International Monetary Fund

Sierra Leone and the IMF

Press Release:

Press Release: IMF Executive Board Completes Fifth Review Under ECF Arrangement for Sierra Leone and Approves US$34.12Million Disbursement
July 1, 2016

Press Release: IMF Executive Board Concludes 2016 Article IV consultation for Sierra Leone
July 8, 2016

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Sierra Leone: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 16, 2016

The following item is a Letter of Intent of the government of Sierra Leone, which describes the policies that Sierra Leone intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Sierra Leone, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

June 16, 2016

Madame Christine Lagarde

Managing Director

International Monetary Fund

Washington, D.C. 20431

USA

Dear Madame Lagarde:

1. In 2014–2015, the Sierra Leone economy was hit by two severe shocks: the Ebola epidemic and the sharp drop in iron ore prices. At the height of the epidemic, many lost their sources of income, as business and farm activities were disrupted. The economic impact was compounded by the shutting down of two iron ore mining companies in 2015, which together accounted for more than a fifth of national income and two-thirds of exports. It appears these twin challenges are now largely behind us as Sierra Leone has been declared Ebola-free since November 2015, and iron ore production has resumed. Nonetheless, the problems are not over: post-Ebola challenges remain prevalent in health and human development and iron mining remains on a small scale.

2. The implementation of the Post-Ebola Recovery Strategy has gained momentum since the beginning of 2016. The strategy builds on our poverty reduction strategy (*Agenda for Prosperity*), with a special focus on the following areas for quick-wins: health, education, water and sanitation; social protection; agriculture; and private sector development. We are hopeful that continued financial support from Sierra Leone's development partners would enable us to achieve our strategic vision.

3. Notwithstanding the immediate post-Ebola challenges we faced, the implementation of policies and reforms under the ECF-supported program continued. At end-December 2015, all quantitative performance criteria (PC) on net domestic bank credit to government, net domestic assets of the central bank, and gross foreign reserves of the central bank were met. We also observed the continuous ceilings on the PV of external debt, on short-term external debt owed or guaranteed by the public sector, and on external payment arrears of the public sector. Targets on

poverty-related spending, domestic government revenue and on the domestic primary balance were also met.

4. Despite this relatively strong performance on the quantitative criteria, the structural reform agenda stalled due to delays in implementing agreed measures. The Public Finance Management Bill, submitted to Parliament in August 2015, was tied up in the legislative process for most of the last quarter of 2015 and first quarter of 2016. As a result, the establishment of the Treasury Single Account and the Natural Resource Fund were delayed. The contentious issues in the Bill have been addressed, with technical assistance from the IMF Fiscal Affairs Department, and passage into law occurred only at end-May. The provision on removal of fuel subsidies contained in the 2016 Finance Bill was expunged by Parliament, and in deference to political sensitivities, government has decided to shelve the implementation for the time being. Implementation of other structural measures is progressing.

5. We recognize the risks to the financing of our 2016 program following some expenditure overruns in the first quarter of the year. Therefore, a comprehensive program of revenue enhancement and expenditure rationalization was adopted by Cabinet in early March 2016. These measures are expected to bring in additional revenue, while curtailing expenditures across the board in the first half of the year. In addition to these temporary measures, permanent measures will provide sustainable improvement to our public finances in the long run. These include liberalization of the telecommunications gateway, which allow us to capture as revenue those funds which had previously gone to the monopoly controller of the gateway; imposing Goods and Service Tax on all electricity bills, and significant reduction in tax exemptions and duty waivers.

6. The Government believes the policies and reforms presented in the attached MEFP are adequate to achieve the program's objectives. However, it stands ready to take any additional measures that may become necessary for this purpose. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies contained in the attached MEFP, in accordance with IMF policies on such matters.

7. The Government requests the completion of the fifth review of Sierra Leone's program supported by the IMF under the ECF arrangement, and the disbursement of the respective tranche in the amount of SDR 24.44 million, upon the completion of the review by the IMF Executive Board, SDR 15.56 million of which will be lent to the budget. Finally, in order to allow adequate time for the completion of the final review under this arrangement, we request a two-month extension of our ECF arrangement until December 21, 2016.

