.8	617.2	593.7	607.9	530.6	524.1	654.0	625.0	853.7	630.9	845.7	1,119.6
Domestic credit	579.5	822.0	958.9	851.5	896.4	877.2	1,020.4	996.4	1,219.4	993.4	1,210.3	1,484.1
Net credit to government	307.3	458.4	528.2	490.5	567.5	491.8	649.0	545.7	777.3	558.6	715.6	855.6
Narrow definition ²	-228.8	-54.2	-3.3	-27.1	26.2	-45.8	77.7	-5.8	120.8	46.0	119.4	184.0
Claims on nonfinancial public enterprises	8.4	8.6	17.3	8.7	17.3	8.7	17.3	8.7	17.3	8.7	17.3	17.3
Claims on private sector	263.7	355.0	413.4	352.3	311.6	376.8	354.1	442.0	424.8	426.2	477.4	611.2
Other items (net)	-333.6	-204.8	-365.2	-243.6	-365.7	-353.2	-366.4	-371.4	-365.7	-362.5	-364.5	-364.5
Broad money	1,128.5	1,358.7	1,426.0	1,396.8	1,372.3	1,463.6	1,450.9	1,538.4	1,564.6	1,550.3	1,667.6	1,896.5
Money	549.6	474.0	666.7	446.8	704.2	425.7	759.0	402.9	818.5	522.2	872.4	954.2
Quasi money	578.9	884.7	759.3	950.0	668.1	1,037.9	691.9	1,135.6	746.1	1,028.0	795.2	942.3
<i>Memorandum items:</i>						(Annual percentage change)						
Broad money	25.9	20.4	26.4	19.8	19.0	17.0	17.4	15.3	18.3	14.1	16.9	13.7
Reserve money	26.0	16.8	10.2	15.6	14.9	14.2	13.4	12.0	14.3	13.6	13.2	12.0
Net credit to the government	17.6	49.1	71.9	36.5	57.9	18.6	56.5	16.4	65.8	21.9	35.5	19.6
Claims on private sector	39.4	34.6	56.8	18.5	4.8	18.9	11.7	18.9	14.3	20.0	15.5	28.0
Velocity (GDP/M2)	4.4	4.3	4.1	4.8	4.8	5.1	4.5	5.4	4.2	4.3	4.0	3.9
Money multiplier (M2/base money)	2.7	2.7	3.1	2.9	2.9	3.0	3.0	3.0	2.9	2.8	3.2	3.2

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.

¹ IMF Country Report No. 09/2 (January 12, 2009).

² Excluding non interest-bearing government securities, government securities held for monetary operations, recapitalization bonds, and deposits in the sterilization account.

Table 8. Sierra Leone: Balance of Payments, 2007–13

(US\$ millions, unless otherwise indicated)

	2007 Est.	2008		2009		2010	2011 Proj.	2012	2013
		Prog.	Est.	Prog.	Rev. Prog.				
Current account balance	-57.3	-139.3	-176.5	-109.8	-178.3	-189.3	-182.0	-175.5	-179.4
Balance on goods	-94.2	-167.4	-181.0	-125.0	-199.9	-205.9	-205.4	-204.7	-211.4
Exports, f.o.b.	282.4	285.4	246.1	319.5	180.7	214.0	251.2	292.6	323.0
Of which: rutile	39.4	37.3	39.2	38.6	28.7	27.0	42.0	44.2	50.0
bauxite	32.7	33.4	28.1	45.4	17.9	10.1	11.8	17.9	19.2
diamonds ¹	168.6	152.9	117.6	159.5	70.5	112.5	128.4	158.4	178.6
Of which: kimberlite	17.1	15.7	11.9	16.5	7.1	11.7	13.5	16.4	18.6
Imports, f.o.b.	-376.6	-452.8	-427.1	-444.5	-380.6	-420.0	-456.6	-497.3	-534.4
Of which: petroleum	-105.7	-166.8	-155.3	-130.7	-92.4	-104.0	-118.5	-137.3	-152.2
rice	-20.9	-40.1	-53.4	-32.1	-48.0	-47.1	-46.1	-45.2	-44.3
Balance on services	-22.6	-41.9	-41.9	-42.5	-42.1	-45.7	-49.2	-53.7	-58.1
Credit	63.1	62.8	62.8	67.7	57.8	61.3	65.0	68.9	73.0
Debit	-85.7	-104.7	-104.7	-110.3	-99.9	-107.0	-114.2	-122.6	-131.1
Income	-34.6	-39.5	-39.1	-41.6	-40.0	-41.2	-42.4	-44.1	-45.3
Credit	7.8	7.6	8.2	7.7	8.5	8.9	9.3	9.7	10.2
Debit	-42.5	-47.2	-47.3	-49.3	-48.5	-50.1	-51.7	-53.8	-55.4
Interest payments due before debt relief ²	-5.3	-3.8	-3.9	-4.1	-3.7	-4.1	-4.1	-5.3	-5.7
Current transfers	94.2	109.4	85.5	99.3	103.7	103.4	114.9	127.0	135.3
Public (net) ³	58.6	70.0	47.2	63.2	78.7	66.5	75.0	84.0	88.3
Of which: HIPC grants	12.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	4.0
Private (net) ⁴	35.6	39.4	38.3	36.1	24.9	37.0	39.9	43.1	47.0
Current account balance, excl. public transfers	-115.9	-209.4	-223.7	-173.0	-257.0	-255.8	-257.0	-259.5	-267.7
Capital and financial account	88.5	85.5	152.5	126.3	149.8	185.7	191.9	192.4	198.3
Capital account	472.1	56.6	43.8	75.0	75.0	81.4	87.0	98.7	105.8
Project grants	23.3	53.3	40.5	71.4	71.4	77.4	82.6	93.8	100.5
Debt forgiveness (MDRI relief from IDA and AfDB)	445.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private capital transfers	3.0	3.3	3.3	3.6	3.6	4.0	4.4	4.8	5.3
Financial account	-383.6	28.9	108.6	51.3	74.8	104.3	104.8	93.7	92.5
Direct investment and portfolio investment	69.1	29.6	29.6	29.6	22.1	26.2	28.1	29.2	26.3
Other investment	-452.7	-0.6	79.1	21.7	52.7	78.1	76.7	64.5	66.3
Public sector loans (net)	-447.1	25.9	48.1	47.7	49.1	42.2	41.9	45.5	48.7
Of which: disbursements	20.3	36.3	54.7	57.5	57.5	57.4	60.8	65.4	69.5
program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
project loans	20.3	36.3	54.7	57.5	57.5	57.4	60.8	65.4	69.5
amortization due	-467.5	-10.4	-6.7	-9.8	-8.4	-15.1	-18.8	-19.9	-20.8
Private sector loans (net)	0.0	-15.0	0.0	-15.0	0.0	0.0	0.0	0.0	0.0
Change in net foreign assets of commercial banks	-45.8	9.3	-2.2	-13.0	3.9	20.5	15.3	2.1	2.0
Other, including errors and omissions	40.2	-20.9	33.2	2.0	-0.3	15.4	19.5	17.0	15.6
Overall balance	31.3	-53.8	-24.0	16.5	-28.5	-3.6	9.8	16.8	18.9
Change in net foreign assets of the central bank (- = increase)	-31.3	53.8	24.0	-16.5	12.7	3.6	-9.8	-16.8	-18.9
Change in reserve assets (- = increase)	-31.3	35.4	6.0	-39.3	-8.6	-5.0	-5.0	-10.0	-12.0
Net Fund credit	0.0	18.4	18.0	22.7	21.3	8.6	-4.8	-6.8	-6.9
Fund PRGF disbursement	0.0	18.4	18.0	22.7	21.3	10.7	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	0.0	-2.1	-4.8	-6.8	-6.9
Financing gap	0.0	0.0	0.0	0.0	15.8	0.0	0.0	0.0	0.0
Augmentation of PRGF access	0.0	0.0	0.0	0.0	15.8	0.0	0.0	0.0	0.0
Remaining gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>									
		(Percent of GDP unless otherwise indicated)							
Current account	-3.4	-7.1	-9.0	-5.2	-8.5	-8.5	-7.6	-6.8	-6.5
Current account, excluding public transfers	-7.0	-10.6	-11.5	-8.1	-12.3	-11.4	-10.7	-10.1	-9.8
Overall balance of payments	1.9	-2.7	-1.2	0.8	-1.4	-0.2	0.4	0.7	0.7
MDRI debt service savings (US\$ millions)	21.3	29.2	29.2	33.1	33.1	39.1	39.4	26.1	18.0
Of which: IMF	16.2	24.1	24.1	28.0	28.0	33.9	33.7	18.9	10.1
AfDF	1.8	1.9	1.9	1.9	1.9	1.9	2.2	2.5	2.7
IDA	3.2	3.2	3.2	3.2	3.2	3.3	3.5	4.7	5.2
Gross official reserves (US\$ millions)	215.5	180.1	209.5	219.3	218.0	223.0	228.0	238.0	250.0
Gross official reserves (months of imports) ⁵	4.9	3.9	5.2	4.2	5.0	4.7	4.4	4.3	4.1
GDP (US\$ millions)	1663.7	1968.9	1952.8	2130.7	2091.1	2235.6	2396.7	2578.4	2740.8

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.

¹ Includes unrecorded diamond exports estimated from partner-country data.² Official interest payments due, including Fund charges.³ Includes mostly program grants.⁴ Includes worker remittances and transfers to NGOs.⁵ Months of imports of total goods and services of subsequent year.

Table 9. Sierra Leone: Indicators of Capacity to Repay the Fund, 2007–16

(US\$ millions, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
						Proj.				
Fund credit outstanding (end of period)										
SDR millions	23.11	34.51	58.91	64.56	61.41	56.95	52.49	45.83	38.52	33.01
US\$ millions	35.38	54.56	89.47	98.38	93.86	87.43	80.96	70.96	59.64	51.11
Percent of quota	22.29	33.28	56.81	62.26	59.22	54.92	50.62	44.20	37.15	31.84
Fund obligations based on existing and prospective credit ¹										
Charges and interests	0.12	0.13	0.20	0.23	0.21	0.20	0.17	0.14	0.10	0.07
Principal	0.00	0.00	0.00	2.06	4.81	6.85	6.88	10.31	11.32	8.53
Fund credit outstanding as percent of:										
Exports of goods and services	10.2	17.7	37.5	35.7	29.7	24.2	20.4	16.5	13.1	10.6
Total external debt	3.5	5.4	8.4	8.8	8.1	7.3	6.6	5.6	4.6	3.8
Gross official reserves	16.4	26.0	41.0	44.1	41.2	36.7	32.4	26.3	21.3	17.5
Fund obligations as percent of:										
Exports of goods and services	0.0	0.0	0.1	0.8	1.6	1.9	1.8	2.4	2.5	1.8
Gross international reserves	0.1	0.1	0.1	1.0	2.2	3.0	2.8	3.9	4.1	2.9
<i>Memorandum items:</i>										
Exports of goods and services (US\$ millions)	345.5	308.9	238.5	275.4	316.2	361.5	396.0	430.7	456.4	483.7
Gross international reserves (in months of imports)	4.9	5.2	5.0	4.7	4.4	4.3	4.1	4.0	4.0	4.0
Debt service due after debt relief, incl. to IMF	4.2	2.3	3.9	6.7	8.0	8.0	7.5	8.1	8.4	7.9
GDP (US\$ millions)	1,663.7	1,952.8	2,091.1	2,235.6	2,396.7	2,578.4	2,740.8	2,937.9	3,147.1	3,313.0

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.

¹ The proposed augmentation is included in the calculations

Table 10. Sierra Leone: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2006–10
(SDR millions)

Date	Disbursements		Subject to
	Current	Proposed ¹	
May 2006	4.71	4.71	Approval of arrangement
December 2006	4.40	4.40	First review and performance criteria (PCs) for end-June 2006
July 2008	4.40	4.40	Completion of the second review and waivers for the nonobservance of end-December 2006 PCs
December 2008	7.00	7.00	Third review and quantitative PCs for end-June 2008, and structural PC for end-September 2008, as described in the June 5, 2008 MEFP, Tables 1 and 2
June 2009	7.00	12.185	Fourth review and quantitative PCs for end-December 2008 and structural PC as described in the June 5, 2008 MEFP, Table 2
November 2009	7.00	12.185	Fifth review and quantitative PCs for end-June 2009
April 2010	7.00	7.00	Sixth review and quantitative PCs for end-December 2009
Total disbursements	41.51	51.88	

¹ Assuming an augmentation of SDR 10.37 million (10 percent of quota) upon completion of the fourth review.

Table 11. Sierra Leone: Millennium Development Goals, 1990–2007

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	64	66	68	68
Employment to population ratio, ages 15-24, total (%)	51	55	60	60
Income share held by lowest 20%	1.1	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	24.7	..
Poverty headcount ratio at national poverty line (% of population)	82.8	..	..	..
Prevalence of undernourishment (% of population)	46	44	..	..
Vulnerable employment, total (% of total employment)	..	..	..	..
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	..	..	..	..
Literacy rate, youth male (% of males ages 15-24)	..	..	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	81
Total enrollment, primary (% net)	..	..	..	..
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	..	6	9	13
Ratio of female to male enrollments in tertiary education	..	..	40	..
Ratio of female to male primary enrollment	70	..	71	90
Ratio of female to male secondary enrollment	57	..	71	69
Ratio of young literate females to males (% ages 15-24)	..	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	..	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	..	..	37	67
Mortality rate, infant (per 1,000 live births)	169	165	162	159
Mortality rate, under-5 (per 1,000)	290	282	277	270
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	192	192	166
Births attended by skilled health staff (% of total)	..	..	42	43
Contraceptive prevalence (% of women ages 15-49)	..	..	4	5
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	2,100
Pregnant women receiving prenatal care (%)	..	..	68	81
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	61	52
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	214	282	371	517
Prevalence of HIV, female (% ages 15-24)	..	..	..	1.3
Prevalence of HIV, total (% of population ages 15-49)	..	..	1.3	1.7
Tuberculosis cases detected under DOTS (%)	..	28	33	35
Goal 7: Ensure environmental sustainability				
Annual freshwater withdrawals, total (% of internal resources)	..	..	0.2	..
CO ₂ emissions (kg per PPP \$ of GDP)	0.2	0.3	0.3	..
CO ₂ emissions (metric tons per capita)	0.1	0.1	0.1	..
Forest area (% of land area)	43	..	40	38
Improved sanitation facilities (% of population with access)	..	12	12	11
Improved water source (% of population with access)	..	57	57	53
Marine protected areas, (% of surface area)	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..
Goal 8: Develop a global partnership for development				
Aid per capita (current US\$)	15	50	40	63
Debt service (PPG and IMF only, % of exports, excl. workers' remittances)	10.1	63.2	45.9	5.7
Internet users (per 100 people)	0.0	0.0	0.1	0.2
Mobile phone subscribers (per 100 people)	0.0	0.0	0.3	13.3
Telephone mainlines (per 100 people)	0.3	0.4	0.4	..
Other				
Fertility rate, total (births per woman)	6.5	6.5	6.5	6.5
GNI per capita, Atlas method (current US\$)	200	190	140	260
GNI, Atlas method (current US\$) (billions)	0.8	0.8	0.6	1.5
Gross capital formation (% of GDP)	10.0	5.6	6.9	13.2
Life expectancy at birth, total (years)	39	39	41	42
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..
Population, total (millions)	4.1	4.1	4.5	5.8

Source: World Development Indicators database, 2007.

Table 12. Sierra Leone: Financial Soundness Indicators of the Banking System, 2004–08

	2004	2005	2006	2007	2008	
					June	Dec.
(Percent, end of period, unless otherwise indicated)						
<i>Capital adequacy</i>						
Regulatory capital ratio ¹	38.1	35.7	33.3	35.0	41.1	43.5
Regulatory tier 1 capital ratio ²	12.7	10.3	17.0	16.7	18.6	18.7
<i>Asset quality</i>						
Nonperforming loans to total gross loans	16.5	26.8	27.8	31.7	32.2	23.3
Nonperforming loans (net of provisions) to regulatory capital	13.4	26.8	24.1	37.8	34.9	25.4
Loan loss provisions to NPLs (net of accrued interest)	43.1	10.3	59.7	44.5	40.3	54.4
<i>Earnings and profitability</i>						
Return on assets	9.9	8.1	5.8	3.1	1.8	2.2
Return on equity	32.9	28.0	17.0	10.3	7.0	7.2
Interest spread ³	12.2	13.4	13.4	15.2	15.2	---
<i>Liquidity</i>						
Ratio of net loans to total deposits	36.3	27.5	26.5	27.7	30.0	33.9
Liquidity ratio ⁴	52.9	53.0	58.9	53.3	57.5	44.6
Statutory minimum liquidity ratio ^{4 5}	33.4	34.0	28.5	25.7	25.6	29.3
Share of foreign exchange deposits in total deposits	28.2	30.7	32.4	36.5	34.4	32.2
(Number of banks not complying)						
<i>Prudential ratios at year-end</i>						
Capital adequacy	0	0	0	0	0	0
Minimum liquidity ratio	0	0	0	0	0	0
Minimum capital	0	0	1	1	1	1
Limit of single large exposure ⁶	0	0	2	1	1	2
<i>Memorandum Item:</i>						
Number of banks	7	7	8	10	10	13

Source: Bank of Sierra Leone.

¹ Capital requirement over risk-weighted assets (solvency ratio).

² Core capital (Tier I) over total assets.

³ Average lending rate minus average saving deposit rate.

⁴ Calculated taking into account both domestic currency and foreign currency deposits. Liquid assets include domestic currency cash in vault, claims on the BSL, claims on discount houses, and government securities.

⁵ Effective November 2007, minimum liquidity includes 40 percent of demand deposits and 20 percent of quasi money to be held in either cash or treasury bills.

⁶ A single large exposure of an institution is any exposure that is 2 percent or more of its capital base.

APPENDIX I—LETTER OF INTENT: SIERRA LEONE

June 4, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

The attached Memorandum of Economic and Financial Policies (MEFP) supplements the one attached to my letter to you dated December 5, 2008. It describes recent economic developments and progress in the implementation of the PRGF-supported program during the second half of 2008 as well as the policies planned for the remainder of 2009.

Program implementation during 2008 was uneven. All end-December quantitative performance criteria (PCs) were met, except the one on domestic government revenue. Shortfalls in domestic revenue resulted from the impact of the global economic downturn on mining and customs revenues towards the end of the year and difficulties in implementing two of the corrective measures described in our December 2008 MEFP. Also on the structural front, the end-December PC on the adoption of an implementation decree for the Goods and Services Tax (GST) was not observed. This was caused by delays by parliament in approving the legislation for the introduction of the GST due to a congested calendar.

Since then, we have taken corrective actions. The President has signed a clearance memorandum for the transfer of all off-budget revenue collected by ministries, departments, and agencies (MDAs) to the Consolidated Revenue Fund and Cabinet approval is expected next week. The Parliament approved the legislation on the GST in June and the implementing regulations were adopted by the Cabinet. Also, the vehicle registration fee was reinstated in early 2009.

In light of the above, the Government of Sierra Leone (GoSL) requests waivers for the non-observance of the PCs related to domestic revenue and the adoption of an implementation decree for the GST, and that the fifth disbursement be made available upon completion of the fourth review under the PRGF arrangement.