8. In line with our commitments to transparency in government operations, we authorize publication of this letter, the Memorandum of Economic and Financial Policies, as well as the Technical Memorandum of Understanding attached to it; and the staff report, including placement of these documents on the IMF website, in accordance with IMF procedures.

Very truly yours,

__________________/s/___________________	________________/s/__________________
Momodu Kargbo	Kaifala Marah
Minister of Finance and Economic Development	Governor of Bank of Sierra Leone

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understandings

Attachment I. Memorandum of Economic and Financial Policies

Freetown, June 16, 2016

INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) supplements the one dated October 30, 2015. It reports on performance under Sierra Leone's economic and financial program supported by the International Monetary Fund (IMF) through the Extended Credit Facility (ECF), and outlines key policies and reform measures for the remainder of 2016. These policies aim to rebuild the economy, support macroeconomic stability, and generate sustainable growth.

2. In 2014, the Sierra Leone economy was hit by two severe shocks: the Ebola epidemic and the sharp drop in iron ore prices. At the height of the epidemic, many lost their sources of income, as business and farm activities were disrupted. The economic impact was compounded by the shutting down of two iron ore mining companies in 2015, which together accounted for more than a fifth of national income and two-thirds of exports. It appears these twin challenges are now ebbing, as Sierra Leone has been declared Ebola-free and iron ore production has resumed. Nonetheless, the problems are not over: post-Ebola challenges remain prevalent in health and human development and iron mining remains on a small scale.

3. The implementation of the Post-Ebola Recovery Strategy has gained momentum since the beginning of 2016. The strategy builds on the Government's poverty reduction strategy (Agenda for Prosperity), with a special focus on the following areas for quick-wins: health, education, water and sanitation; social protection; agriculture; and private sector development. We are hopeful that continued financial support from Sierra Leone's development partners will allow for the achievement of our strategic vision.

RECENT ECONOMIC DEVELOPMENTS

4. Real GDP declined significantly in 2015, by more than 21 percent. Many sectors were adversely affected by the Ebola outbreak in the first half of the year, including construction, trade and tourism, transport, and manufacturing. The impact of Ebola on these sectors was exacerbated by the closing of borders with neighboring countries to contain the spread of the disease, and a reduction in investment-related spending as a number of foreign-financed investment projects were halted or scaled-down. As a result, growth in the non-iron ore economy was limited to 1.4 percent, compared with a 5.5 percent in 2013. IMF staff analysis indicates that this decline is almost entirely due to the longer than anticipated duration of the Ebola Virus Disease (EVD).

However, as EVD receded in the second half of 2015, a gradual recovery began in the non-iron ore economy, mainly contributed by the rebound in agriculture sector.

5. Growth prospects for 2016 and the medium term are better than assumed at the time of the last program review. The agriculture sector is projected to grow by 4 percent in 2016, and by 3.5 percent in 2017 and 2018. Growth in this sector is driven by more than US$500 million in investments in commercial and industrial agriculture businesses, most of which will commence production between 2016 and 2018. These include investments in ethanol, palm oil, tobacco, and rice. In addition, various ongoing interventions in subsistence agriculture are expected to increase crop yield. Growth in the mining and quarrying sector will be driven by the resumption of iron ore mining by Shandong Iron and Steel Company (SISC) in early 2016. Other minerals such as bauxite, diamond, and gold are projected to record roughly unchanged production, given global price dynamics. The manufacturing and services sectors are expected to benefit significantly from ongoing energy reforms. As a result of these, overall GDP growth is projected at 4.3 percent in 2016 and 5 percent in 2017.