Since the third review of the PRGF arrangement was approved by the IMF Executive Board in December 2008, the Sierra Leonean economy has been more severely affected by the global economic downturn than anticipated. This is manifested mostly by a precipitous decline in demand for export and lower economic growth. As a result, prospects for 2009 have changed. To help Sierra Leone to adjust to the external shocks it is experiencing and to

maintain a level of foreign reserves that would foster market confidence, the GoSL requests an augmentation of access under the PRGF arrangement of 10 percent of quota, bringing total access to 50 percent of quota.

The GoSL believes that the policies set forth in the attached MEFP and Technical Memorandum of Understanding (TMU) are adequate to achieve the objectives of its program for 2009, but stands ready to take any further measures that become necessary for this purpose, in close consultation with the Fund. The GoSL will also continue to provide the staff of the IMF the information required to accurately assess Sierra Leone's progress in executing the policies contained in the attached MEFP. The fifth and sixth reviews shall take place in November 2009 and April 2010, respectively. Furthermore, the GoSL will continue to consult with the IMF on its economic and financial policies, in accordance with the IMF's policies on such consultations.

The GoSL agrees, in line with its commitment to transparency and accountability, to the publication of this letter, its attachments, and the related staff report.

Very truly yours,

/s/

Samura M. W. Kamara
Minister of Finance and Economic Development

Attachments

ATTACHMENT I. SIERRA LEONE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. This memorandum updates the policies presented in our Memorandum of Economic and Financial Policies (MEFP) of December 5, 2008 (IMF Country Report N° 09/2). It reviews recent performance under the program through 2008 and outlines the macroeconomic policies and structural reforms that the Government of Sierra Leone (GoSL) will pursue during the remainder of 2009.

II. RECENT ECONOMIC DEVELOPMENTS

2. **Economic growth in 2008 was lower than projected but inflation decelerated.** During the last quarter of 2008, the economy came under pressure from slowing global demand and falling export prices, particularly for diamond and bauxite. Real GDP is estimated to have reached 5.5 percent in 2008, compared to a projection of 6.4 percent. On the positive side, growth was solid in agriculture and the service sector. Inflation remained in the double digits with average CPI inflation reaching 14.8 percent in 2008, fueled notably by higher international food and fuel prices. However, inflationary pressures subsided toward the end of the year due to the steep decline in import prices (mainly for oil), leading to a fall in end-period inflation to 12.2 percent, compared with 15.7 percent programmed.
3. **Budget execution during 2008 suffered from shortfalls in domestic revenue and delays in the disbursement of external budgetary assistance.** The revenue shortfall reached Le 30.6 billion (0.5 percent of GDP) for the year cutting across all main revenue categories except on income tax. Two main factors contributed to the shortfalls. First, two revenue-enhancing measures, namely the transfer of all off-budget revenue collected by ministries, departments, and agencies (MDAs) to the Consolidated Revenue Fund (CRF) and the reinstatement of a vehicle license fee that had been suspended in early 2008, were not implemented as planned. Second, the global economic slowdown, which led to a fall in commodity prices and lower exports and imports, impacted negatively on customs and mining revenues. External budgetary support fell short of the programmed assistance by about 40 percent. Delays in disbursements resulted from fiduciary concerns by some donors and difficulties in meeting some performance-related benchmarks.
4. **Monetary policy continued to be guided by the broad objective of containing inflation and maintaining financial stability.** The realization of this objective was challenged by fiscal imbalances, higher world food and oil prices, and the global economic downturn. Nonetheless, reserve money growth was contained below the program level. The issuance of Le 47.5 billions of treasury bills, which were converted from BSL's holding of noninterest-bearing government securities, contributed to slower reserve money growth.

5. **Rising food and fuel imports combined with lower exports contributed to a deterioration in the external current account deficit.** However, with higher than anticipated private financing inflows, gross international reserves reached US\$209 million at end-2008, well above the US\$180 million program target. After remaining fairly stable over the past three years, the leone has been gradually depreciating since the beginning of the fourth quarter of 2008. By the end of the first quarter of 2009, it had depreciated against the U.S. dollar by about 6 percent, reflecting a drop in the availability of foreign exchange as export receipts and remittances continued to decline. In response, the BSL gradually increased its offer in the weekly auction from \$0.5 million in August 2008 to \$1.2 million in November 2008.

6. **Bank credit to the private sector continued to grow strongly.** The entry of three new banks in mid-2008, increased competition among banks, and the accompanying fall in lending rates are the main reasons for this growth. The new banks also increased the demand for already oversubscribed government securities, which helped push interest rates down. The average effective yield on Treasury bills fell from 21.3 percent at end-2007 to about 9 percent at end-2008.

7. **The quality of the loan portfolio remains a problem.** While nonperforming loans (NPLs) relative to gross loans declined by 8.4 percentage points in 2008 to 23.3 percent, the nominal value of NPLs increased by 16 percent. The BSL pursued the strengthening of its banking supervision capacity, notably by transferring staff to the Banking Supervision Department and providing training to all staff of the department. Banks continued to maintain adequate provisions for bad loans.

8. **Program implementation in the second half of 2008 was mixed.** All quantitative performance criteria (PCs) were met, except the one on domestic government revenue. On the structural targets, the continuous structural PC on the monthly meeting of the newly constituted Monetary Policy Committee was observed. However, the structural PC on adoption of an implementation decree for the goods and services tax (GST) and the structural benchmark on adoption of a comprehensive tariff policy for the electricity sector were missed, the former due to a congested parliamentary calendar.

III. MEDIUM-TERM STRATEGY

9. **Our medium-term policy agenda will focus on reducing poverty by stimulating economic growth while preserving macroeconomic stability.** The policies to achieve these objectives are elaborated in the second-generation Poverty Reduction Strategy Paper (PRSP), which was finalized and endorsed by Parliament in May this year. While maintaining macroeconomic stability, including through improving domestic revenue mobilization and avoiding unsustainable domestic and external debt burden, the strategy outlines policies to:

- *Ensure energy security* by providing a reliable power supply, which will be met through expanding electric generating capacity and the distribution network, improving management and regulation of the sector, and strengthening revenue collection.
- *Develop the national transportation network* to enable the movement of goods and people and thereby encourage investment and economic activity.
- *Enhance productivity in agriculture* by promoting commercial agriculture, through private sector participation, and subsistence farming by providing inputs to encourage intensified production, and improved extension delivery and resource management systems.
- *Improve human development* through enhanced investment in public services such as health and education.
- *Consolidate governance* by enforcing the implementation of the anti-corruption agenda and expanding access to justice.

10. **The medium-term macroeconomic framework has been updated to reflect the impact of the global recession.** Weaker global demand is expected to slow growth in the mining and service sectors as the drop in export prices, worker remittances, and foreign direct investment feeds into domestic economic activity. However, output growth should continue to benefit from improved supply of energy, ongoing public initiatives to increase agriculture productivity and intensification, and higher public investment in basic infrastructure. Real GDP growth is projected to decline to 4 percent during 2009-10 and then gradually increase to 6 percent in 2012. Lower commodities prices should continue to ease inflation pressure. Inflation is projected to decline from 12.2 percent during 2008 to 9 percent during 2009 and remain in single digits thereafter. The external current account deficit, excluding transfers, is projected to rise to 12.3 percent of GDP in 2009, reflecting a decline in exports. The external position is expected to improve beyond 2010 in line with the projected improvement in the global environment and a rebound in mining production following the expected reopening of the Koidu diamond mine.

11. **Steadfast implementation of the poverty reducing strategy, coupled with improved transparency and accountability in the use of public funds, will help in securing additional financing.** The new PRSP was presented to the donor community in May 2009. The government plans to organize sector roundtables and Consultative Group meetings during the second half of 2009 to mobilize additional external financing for its poverty reduction strategy and to broaden the donor base.

IV. POLICIES FOR THE REMAINDER OF 2009

12. **The government is determined to strengthen the macroeconomic framework and implement its structural reform agenda to place the economy on a path of strong and sustainable growth.** To this end, the government will pursue efforts underway to coordinate fiscal and monetary policies, improve the delivery of public services, reduce the cost of doing business, and raise productivity and employment throughout the economy.

Fiscal policy

13. **Notwithstanding a narrower fiscal space, fiscal policy will aim to raise capital spending while safeguarding macroeconomic stability.** The revised revenue projection presents a shortfall of about Le 99 billion or 1.5 percent of GDP, mainly due to the negative impact of the global economic downturn on domestic economic activity and external trade. It takes into account several revenue-enhancing measures, including a transfer of all off-budget revenue collected by MDAs to the CRF, a raise in excises on petroleum products in April 2009 (with an estimated revenue impact of 0.5 percent of GDP), and a reversal of the presumptive import duty on a per-container basis that was adopted in early 2009 in lieu of applying the tariff code. An increase in projected budget grants (0.7 percent of GDP) compared to the program will contribute to covering the shortfall in tax revenue. Moreover, on the expenditure side, savings have been identified amounting to about 0.4 percent of GDP. These include cuts in nonpriority expenditures on goods and services and lower domestic interest payments due to a decline in interest rates. As result, the overall fiscal deficit, including grants, is now projected to widen to 4 percent of GDP from 3.5 percent of GDP in the program, with domestic financing increasing by a similar magnitude. However, compared to 2008, the overall fiscal deficit, including grants, is still expected to decline by 0.8 percentage point of GDP.

14. **The government will step up efforts to improve tax administration and broaden the tax base.** Measures include (i) accelerating the introduction of the taxpayer identification number and establishment of the domestic tax department; (ii) enforcing the provisions in the existing tax legislation with the aim of eliminating tax evasion and ad-hoc tax exemptions; (iii) intensifying field audits and enforcement of the payment of tax arrears (with interest and penalties on under/late payment of tax); and (iv) adopting a new, modern customs act and associated customs regulations. Moreover, the introduction of the GST is scheduled for September 1, 2009 following Cabinet adoption of the implementing regulations.

15. **Public financial management (PFM) reforms will continue to ensure greater transparency, accountability and efficiency in the use of public resources.** A new PFM reform program is under negotiation with support from our development partners to consolidate the progress made in the first phase. This program seeks to deepen reforms and strengthen capacity for effective and efficient delivery of basic public services. Key activities that will be undertaken this year include (i) a review of the legal and regulatory framework

for PFM; (ii) improving budget planning and budget execution to ensure that funds are directed to national poverty reduction priorities and that the budget process is participatory, transparent, and accountable; (iii) extending coverage of the integrated financial management system, and (iv) strengthening public procurement.

Monetary and exchange rate policies

16. **Money growth will continue to be restrained to further reduce inflation.** The aim is to reach single-digit inflation in 2009. To achieve this, reserve money is targeted to grow by about 15 percent, which, given the government's domestic financing requirement, would allow for adequate expansion in private sector credit and a small buildup of international reserves. To enhance the BSL's ability to conduct open market operations (OMOs) the government will convert an additional Le 60 billion of noninterest-bearing, nonmarketable government securities into marketable ones in 2009. The BSL has already converted Le 10 billion during the first quarter of the year. The Monetary Policy Committee (MPC) will continue to meet on a monthly basis.

17. **The Government will examine the need to extend the monetary policy instruments available to the BSL.** It will explore the possibility of providing the BSL with the authority to change the reserve requirement ratio at its discretion and introducing central bank bills for OMOs. Currently, any change to the reserve requirement ratio requires parliamentary approval. The BSL will continue to focus on developing the interbank market, and will introduce a new monetary operations framework during the second quarter of 2009. This will include the closing of the existing rediscount window. The commercial banks and discount houses will have to use the interbank market as their primary source of short-term liquidity needs. Those who cannot meet their liquidity needs through the interbank market will be able to access, as a last resort, the BSL's new Lombard window. The Lombard window will be an overnight collateralized loan that carries a penalty of 200 basis points over the average yield of the most recent 91-day treasury bills auction. The Government is actively considering the introduction of long term government securities to support medium to long term infrastructure investment.

18. **Exchange rate flexibility will be maintained.** The BSL will continue to seek to balance treasury bill sales and foreign exchange auctions for an optimal monetary policy mix. Its offers on the foreign exchange market will also be dictated by the need to meet its foreign exchange reserves target.

Other structural reforms

19. **The structural reform program complements the medium-term macroeconomic framework.** The program will continue to focus on strengthening the financial sector, restoring the financial viability of the power and water public utility companies, and improving governance and accountability in the use of public resources. The support of our

development partners remains critical to implementing the structural reforms envisaged in each of these areas.

20. **Reforms in the financial sector will be actively pursued to deepen financial intermediation and ensure strong and competitive financial sector.** The BSL has undertaken actions to strengthen banking supervision, particularly by increasing and training staff in the Banking Supervision Department. New off-site surveillance guidelines for banks, consistent with the requirements of the revised Banking Act and Other Financial Services Act are being prepared and will be adopted by end-September 2009. Preparations are advancing for establishing a credit reference bureau (CRB) as well as an efficient payments system, including a Real Time Gross Settlement System (RTGS). To reduce the vulnerability from NPLs, the BSL will enforce the minimum capital requirement for all banks of Le 15 billion by end-2009. The Anti-Money Laundering (AML) Act 2005 will be revised to include provisions for combating the financing of terrorism (CFT) and regulations in line with international standards will be developed to enhance the AML/CFT compliance program. The BSL Act of 2000 is under review with the intention of providing greater flexibility for monetary policy operations.

21. **Steps are being taken to accelerate the restructuring of the National Power Authority (NPA) and improve its finances.** The National Commission for Privatization is supervising preparation of a comprehensive tariff study, which will be completed by end June. This study will provide inputs for a comprehensive electricity tariff policy, which will be adopted by end-December 2009. To improve oversight of the finances and technical operations of the NPA, a financial controller, a billing/commercial manager, and a supervisory engineer will be recruited in 2009. Under the Emergency Power Project (EPP) partly funded by the World Bank and the GoSL using MDRI resources, the NPA was to be making a monthly payment of Le 2 billion starting April 2008 and reimbursing Le 1.9 billion in respect to a soft loan extended by the government to NPA in 2006. Up to March 2009, NPA had paid only Le 7 billion, out of Le 25.9 billion due. However, the government also owes NPA Le 11.8 billion of unpaid electricity bills in 2008. A memorandum between the Ministry of Finance and Economic Development and NPA for the settlement of cross debt has been signed by the two parties and its implementation will be strictly observed.

22. **Tackling corruption will remain a top priorities for the government.** In 2008, the government launched the national Anti-Corruption Strategy (ACS) for 2008–13 and enacted into law a revised Anti-Corruption Act that strengthens the powers of the Anti-Corruption Commission (ACC). To date, several cases have been brought before the court and prosecuted by the ACC. Workshops on the ACS were conducted nationwide for the media and civil society. The ACC will intensify public education and outreach activities to enhance public awareness of corruption. It will also conduct semi-annual assessments of the national ACS to monitor progress in its implementation and take remedial actions as needed.

23. **The Government will continue to implement reforms to improve the investment climate in order to foster sustainable economic growth.** Going forward, the focus will be on increasing access to finance, and improving business regulatory environment especially in areas where the country is ranked poorly in the Doing Business Report as well as improving physical infrastructure.

24. **There are risks that may affect implementation of the 2009 program.** First, the global recession may deepen further, leading to higher revenue shortfall and deeper slowdown of domestic activity, linked particularly to falling remittances and export receipts. Second, the ongoing financial crisis could impact negatively on the profitability and balance sheet of commercial banks, thus constraining credit availability. The BSL will monitor closely developments in the financial sector using a set of early warning indicators, and will take necessary measures to prevent a credit crunch in the economy. Finally, the Government will ensure that the 2009 budget is shielded from potential liabilities of the contract with the second independent power provider.

V. PROGRAM MONITORING

25. The program will be monitored based on quantitative PCs for end-June 2009 and end-December 2009 and quantitative indicative targets for end-September 2009 (Tables 1). The program will also be monitored based on structural benchmarks for 2009 (Table 2).

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2009(Cumulative change from beginning of calendar year to end of month indicated; Le millions, unless otherwise indicated) ¹

	2009						
	March	June		September		December	
	Est.	Performance criteria		Indicative targets		Performance criteria	
		Prog. ²	Rev. prog.	Prog. ²	Rev. prog.	Prog. ²	Rev. prog.
Performance criteria							
Net domestic bank credit to the central government (ceiling)	29,482	8,409	80,906	48,396	124,104	100,212	122,664
Net domestic assets of the central bank (ceiling)	18,366	-84,445	93,701	-33,238	215,847	-69,583	156,678
Domestic primary fiscal balance of the central government (floor)	-25,077	-71,596	-120,887	-96,924	-179,290	-116,142	-216,213
Subsidies to National Power Authority (ceiling) ³	0	0	0	0	0	0	0
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	-3.3	26.6	-22.2	24.2	-20.2	39.3	8.6
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) ³	0	0	0	0	0	0	0
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) ³	0	0	0	0	0	0	0
External payment arrears of the public sector (ceiling) ³	0	0	0	0	0	0	0
Total domestic government revenue (floor)	155,242	386,640	342,992	602,667	533,177	824,030	724,664
Indicative target							
Poverty-related expenditures (floor)	61,389	180,993	178,715	256,398	267,155	330,623	337,474
<i>Memorandum items:</i>							
External budgetary assistance ⁴	74,194	121,275	115,900	121,275	115,900	188,201	225,211
Net credit to government by nonbank private sector ⁵	-16,110	-272	-4,981	7,056	3,223	7,328	7,300
PRGF disbursements (US\$ millions)	0.00	11.34	0.00	11.34	26.42	22.68	37.05

Sources: IMF staff projections.

¹ The performance criteria and indicative targets shown in this table are defined in the Technical Memorandum of Understanding (TMU).² IMF Country Report No. 09/2 (January 12, 2009)³ These apply on a continuous basis.⁴ Including program grants and program loans.⁵ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

Table 2. Sierra Leone: Structural Conditionality for 2009

Measures	Timing	Macro Rationale
Prior Actions		
<ul style="list-style-type: none"> Adoption by the cabinet of a decision to transfer all off-budget revenue collected by ministries, departments, and agencies to the Consolidated Revenue Fund. 	Expected to be met by June 10	
<ul style="list-style-type: none"> Adoption by the cabinet of the implementation decree for the Goods and Services Tax (GST). 	Met	
Structural Benchmarks		
Macroeconomic policy coordination		
<ul style="list-style-type: none"> Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that include the monthly projections for government revenue and expenditures made available by the Ministry of Finance to the Bank of Sierra Leone to produce a monthly liquidity forecast. 	On a continuous basis	To strengthen liquidity management and enhance monetary and fiscal policy coordination.
Tax administration and policy		
<ul style="list-style-type: none"> Adoption by the Cabinet of the implementation decree for new and modernized customs law and regulations that reflects the WTO agreement and protects government customs revenue. 	End–June	To enhance the collection of import duties and thus create more fiscal space to preserve priority spending.
<ul style="list-style-type: none"> Adoption by the Cabinet of a simplified and fully designed small taxpayer regime with supporting draft legislation. 	End–September	To improve revenue collection by extending the tax base.
<ul style="list-style-type: none"> Establish a Domestic Tax Department (DTD) as the vehicle for achieving integration of domestic tax collection and make it functional. 	End–December	To improve efficiency of revenue collection efforts.
<ul style="list-style-type: none"> Integrate the Goods and Services Tax (GST) administration within the Large Taxpayer Office (LTO). 	End–December	To ensure full and efficient implementation of the GST to achieve domestic revenue target.
Public financial management		
<ul style="list-style-type: none"> Recruit and assign budget officers to MDAs that have IFMIS 'rolled out' and ensure their budget committees are fully operational. 	End–September	Improve spending efficiency by enhancing public financial management and budget execution.
Financial supervision		
<ul style="list-style-type: none"> Adoption by the BSL of new off-site surveillance guidelines for banks consistent with the requirements of the revised Banking and Other Financial Services Act, and introduction of new reporting requirements based on these guidelines. 	End–September	Financial deepening which is vital to achieve the growth objective of the program.
Public enterprise reform		
<ul style="list-style-type: none"> Adopt a comprehensive tariff policy for the electricity sector that will strengthen the financial position of the National Power Authority. 	End–December	To improve financial viability of the public electricity. This will ensure an efficient and sustainable power supply, critical for the growth objectives of the program.