6. Consumer price inflation averaged 9 percent in 2015, compared with 8.3 percent in 2014, reflecting exchange rate depreciation, reduced food supply due to lower agriculture production, and disruptions in cross border trade with Liberia and Guinea. In 2016, inflation is projected to average 9.5 percent as international and domestic oil prices are expected to remain low, and domestic food production improves supplemented by supplies from World Food Program interventions. There is however, a possibility that exchange rate depreciation pressures could threaten price stability.

7. The fiscal position improved in 2015. Revenue performance was strong across the board. Domestic revenue was nearly 7 percent higher than budgeted, with all broad categories of revenue, except Road User Charges, being higher than projected. Corporate and personal income tax benefited from the resumption of economic activities (as well as one-off payments from Africa Minerals Limited), and the National Revenue Administration (NRA) ramped up enforcement actions, with several defaulting businesses sealed off. Revenue from customs exceeded the target by 6 percent, reflecting increased oversight of operations and enforcement of collections from outstanding obligations. Additional gains were recorded in petroleum excise duties as oil prices declined, reducing the implicit subsidy. The mining sector exceeded the revenue target by 10 percent, notwithstanding challenges in bauxite and diamond mining, as some overdue obligations were paid in the latter part of the year.

8. Total expenditures exceeded the program by 1 percent. Wages and salaries were lower than programmed due to a freeze in recruitment of personnel in the public service, which came into effect in mid-2015. Interest payments also declined by 8 percent, benefiting from lower yields on government securities, as well as debt relief from the IMF Catastrophe Containment and Relief Trust Fund. However, goods and services exceeded the programmed level by 1 percent, while development expenditure recorded an overrun of 4 percent. Most of the overrun in capital expenditure is attributable to expenditure on projects related to road construction, energy and water supply that were affected by exchange rate depreciation. The overall deficit is estimated at 4.4 percent of non-iron ore GDP, compared to a program target of 4.8 percent. External budget support totaled Le 645 billion, a significant decline from 2014, reflecting the winding down of Ebola-related support from development partners. Government borrowing from the securities market was 0.2 percent of non-iron ore GDP lower than expected in the last quarter of the year due to strong revenue performance in the latter part of the year.

9. Notwithstanding a slow start in 2015, by end year, remarkable progress was made in poverty-related spending. Most of the key sectors that account for the bulk of our pro-poor expenditure were able to deliver services as expected. Schools reopened in early April; most hospitals were operating at capacity; agricultural activities increased as a result of interventions; and most of the infrastructure projects in roads, water supply and energy resumed by the second quarter of the year.

10. Monetary sector developments in 2015 were heavily influenced by the post-Ebola recovery and the winding down of related transfers. Broad money (M3) grew by 11.3 percent in 2015, largely reflecting strong growth in net domestic assets of the banking system as government borrowing increased. During the same period, net foreign assets of the banking system expanded as banks both held more foreign currency and placed more foreign currency deposits with overseas banks (mainly their parent banks). Meanwhile, credit to the private sector rose by 3.2 percent, an improvement over the contraction recorded in first half of the year. While credit growth is consistent with the gradual resumption of economic activities, it is still low, reflecting challenges in the banking system, such as credit risk and high nonperforming loans. On the liabilities side, currency in circulation and transferable deposits recorded significant growth reflecting increased demand as the economy began to recover, especially in the second half. Reserve money grew by 10.4 percent in 2015, well above the targeted rate of 7.1 percent. There was a marginal decline in the interest rates of commercial banks and the Monetary Policy Rate has remained at 9.5 percent since March 2015.

11. Pressures on the Leone continued in 2015. The average exchange rate to the US dollar depreciated by [12] percent, compared to a depreciation of 4.4 percent in 2014. The depreciation reflected pressures in the foreign exchange market due to the winding down of Ebola related inflows, as well as declining inflows from mining. Total sales during auctions by the BSL in 2015 amounted to US$112 million, more than the US$83 million sold in 2014. Pressures on the exchange rate continued in the first quarter of 2016, with the Leone depreciating by 5 percent in the quarter. To further cope with reserves pressures, the BSL first reduced weekly sales to $1–$2 million, and later withdrew from the market for three successive auctions in order to preserve reserves.