ATTACHMENT II. SIERRA LEONE: TECHNICAL MEMORANDUM OF UNDERSTANDING

June 4, 2009

I. INTRODUCTION

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative and structural performance criteria (PCs) and benchmarks for the remainder of the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 2 of the Memorandum of Economic and Financial Policies (MEFP) of the Government of Sierra Leone (GoSL) for 2009.
2. **Program exchange rates.** For the purpose of this TMU, foreign currency denominated transactions will be converted into Sierra Leonean currency (leones) using the program exchange rates shown in the box below and the market exchange rate against the US\$ in effect on March 31, 2009 (as published in *International Financial Statistics*) for transactions in currencies other than the U.S. dollar, the euro, the pound sterling, and the Special Drawing Rights (SDR).

Leone/US\$	3,150
US\$/euro	1.33
US\$/pound sterling	1.43
US\$/SDR	1.49

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Gross Foreign Exchange Reserves of the Bank of Sierra Leone (BSL)

3. **Definition.** Unless otherwise noted, gross foreign exchange reserves of the Bank of Sierra Leone (BSL) are defined as reserve assets of the BSL. Reserve assets are defined in the IMF's *Balance of Payments Manual* (5th ed.) and elaborated in the reserve template of the Fund's *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*. They exclude foreign assets not readily available to, or controlled by, the monetary authorities.

Adjustment clauses.

4. The floor on gross foreign exchange reserves will be adjusted (a) downward (or upward) by the amount in U.S. dollars of the shortfall (excess) in programmed external budgetary assistance—the downward adjustment will be capped at the equivalent of

US\$20 million while the upward adjustment will be equal to the amount—if any, exceeding US\$20 million;¹ (b) downward (upward) for any shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the PRGF arrangement; and (c) upward (or downward) for any increase (or decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents)

5. In case that Sierra Leone participates in any SDR allocation(s) between June 30, 2009 and the test date, this target will be adjusted upwards by 100 percent of the equivalent of the amount of the cumulative additional SDR allocation (s) up to the test date, measured at program exchange rate.

B. Net Domestic Assets of the BSL

6. **Definition.** Net domestic assets (NDA) of the BSL are defined as the end-period (based on daily data) stocks, during the month of the test dates, of the reserve money less net foreign assets calculated at the program exchange rates. Reserve money includes currency in circulation and deposits of commercial banks with the BSL. Net foreign assets of the BSL are defined as gross foreign exchange reserves (defined above) minus foreign liabilities. Foreign liabilities are defined as foreign currency-denominated liabilities of the BSL to nonresidents and the outstanding use of Fund credit.

7. **Adjustment clauses.** The ceiling on the NDA of the BSL will be adjusted upward by the amount of the shortfall in the external budgetary assistance at the test dates, up to a maximum of US\$20 million. In the event of an excess in the external budgetary assistance greater than US\$20 million, the NDA ceiling will be adjusted downward by the amount exceeding US\$20 million. The leone value of the cumulative shortfall or excess in external budgetary assistance will be converted at the program exchange rates.

8. In case that Sierra Leone participates in any SDR allocation(s) between June 30, 2009 and the test date, this target will be adjusted downwards by 100 percent of the equivalent of the amount of the cumulative additional SDR allocation (s) up to the test date, measured at program exchange rate.

C. Net Domestic Bank Credit to the Central Government (NCG)

9. **Definition.** NCG refers to the net banking system's claims on the central government as calculated by the BSL. It is defined as follows:

- the net position of the government with commercial banks, including: (a) treasury bills, excluding holdings of treasury bills for monetary operations; (b) treasury bearer

¹ External budgetary assistance is defined as program grants and program loans, excluding HIPC assistance.

bonds; and (c) loan and advances of commercial banks to the government; less government deposits in commercial banks;

- the net position of the government with the BSL, including: (a) treasury bills, excluding holdings of treasury bills for monetary operations; (b) treasury bearer bonds; and (c) ways and means; less (a) central government deposits; and (b) HIPC and MDRI relief deposits.

10. **Adjustment clauses.** The ceiling on the increase in NCG will be adjusted upward (downward) by up to the amount of the shortfall (excess) in external budgetary assistance. The upward adjustment will be capped at the equivalent of US\$20 million while the downward adjustment will be equal to the amount—if any, exceeding US\$20 million. The leone value of the cumulative shortfall or excess in external budgetary assistance will be converted at the program exchange rates. The ceiling will also be adjusted downward (upward) by the excess (shortfall) in the leone value of net issues of government securities to the nonbank private sector vis-à-vis the program target (specified in the memorandum items in Table 2 of the MEFP).

11. **Data source.** The data source for the above will be the series “Claims on Government (Net)” submitted to the IMF staff and reconciled with the monthly monetary survey prepared by the BSL. These data will be reconciled with monthly reports with the monetary data (Treasury bill transactions, ways-and-means account, and Treasury bearer bond transactions).

12. **Definition of Central government.** Central government is defined for the purposes of this memorandum to comprise the central government and those special accounts that are classified as central government in the BSL statement of accounts. The National Social Security and Insurance Trust and public enterprises are excluded from this definition of central government.

D. Domestic Revenue of Central Government

13. **Definition. The floor on total domestic central government revenue** is defined as total central government revenue, as presented in the central government financial operations table, excluding external grants.

E. Domestic Primary Fiscal Balance of Central Government

14. **The floor on the domestic primary fiscal balance** of the central government is defined as domestic revenue minus total expenditure and net lending, excluding interest payments, and externally-financed capital expenditure.

F. Subsidies to the National Power Authority (NPA)

15. **Definition.** The term “subsidy” refers to any government financial support (i.e., unrequited transfers) to the NPA. It does not include the government’s on-lending of external loans for capital expenditure of the enterprise. The subsidy is to be reduced by the amount of arrears accumulating in regard to the charges for government’s electricity consumption. This PC will apply on a continuous basis.

G. External Payment Arrears of the Public Sector

16. **Definition.** External payment arrears of the public sector are defined as the stock of new external overdue debt-service payments by the public sector. For the purposes of this PC, the public sector comprises the central government, regional government, all public enterprises and the BSL. **The nonaccumulation of external arrears is a performance criterion during the program period.** Excluded from this PC are those debts subject to rescheduling. This PC will apply on a continuous basis.

H. New Nonconcessional External Debt Contracted or Guaranteed by the Public Sector with an Original Maturity of One Year or More

17. **Definition.** Those are defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the public sector.² This PC applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. For the purposes of this PC, the “public sector” is as defined in ¶ 14 above. This PC will apply on a continuous basis.

I. External Short-Term Debt Contracted or Guaranteed by the Public Sector

18. **Definition.** External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by the public sector. Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports. For the purposes of this PC, the public sector is as defined in ¶ 14 above. This PC will apply on a continuous basis.

² Debt is considered concessional if it has a grant element equivalent to 35 percent or more. Calculation of the degree of concessionality of new external borrowing is based on the last 10-year average commercial interest reference rate (CIRR) of the Organization for Economic Cooperation and Development (OECD) for loans with maturities of at least 15 years and on the last six-month average CIRR for loans maturing in less than 15 years.

III. QUANTITATIVE INDICATIVE TARGET

Poverty-Related Expenditures

19. **Definition.** Poverty-related expenditures refer to those expenditures in the areas identified in Table 2 of the Sierra Leone HIPC Decision Point Document. These budgetary expenditures include but are not limited to those sub-components that are financed by drawdown from the MDRI Relief Account at the BSL.

IV. PROGRAM MONITORING

20. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the MoFED, the BSL, and other relevant agencies. The committee shall be responsible for monitoring performance under the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of PCs and benchmarks. In addition, the Net Domestic Financing Technical Committee shall provide the IMF with weekly minutes of its meetings complemented with the minutes of the monthly meetings of the Inter-Agency Committee for National Statistics progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

ANNEX I: Implementation of the Revised Guidelines on Performance

Criteria with Respect to Foreign Debt

The term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, which reads as follows: “(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt”. (c) Excluded from this performance criterion are normal import-related credits, disbursements from the IMF, and those debts subject to rescheduling arrangements.”