12. At end-2015, there were significant problems with respect to prudential norms. All banks, but one, met the minimum paid-up capital of Le 30 billion at end December 2015. Pretax profit increased by 35 percent, while liquidity stood at 17.24 percent. However, compared with 2014, the number of banks that were non-compliant with the minimum liquidity, capital adequacy, and non-performing loan (NPL) ratios increased. Partly caused by the twin shocks, the NPL ratio jumped from 22 percent at end 2013 to 38 percent in mid-2015. Though the NPL ratio declined sharply to around 32 percent at end 2015, the amounts of outstanding loans and provisions remain roughly unchanged. Poor loan quality reflects continuing fragility in the private sector, as well as governance and connected lending issues in the two majority state-owned banks. However, the on-going resolution process in the banks is addressing these problems. Loan concentration remains high with international trade, construction, and services accounting for about three quarters of total loans.

13. Total exports of goods collapsed by over 55 percent in 2015 due mostly to the cessation of iron ore production and the continued decline in international prices for Sierra Leone's key mineral products. With the resumption of iron ore production in early 2016, exports are projected to rise by 13.7 percent, to $662 million. Total imports also declined by about 20.6 percent in 2015, as Ebola-related goods and services imports decreased along with the imports of fuel products. As a result, the trade deficit increased from US$339 million in 2014 to US$724 million in 2015. For 2016, the trade deficit is projected to improve to US$670 million, helped by resumption of iron ore exports and declining oil price.

PROGRAM PERFORMANCE

14. The implementation of policies and reforms under the ECF-supported program continued in 2015 and through the first quarter of 2016. At end-December 2015, all performance criteria (PC)

were met. Net domestic bank credit at end December was Le 650.7 billion, lower than the adjusted target by Le 62.95 billion. Net domestic assets of the central bank was Le 431 billion; which is Le 49.81 billion less than the adjusted target. Gross foreign reserves of the central bank at December 2015 increased by US$49.6 million, exceeding the program floor by US$20.59 million. The continuous ceilings on new non-concessional external debt, on short-term external debt owed or guaranteed by the public sector, and on external payment arrears of the public sector were all observed. Spending on poverty-related expenditure reached Le 1,253 billion, exceeding the indicative target by Le 125 billion. Targets on domestic government revenue and on the domestic primary balance were also met by wide margins.

15. Some program benchmarks have not been satisfactorily completed, thereby stalling the structural reform agenda. A prior action for the third and fourth reviews that required three revenue measures to be included in the Finance Bill for 2016 was met, but the bill was only passed toward the end of the first quarter 2016, reducing the revenue impact of the measures. Furthermore, one of the provisions, on removal of fuel subsidy, was expunged by Parliament with the recommendation that it be implemented administratively. Another major setback for the reform agenda is the delayed enactment of the Public Finance Management Bill, originally submitted to Parliament in August 2015. As a result, the establishment of the Treasury Single Account and the Natural Resource Fund (Structural Benchmarks) has been delayed. The contentious issues in the Bill have been addressed, including through technical assistance from FAD, and passage occurred in early June.

16. The following structural benchmarks for end-March 2016 were also missed: adoption by cabinet of a revised medium-term wage, establishment of a primary dealer system, finalization of BSL's rule governing the inter-bank foreign exchange market, and completion of an independent diagnostic study for the two state-owned banks. However, progress was made in the implementation of all other 2016 structural benchmarks. A draft revised medium term wage and pay reform strategy has been prepared, and was submitted to Cabinet at end-May. The monthly rolling Treasury cash flow table consistent with the annual budget, the semi-annual report on the execution of the public investment program, the quarterly report on external debt commitments, agreements and disbursements were prepared; and a three-year Public Investment Program integrated with the budget process and the revised Medium-term Expenditure Framework for 2015–17 were also completed. BSL has finalized guidelines on a primary dealer system for the government securities market, but the agreement is not yet operational as stakeholders have yet to confirm their new roles and responsibilities. A liquidity forecasting framework has been established and the spreadsheet is being populated daily. A draft regulation governing the operations of the

interbank foreign exchange market has been completed, and discussions with banks are planned. Structural benchmarks on financial sector developments have reached advanced stages. The terms of reference for a diagnostic study of the two state-owned banks have been completed, and five companies have expressed interest in undertaking the study. A registry of movable collateral was established and BSL is awaiting specifications from IFC for procurement of the hardware.