Sierra Leone: Summary of Data to be Reported to IMF Staff

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of national accounts	Variable	End of revision + 2 months
	Disaggregated consumer price index	Monthly	End of month + 2 weeks
Public finance	Net government position and details of nonbank financing, including the stock of the float, treasury bills, and bonds, as well as privatization receipts	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table) with supporting documentation (final) and presented on commitment and cash basis	Monthly	End of month + 6 weeks
	Petroleum product pricing formula, tax receipts by categories of petroleum products	Monthly	End of month + 6 weeks
	Stock of outstanding payment commitments with a breakdown between current and capital expenditures	Monthly	End of month + 6 weeks
	Import duty exemptions by end-users and tariff regimes and estimates of corresponding revenue losses	Quarterly	End of quarter + 6 weeks
Monetary and financial data	Monetary survey	Monthly	End of month + 6 weeks
	Balance sheet of the BSL	Monthly	End of month + 6 weeks
	Consolidated balance sheets of commercial banks	Monthly	End of month + 6 weeks
	BSL monitoring sheet of net financing of the financial sector to the government	Monthly	End of month + 6 weeks
	BSL monitoring sheet of treasury bills and bonds holdings	Monthly	End of month + 6 weeks
	Borrowing and lending interest rates	Monthly	End of month + 6 weeks
	Results of foreign exchange and Treasury Bills auctions	Weekly	End of week + 3 days
	Stocks of government securities	Monthly	End of month + 6 weeks
	Banking supervision ratios	Quarterly	End of quarter + 8 weeks

Sierra Leone: Summary of Data to Be Reported to IMF Staff (concluded)

Type of Data	Tables	Frequency	Reporting Deadline
Monetary and financial data			
	Gross official foreign reserves	Weekly	End of week + 3 days
	Foreign exchange cashflow table	Quarterly	End of quarter + 4 weeks
	Revised balance of payments data	Variable	When revisions occur
	Exports and imports of goods (including the volume of key minerals and fuels)	Monthly	End of month + 3 months
External debt	Outstanding external arrears and repayments (if applicable)	Monthly	End of month + 4 weeks
	Details of all new external borrowing and guarantees provided by government on new borrowing	Monthly	End of month + 4 weeks
	External debt service payments (separately on principal and interest payment) to each creditor	Monthly	End of month + 4 weeks
HIPC initiative and MDRI monitoring	Statement of special account at the BSL, that receives resources generated by the HIPC Initiative and tracks their use	Monthly	End of month + 4 weeks
	Statement of special MDRI account at the BSL and the corresponding poverty-reducing spending financed	Monthly	End of month + 4 weeks
	Minutes of the meeting of the Net Domestic Financing (NDF) Technical Committee	Weekly	End of meeting + 2 weeks
	Minutes of the meeting of the Monetary Policy Committee	Monthly	Date of meeting + 2 weeks

INTERNATIONAL MONETARY FUND

SIERRA LEONE

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria, Augmentation of Access, and Financing Assurances Review,

Informational Annex

Prepared by the African Department
(In collaboration with other departments)

Approved by Michael Atingi-Ego and Dominique Desruelle

June 4, 2009

Contents	Page
I. Relations with the Fund.....	2
II. Joint World Bank-IMF Work Program, 2009–10.....	7
III. Statistical Issues.....	9

I. Relations with the Fund

(As of March 31, 2009)

I. Membership Status: Joined 9/10/62; Article VIII

II. General Resources Account:	SDR Million	% Quota
Quota	103.70	100.00
Fund holdings of currency	103.69	99.99
Reserve position	0.02	0.02

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	17.46	100.00
Holdings	19.78	113.32

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
PRGF Arrangements	34.51	33.28

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	5/10/06	5/9/10	41.51	20.51
PRGF	9/26/01	6/25/05	130.84	130.84
PRGF	3/28/94	5/04/98	101.90	96.85

VI. Projected Payments to Fund¹

(SDR million; based on current use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal		1.4	3.27	4.62	4.62
Charges/interest	0.17	0.17	0.16	0.14	0.12
Total	0.17	1.57	3.43	4.77	4.74

VII. Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC Initiative assistance	
Decision point date	March 2002
Assistance committed (NPV terms)	
By all creditors (US\$ million) ²	675.20

¹ When a member has financial obligations overdue for more than three months, the amount will be shown in this section.

² Assistance committed under the original framework is expressed in net present value (NPV) terms at the

<i>Of which:</i> IMF assistance (US\$ million)	125.21
(SDR equivalent in millions)	100.00
Completion point date	December 2006

Disbursement of IMF assistance (SDR million)	
Amount disbursed	100.00
Interim assistance	66.03
Completion point balance	33.97
Additional disbursement of interest income ³	6.58
Total disbursements	106.58

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) ⁴	117.34
Financed by: MDRI Trust	76.75
Remaining HIPC resources	40.59

II. Debt Relief by facility (SDR Million)

	Eligible Debt		
<u>Delivery Date</u>	<u>GRA</u>	<u>PRGF</u>	<u>Total</u>
December 2006	N/A	117.34	117.34

IX. Safeguards Assessment

Pursuant to IMF policy, the Bank of Sierra Leone was subject to a safeguards assessment with respect to the PRGF arrangement approved on May 10, 2006. The assessment, which was completed on June 12, 2006, proposed recommendations to address new and continuing vulnerabilities in financial reporting, internal audits, and internal controls. IMF staff are monitoring implementation of these measures.

completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

³ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim.

⁴ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of 2004 that remains outstanding at the time the member qualifies for debt relief.

X. Exchange Rate Arrangement

For customs valuation purposes and for official transactions the Bank of Sierra Leone (BSL) calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial bank mid-rate, and the bureau mid-rate in the previous week. Commercial banks may buy foreign exchange from and sell it to individual customers and may trade among themselves or with the BSL on a freely negotiable basis. As of May 7, 2009, the BSL mid-rate was Le 3,204.10=US\$1. In March 2008 the exchange rate regime was reclassified as “a conventional peg” to reflect the nominal stability of exchange rate developments under de facto management through the auction by the BSL as the only seller of foreign exchange. Effective February 2, 2009, the de facto exchange rate arrangement was reclassified from a conventional pegged arrangement to “stabilized” retroactively to April 30, 2008, due to revision of the classification methodology.

With effect December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4. On June 29, 2001, Sierra Leone removed the remaining exchange restriction, in the form of a tax clearance certificate required for payments and transfers of certain types of current international transactions. Sierra Leone continues to maintain an exchange system free of restrictions on the making of payments and transfers for current international transactions.

XI. Article IV Consultation

The Executive Board concluded the 2008 Article IV consultation on December 22, 2008. The next Article IV consultation will be held in accordance with the decision on consultation cycles approved on July 15, 2002.

XII. Technical Assistance

Department	Purpose	Date
FAD	Evaluation of progress in PFM reforms	March 2009
	Assist in designing a simplified regime for small taxpayers	January 2009
	Evaluation of progress on tax administration reform and VAT preparation	September 2008
	Evaluation of progress on PFM reforms	July 2008
	Implementation of public financial management reforms	March 2008

Department	Purpose	Date
	Tax administration reforms for successful VAT implementation	February 2008
	Evaluation of progress of revenue administration modernization	November 2007
	Assist the authorities in developing a comprehensive revenue administration reform strategy	February 2006
	Review the system of fiscal incentives, especially the special tax regimes applied to the mining and petroleum sectors	March/April 2004
	Review the tariff and indirect tax system, National Revenue Authority, and tax and customs administration	February 2004
LEG	TA on a legal review of the Bank of Sierra Leone Act of 2000	March/April 2007
MCM	Follow-up assessment of banking supervision processes at BSL	March 2009
	Follow-up assessment on progress in strengthening central bank internal auditing	March 2009
	BSL: Internal audit and management of the central bank	October 2008
	Monetary policy, banking supervision, and recapitalization of the BSL	April/May 2008
	Recapitalization of the BSL	February 2008
	Assist the BSL in bringing its accounting practices up to international best practice	November/December 2007
	Foreign exchange, monetary operations, and central bank recapitalization	November 2007
	Assist the BSL in setting up an action plan for implementing FSAP recommendations/financial sector reforms	June 2007
	Foreign exchange, monetary operations, and central bank recapitalization	January/February 2007

Department	Purpose	Date
MFD	Multitopic technical assistance	November 2005
	Multitopic technical assistance	November 2004
STA	Monetary and financial statistics mission to assist the authorities in implementing the international standards recommended in the <i>Monetary and Financial Statistics Manual (MFSM)</i>	April 2009
	GDDS mission on national accounts statistics	March 2009
	GDDS mission on national accounts statistics	September/October 2008
	GDDS mission to review the methodological basis for compiling national accounts aggregates	January 2008
	GDDS project on implementation of a Standardized Report Form (SRF)	June 2007
	GDDS project on reconciling monetary and fiscal accounts	August 2006
	GDDS project on national accounts	January 2006
	GDDS project on national accounts	February 2005
	GDDS project on reconciling monetary and fiscal accounts	February 2005
	GDDS project on reconciling monetary and fiscal accounts.	October 2004
	GDDS project on balance of payments issues	September/October 2004
	GDDS project on national accounts	September 2004
	GDDS project study tour for Sierra Leonean officials to Kenya on strategic planning	August 2004
	GDDS project on national accounts	April 2004
	GDDS project on strategic planning	March 2004

XII. Resident Representative

Mr. Alvin Hilaire assumed responsibility for the Fund office in November 2006. Mr. Hilaire's term expired in May 2009. He was in charge of both Guinea and Sierra Leone and was stationed in Conakry. A new resident representative has not yet been nominated.

**II. Joint World Bank-IMF Work Program, 2009–10
(As of May 20, 2009)**

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank work program	Public Expenditure Review	March 2009	August 2009
	Country Assistance Strategy	ongoing dialogue.	October 2009
	IPFMRP (PFM Project)	March 2009	June 2009
	Decentralized Service Delivery I	June 2009 (appraisal)	September 2009
	Third Governance Reform and Growth Credit (GRGC 3)	June 2009	October 2009
	Mineral Sector TA	May 2009	October 2009
	Financial Sector Development Plan	n.a.	December 2009
IMF work program	Macroeconomic policy analysis and advice	September 2009 (PRGF-5 th review)	December 2009 (Staff Report)
		February 2010 (PRGF 6 th review)	April 2010 (Staff Report)
	Technical assistance		
	• Revenue administration and tax reform	- September 09 (peripatetic visit)	October 2010
		- February 2010 (GST implementation)	March 2010
	• Public financial management	July 2009 (Restructuring the MTEF process) – <i>regional advisor</i>	August 2009
		August 2009 (Streamlining budget execution – <i>regional advisor</i>)	September 2009
	• Bank supervision and monetary operations	June 2009	July 2009
	• Central bank audit	October 2009	November 2009

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
	• Bank supervision	Fourth quarter 2009	Fourth quarter 2009
	• Multi-topic (bank supervision, monetary operations, audit)	March 2010	April 2010
	• Monetary and financial statistics	First quarter 2010	First quarter 2010
B. Requests for Work Program Inputs			
Fund request to Bank	Public expenditure review	March 2009	August 2009
Bank request to Fund	Medium-term macroeconomic framework		Continuous
C. Agreement on Joint Products and Missions			
Joint products in FY 2010	JSAN for PRSP II		September 2009
	DSA		September 2009
	Assisting the authorities with the implementation of their financial sector reform strategy		Continuous
	Assess risks from contingent liabilities and propose regulatory reforms.		TBD

III. Statistical Issues

1. Data provided to the Fund are affected by serious shortcomings that significantly hamper surveillance. The prolonged civil war resulted in a virtual collapse of statistical systems in the late 1990s. Serious deficiencies still affect balance of payments statistics, national accounts, and social indicators. The authorities are cooperating fully in providing data to the Fund and regularly disseminating economic and financial data to the public. The country participates in the GDDS, but its metadata need to be updated.
2. A major and sustained improvement in the coverage and timeliness of economic data will require greater interagency coordination and restructuring the institutional framework. Statistics Sierra Leone (SSL) continues to face a shortage of budgetary resources which adversely affects compilation of national accounts and price statistics. Since March 2004, and with support from the GDDS Anglophone Africa Project, fourteen national accounts TA missions visited Freetown, the most recent in March 2009. These missions reviewed source data, methodologies, compilation, and dissemination issues and assisted with data development and improvements in methodology.

National accounts

3. The coverage of private sector activities in the national accounts is hampered by an outdated business directory and low response rates to surveys. In particular, small businesses, which represent a very high proportion of business activity, are not adequately captured in national account statistics. The consumer price index (CPI) is used extensively to derive estimates of GDP at constant prices. AFR missions continue to make their own estimates and projections of key national accounts aggregates, as well as making adjustments to historical data using new information.
4. Efforts to reconstruct the national accounts estimates commenced during 2003/04, with the main effort being to prepare new estimates for the period starting in 2001. Because resource constraints significantly the production of final estimates, only preliminary data for 2001–04 were made available. Efforts are underway to prepare revised national accounts based on a 2005 benchmark and using 2005 prices to compile constant price estimates. However, shortages of resources and staff continue to pose major constraints to the statistical development undertaken by SSL.

Prices

5. The SSL compiles the CPI monthly and publishes it with a lag of about three weeks. It has been rebased to 2003 using the 2003 Sierra Leone integrated household survey and continues to cover the capital city and three towns. While a national CPI is being compiled, the authorities continue to publish the old CPI (1992=100). To avoid confusion, the authorities should be encouraged to cease publication of the old series, although they may

wish to publish a separate report on the changes between base periods. The production of producer price indices remains a medium-term goal planned to start in 2009.

Government finance statistics

6. The budget reporting system was established with assistance from the Fund/UNDP technical assistance project. Monthly data on central government revenue, current expenditure, and financing are provided with appropriate detail. The European Commission is providing technical assistance to the Accountant General's Office to improve the timeliness and quality of fiscal data. Fiscal data are reported to AFR but annual data for publication in the *GFS Yearbook* are no longer being submitted (the most recent data refer to 2004). Fiscal data only cover the central government, not extrabudgetary agencies and local governments.

7. There is an urgent need for more timely and accurate data on foreign-financed development projects. Reports on implementation of the development budget and its financing are currently not produced in a format that is suitable for budget analysis because the necessary data are not available. There is also need for quality control of the final data. The authorities are currently considering introduction of a flash reporting system for government expenditure in general and for foreign aid-financed projects. As part of the GDDS regional project for Anglophone African countries, work has been undertaken to reconcile fiscal and monetary data and to improve the coverage and classification of the two data sets.

Monetary statistics

8. The main components of the central bank balance sheet are available daily and weekly; this system provides an early warning system on key financial targets. The full monetary survey is compiled by the BSL with a lag of about six weeks; it has comprehensive coverage of commercial banks.

9. There has been some progress in the compilation of data in line with the *2000 Monetary and Financial Statistics Manual*. The BSL, with assistance from STA, has completed the preparation of a standardized report form (SRF) for the central bank, but it has not yet started regular reporting to the IMF. Work on preparation of the SRF for other depository corporations continues.

10. Reconciliation of fiscal and monetary statistics remains a challenge. In the past, compilation of fiscal data solely on a cash basis and differences in the coverage of the central government explained most of the discrepancies between the datasets. In 2007, a TA mission found limited progress on previous recommendations on the fiscal reporting system for extrabudgetary agencies and projects. The coverage of reporting agencies had improved, but there were many obvious errors and omissions in the data and in the BSL database. However,

in June 2008 the authorities notified the IMF that the fiscal data have been reconciled with the expanded BSL monetary data.

Balance of payments

11. The BSL is responsible for compiling balance of payments (BOP) statistics. It obtains source data from the SSL, government ministries, the Customs and Excise Department (Customs), and the “Financial Survey of Major Limited Companies,” for data on foreign direct investment. Imports and exports of goods estimates are based on data compiled by Customs and are adjusted for coverage, valuation, and timing to accord with BOP definitions. The BSL does not adjust BOP data using supplementary information to take account of unreported data.

12. External transactions are characterized by a large volume of activity in the informal sector, principally diamond smuggling. A considerable portion of imports is financed by these unrecorded exports. As a result, official BOP statistics tend to substantially understate transactions. Staff has been addressing this problem through the use of third-country (principally EU member) import data. STA has been providing technical assistance on BOP issues through the GDDS project to help the authorities implement the *Balance of Payments Manual, Fifth Edition (BPM5)*.

13. Data problems also exist for trade in services, income statistics, current transfers, and the capital and financial accounts. Regarding the last, there are substantial difficulties in tracking financial transactions of the public and private sectors that are routed through commercial banks. While the authorities are producing data on the international investment position, improvements are required in coverage and in valuation adjustments. These difficulties are manifested in reconciling flow data in the BOP and stocks in the international investment position. Estimates of smuggled imports and exports, in particular diamonds, are also not available.

14. Information on official grant and loan receipts is relatively good and is prepared by AFR on the basis of contact with the authorities and donor agencies, but data on private capital flows are very poor. Some information on private banking flows can be derived from the monetary survey. Other private flows, especially those linked to the informal diamond trade, are implicitly included in “errors and omissions.”

Sierra Leone: Table of Common Indicators Required for Surveillance
May 2009

	Date of latest observation	Date received	Frequency of Data ⁴	Frequency of Reporting ⁴	Frequency of publication ⁴
Exchange Rates	04/30/09	05/15/09	D	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	04/17/09	05/09	M	M	M
Reserve/Base Money	03/09	05/15/09	M	M	M
Broad Money	03/09	05/15/09	M	M	M
Central Bank Balance Sheet	03/09	05/15/09	M	M	M
Consolidated Balance Sheet of the Banking System	03/09	05/15/09	M	M	M
Interest Rates ²	03/09	03/09	W	M	W
Consumer Price Index	03/09	04/15/09	M	M	M
Revenue, Expenditure, Balance and Composition of Financing – Central Government	03/09	04/30/09	M	M	N/A
Revenue, Expenditure, Balance and Composition of Financing– Central Government	03/09	04/30/09	M	M	N/A
Stocks of Central Government and Central Government-Guaranteed Debt	12/08	03/09	Q	Q	N/A
External Current Account Balance	12/08	03/09	A	A	A
Exports and Imports of Goods and Services	12/08	03/09	A	A	A
GDP/GNP	12/08	03/09	A	A	A
Gross External Debt	12/08	03/09	A	A	A
International Investment Position ³	12/08	03/09	A	A	A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁴Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).



Press Release No. 09/235
FOR IMMEDIATE RELEASE
June 24, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under PRGF Arrangement for Sierra Leone, Approves Increase in Financial Support and US\$18.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed on June 17, 2009 the fourth review of Sierra Leone's economic performance under a four-year arrangement Poverty Reduction and Growth Facility (PRGF) arrangement and the review of the financing assurances. In completing the review, the Executive Board also approved an augmentation of Sierra Leone's access under the PRGF arrangement equivalent to SDR 10.37 million (about US\$16.8 million or 10 percent of quota) to help support maintenance of the country's international reserves.

The completion of the review enables the disbursement of SDR 12.185 million (about \$18.8 million), which would bring total disbursements under the arrangement to SDR 32.695 million (about US\$50.3 million). The Executive Board also granted waivers for the nonobservance of one quantitative assessment criteria related to the floor of domestic government revenue.

The three-year PRGF arrangement for Sierra Leone was originally approved by the Executive Board on May 10, 2006 (see [Press Release No. 06/94](#)) in an amount equivalent to SDR 31.11 million (about US\$47.9 million). The period of the arrangement was extended to four years to 2010 on July 7, 2008 (see [Press Release No. 08/166](#)). With the Board's approval of the augmentation of Sierra Leone's access, the total amount of the arrangement will be equivalent to SDR 51.88 million (about US\$79.9 million).

Following the Board's discussion on Sierra Leone, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

“The global economic slowdown has weakened Sierra Leone's near-term economic prospects, and declining world market prices for Sierra Leone's main export commodities—diamonds and bauxite—are severely compressing export proceeds and reducing government revenues. The authorities have responded appropriately to the shock, and their continued commitment to maintaining macroeconomic stability will strengthen the foundations for higher economic growth when the global environment improves.