ECONOMIC OUTLOOK AND POLICIES FOR THE REMAINDER OF 2016

Economic Outlook

17. The outlook in 2016 and beyond is challenging, despite the resumption of iron ore production. Real GDP growth is projected by 4.3 percent (revised from 0.1 in the last review) while the non-iron ore economy is forecast to grow by 3.3 percent in 2016. However, iron ore production may not be viable for long, as the company is producing at a loss. This uncertainty has implications for not only real growth, but also government revenue.

18. In the non-iron ore sectors, moderate recovery is expected in agriculture, while trade and construction are likely to maintain the recovery that was already underway in 2015 following the relaxation of Ebola-related restrictions. A small decline is projected for tourism related hotel receipts given the decline in Ebola related medical arrivals. Transport and other services would benefit from the resumption of iron ore mining. For 2017, agriculture, construction and trade are expected to be key sectors contributing to growth, as agriculture productivity starts improving and post-Ebola recovery interventions are ramped up. Inflation is projected to average 9.5 percent in 2016, and 9 percent in 2017. The trade balance is projected to improve in 2016, because of the resumption of iron ore mining. However, the current account deficit is projected to deteriorate from 15.5 percent in 2015 to 16.6 percent in 2016, due mainly to declining current transfers and higher iron-ore related imports of goods and services.

19. The implementation of the Government's post-Ebola Recovery Strategy (ERS) should boost growth in the non-iron ore sectors. The delivery team has made substantial progress in aligning donor commitments to planned programs and implementation. Development partners have initiated or contributed to projects in health services; enhancement of social services to the most vulnerable; improved water and sanitation services; and supporting private sector development including agriculture. In addition, an energy sector program to increase power supply to Freetown and the western region is now in the final stages of procurement.

Fiscal Policy

20. Though revenue has been roughly in line with the program thus far in 2016, the budget was nonetheless under pressure in the first quarter. These pressures came from several sources. First, there were some expenditure overruns, especially on wages and salaries, as discussed below. Second, programmed budget support disbursements for the first quarter, amounting to Le 60 billion (0.24 percent of GDP), were delayed. Third, some expenditure, such as rent allowances for parliamentarians, was front loaded and paid in January. Finally, the situation was compounded by tight liquidity in the banking sector, which has kept net domestic credit to the government below budgeted levels, despite a sharp increase in interest rates on Government securities.

21. This situation is made more complicated by the fact that we have not eliminated the subsidy on retail fuel, despite our commitment to do so in the context of our last MEFP. The delayed implementation of this measure is due to Government's commitment to maintaining peace and stability in the post Ebola period. Even with the subsidy in the current retail price, there is strong agitation from pressure groups including civil society who are calling for a reduction in pump prices. Therefore, in realization of the political cost of removing the subsidy at this time, government decided to postpone that action. Government is committed to implementing this measure in the context of a successor arrangement.

22. As an initial response to this precarious situation, a comprehensive program of revenue enhancement and expenditure rationalization was adopted by Cabinet in early March. Implementation of the measures is expected to bring additional revenue of about Le 100 billion to the budget with respect to program.