“Responding to the shortfalls in domestic revenue, the authorities are safeguarding capital and poverty-reducing spending, while minimizing the impact on the domestic financing requirements by cutting current nonpriority expenditures on goods and services and seeking

additional external budget support. Since revenue collection remains low by regional standards, efforts need to be stepped up to strengthen tax administration and broaden the tax base. Key steps include the steadfast implementation of measures to make the National Revenue Authority more efficient and the introduction of the Goods and Services Tax in September 2009, but in any event not later than end-2009.

“Maintaining single-digit inflation is the main objective of monetary policy for the remainder of 2009. An appropriate mix of treasury bill and foreign exchange sales by the Bank of Sierra Leone will help sterilize liquidity injections from the execution of the budget. Keeping nominal exchange rate flexibility will facilitate the adjustment to external shocks.

“Structural reforms will be accelerated. The global financial crisis has increased the urgency for the Bank of Sierra Leone to strengthen its supervisory capacity and closely monitor developments to detect early signs of financial sector vulnerabilities. Restructuring the National Power Authority and improving its finances, deepening public financial management reforms, tackling corruption, and enhancing transparency in the use of public resources will promote high economic growth and improve the delivery of public services,” added Mr. Portugal.

Statement by Samuel Itam, Executive Director for Sierra Leone
June 17, 2009

Introduction

1. My Sierra Leonean authorities value highly the support from staff, Management and Executive Directors in their socio-economic reconstruction and development efforts. They appreciate staff advice on how to tackle the various challenges in their efforts to improve the lives of their people. It is in this context that Sierra Leone remains committed to the full implementation of the program, despite some bumps now and then. Accordingly, all end- December 2008 quantitative performance criteria (PCs) were met, with the exception of the PC on budget revenue. Also, there were delays related to the implementation of Goods and Services Tax (GST) legislation and the adoption of a comprehensive tariff policy for the electricity sector. My authorities request waivers for the nonobservance and the delay.
2. Recent global developments have been particularly adverse to the economy. The level of activity has slowed significantly. Further, the balance of payments position has worsened considerably over the past year. This has compromised the authorities' objective of accumulating foreign reserves during the period and has created some pressures in the foreign exchange market. All of these have underlined the need for appropriate policies and adjustment, as well as for additional financial resources. In the circumstances, my authorities are requesting a modest augmentation of access under the current PRGF arrangement.

Key recent economic developments

3. The global slowdown has brought out two negative consequences for the country's main mineral exports — reduction in demand and fall in prices. Although GDP growth remained robust in 2008, it was significantly lower than that recorded in recent years because of the contraction in the mining sector. The adverse effect of the slowdown in mining activity was dampened by the good performance of both agriculture and services.
4. The authorities have been successful at improving price stability by curbing the growth in reserve money. Inflation fell to 12.2 percent at the end of 2008, compared to 13.8 percent in 2007, and stood at 8 percent at end-April 2009. In this regard, the central bank has played an important role in curbing inflationary expectations by controlling reserve money growth.
5. Fiscal performance over the past years weakened due to lower budget revenue collections mainly because of the contraction in mining sector, lower customs and excise duties, and difficulties in transferring off-budget revenue to the consolidated

revenue fund. This shortfall contributed to a higher overall deficit of 4.8 percent of GDP in 2008 compared with the target of 3.2 percent of GDP

Poverty Reduction Strategy Paper (PRSP-II)

6. The key medium-term objective of my authorities is to reduce poverty by facilitating high economic growth, while maintaining macroeconomic stability, and advancing human capital development. In order to guide the attainment of this objective, my authorities have prepared a new Poverty Reduction Strategy Paper (PRSP-II) through a nationwide participatory and consultative process. The PRSP-II, which was launched publicly in May of this year, has also been endorsed by Parliament, thereby enhancing its legitimacy quite considerably. What distinguishes the PRSP-II from the previous strategy is the emphasis on job creation by linking unemployment with poverty, the stress on public infrastructure investment to crowd in private investments, and the importance placed on agriculture to ensure sustained and shared growth.
7. PRSP-II encapsulates the authorities' integrated strategy for economic growth and social development and is based on four strategic priorities. These are
 - (i) **guaranteeing energy security** through provision of reliable supply of electricity while strengthening revenue collection and building a culture of paying for services;
 - (ii) **developing national transportation network** to facilitate the movement of goods and people and enable increased investment in economic activity including agriculture;
 - (iii) **strengthening productivity in agriculture** at all levels by promoting commercial as well as subsistence agriculture through improved provision of credit, equipment and access to markets; and
 - (iv) **improving human development** by strengthening investment and improving outcomes in health and education.
8. My authorities regard good governance, the rule of law, peace and security, and the respect for human rights as essential conditions for sustainable economic growth and social development. Accordingly, the implementation of PRSP-II depends importantly on sustaining peace, building security, and consolidating good governance. The PRSP-II envisages that the Government, in partnership with the UN Peace Building Fund (PBF), would develop a program to support youth empowerment, fight corruption, and strengthen public administration.

Key challenges and policies going forward

9. The main challenges going forward are to restore growth to its high trajectory and directly address glaring social poverty in terms of food security, health and other basic services. In this regard, my authorities remain committed to maintaining sound macroeconomic policies, and intensifying the implementation of the structural reform agenda. They have factored in the impact of the external environment on their economy and have revised the macroeconomic framework. Accordingly, economic

growth, which has slowed down further in 2009, is projected to remain relatively low in 2010 and recover only in the outer years. Inflation is targeted to remain in single digits, and the balance of payments position is expected to improve somewhat with recovery in exports in 2010.

Fiscal policy

10. Fiscal policy would continue to be prudent, and capital and poverty related spending will be protected while preserving macroeconomic stability. The economic slowdown has affected revenue collection adversely and projections indicate that there will be a significant revenue shortfall in 2009. The authorities' response to this has been to adopt measures to further strengthen revenue collection. Such measures include an increase in excise duties on petroleum products and the transfer of all off-budget revenue collected by Ministries, departments and agencies (MDAs) to the consolidated revenue fund. Efforts will be redoubled to modernize the National Revenue Authority in order to improve the effectiveness and efficiency of tax administration. Furthermore, the tax base will be broadened and all the preparatory work for the implementation of GST completed by the end of the year. At the same time, current expenditure will be scrutinized to identify areas where savings could be made, though this is not expected to be significant in the short run.
11. The Government sees its public finance management (PFM) reform program as an ongoing exercise that supports fiscal discipline while promoting the efficient allocation and use of public resources. For the period 2009 – 12, the PFM reform program intends to refine and deepen the medium-term expenditure framework (MTEF), roll out IFMIS to all MDAs, and review the legal and regulatory framework for a sound PFM.

Monetary policy and financial sector issues

12. Monetary policy would continue to ensure the maintenance of price stability. In this regard, the Bank of Sierra Leone (BSL) will continue to constrain money growth while ensuring adequate liquidity. The authorities are also considering additional monetary policy instruments of the Bank of Sierra Leone to enhance their effectiveness. They are also looking at increasing the independence of the central bank.
13. Due to limited international exposure, the banking sector has been little affected by the global financial crisis. However, the BSL is determined to make certain that this situation continues and would remain vigilant by closely monitoring developments in the financial sector.
14. The authorities share the concern of staff regarding the quality of the banking sector's loan portfolio, as the nominal value of non-performing loans (NPLs) had increased

quite significantly. Mindful of the threat this poses, coupled with the entry of several new banks, the authorities have embarked on a program to strengthen the supervision capacity. Other challenges in the financial sector reform process include the need to deepen financial intermediation and increase competitiveness.

Structural reforms

15. Reform of the agriculture sector has become a key priority of the authorities. The objective is to increase productivity by giving attention to both crop yields and the area under cultivation. The government would promote double cropping in staples like rice and cassava, give renewed attention to existing cash crops, and make fertilizers available to farmers on a cost recovery basis. At the same time, the government would promote commercial agriculture, and increase the supply of post-harvest inputs like storage facilities, drying floors, rice mills, etc. Rural financial intermediation would also be improved to aid farming activities.
16. The authorities remain committed to reforms to improve the investment climate and will focus on improving the physical infrastructure, increasing access to finance — especially for women and SMEs — and creating a more business friendly regulatory environment.
17. In the coming period, renewed attention would be given to strengthening the financial sector, making the main utilities — particularly the National Power Authority (NPA) — financially viable, and persevering with the anti-corruption strategy. Preparations are underway for a comprehensive tariff study to inform an electricity tariff policy.
18. The authorities intend to build on the success achieved this year by the Anti-Corruption Commission (ACC). Several cases were brought to court, leading to some prominent convictions. The ACC will be strengthened by focusing on public education and outreach. Simultaneously, the other two elements of the anti-corruption campaign, namely investigations and prosecutions, will be accelerated.

Conclusion

19. In the past year, my authorities have faced daunting challenges: first, they had to respond to food and oil prices reaching highs not seen in a long time; then they had to guard against contagion effects of the most serious global recession since the great depression. The country has not come out unscathed - the economy has slowed, exports have declined, remittances have dropped, and the overall external position has worsened, thereby weakening the ability to accumulate foreign reserves to match forward requirements. These developments have arrested the progress in poverty reduction and made the country vulnerable going forward. Nonetheless, the

authorities have remained committed to pursue prudent macroeconomic policies and pro-poor economic growth strategy.

20. Conscientious and committed implementation of their PRGF-supported program has meant that all quantitative PCs have been met except for that on budget revenue. There have also been delays related to the implementation of the GST and the transfer of all off-budget revenue collected into the consolidated revenue fund. The prior actions related to these two matters have been met and my authorities have, therefore, requested the conclusion of the fourth review of the PRGF arrangement. They have also requested an augmentation of access under the PRGF in the light of the substantial external pressures that have emerged.
21. It has not been very long since the country emerged from civil strife. Post- conflict reconstruction and development have only been possible because of the continued support and good will from Sierra Leone's international development partners, including through Multi-Donor Budgetary Support and, of course, the IMF. My authorities have asked me to thank you for that.