- Increase in the withholding tax rate (for foreign company consultant/management fees) from 10 to 15 percent;
- 0 .5 percent health care tax on all new government contracts;
- Collection of about Le 16.7 billion owed by Sierra Rutile from 2015 PAYE taxes, and Le 20.7 billion in iron ore royalties;
- Closer scrutiny in the approval of duty exemptions, as a result of which, an additional Le 10 billion will be saved;
- Transfer of 60 percent of existing resources, including projected revenues of all financial autonomous agencies into the Consolidated Revenue Fund;

- All business outfits to pay outstanding arrears of taxes within 30 days—failure would lead to punitive measures. NRA estimates about Le 33 billion as arrears from GST and other taxes;

- All commercial banks to transfer monies in transit accounts within 24 hours—strict penalties would apply in event of failure to comply.

23. The expenditure measures are aimed at curtailing expenditures across the board in the first half of the year. However, all pro-poor expenditures in education, health, agriculture, social welfare etc. will be fully protected. The main measures include the following:

- Halt on all new domestically financed capital projects and supplier contracts, and focus on completing existing projects;

- 50 percent of all payments to suppliers/contractors that have a foreign component to be switched to domestic currency;

- Elimination of payment for overtime;

- Elimination of double payment of pensions and salaries across the board.

In addition to these, there are several identified reductions in various categories of goods and services.

24. Despite these efforts at fiscal restraint, we recognize that fiscal challenges will remain for the rest of the year, and that the measures taken to date will not be sufficient. Thus, in April we adopted three significant revenue-enhancing measures. First, from April 1 we have liberalized the telecommunications gateway, in part based on advice from the World Bank. In addition to increasing the competitiveness of the sector, this measure will allow us to capture as revenue, funds which had previously gone to the monopoly controller of the gateway. Based on 2015 billings, we expect to receive additional revenue in 2016 from this measure totaling Le 64 billion. Second, from July 1 all electricity bills will be subject to GST; this should yield Le 30 billion annually, or Le 15 billion for the remainder of 2016. Third, we have taken several steps to significantly reduce tax exemptions: henceforth, all NGOs will have the burden of proof to demonstrate that the items they are importing relate strictly to their operations; hotels will be granted exemptions only during the construction stage; and no domestically-financed government contracts will include a tax exemption. Combined, we expect these measures to reduce tax exemptions by 20 billion leones in 2016, and 25 billion leones annually. Finally, to aid our ongoing efforts to strengthen tax administration, we have requested a Tax Administration Diagnostic Assessment Tool (TADAT)

mission from the IMF's Fiscal Affairs Department, in addition to NRA's participation in the IMF's Revenue Administration Fiscal Tool (RA-FIT).

25. On the expenditure front, our new measures are aimed at containing a wage bill that we acknowledge is growing too rapidly. We have thus taken the following measures to reduce and contain the wage bill:

- Strengthen efforts to improve the integrity of the payroll, including payment of salaries to teachers in urban area schools into their personal bank accounts;
- Identified and removed from the payroll 2,966 workers who had passed the mandatory retirement age but were nonetheless still on the payroll;
- Of the above staff, government has been paying pensions contributions for 2,744 of them despite the fact that they had exceeded the age at which such contributions should cease. This has been remedied, and we have requested a refund from the pension fund;
- Frozen the payrolls of all subvented agencies at the July 2015 level.

26. Along with other measures, we expect the wage bill going forward to be reduced by 42 billion leones. Nonetheless, contrary to the original wage bill projection of Le 1,651 billion, wages will now reach Le 1,795 billion by the end of 2016, an increase of about Le 144 billion. We recognize that at 65 percent of domestic revenue, our wage bill is not sustainable. Therefore, we are committed to cap the wage bill at 6.0 percent of GDP over the medium term and keep its claim on domestic revenue under 50 percent per annum. One key step to achieve this will be to contain the rapid increase in wages of subvented agencies. We have presented to Cabinet, for its approval, a medium term wage policy consistent with those limits. The World Bank supported Pay and Performance Program, the European Commission Civil Service Reform program; and the African Development Bank biometric verification of teachers exercise are important steps in the reforms.

27. While domestic borrowing in 2016 is expected to be less than programmed, the cost of financing has significantly increased across all tenors. The interest rate on 364 day bills, which account for about 90 percent of total securities, increased from around 9 percent in December 2015 to 24 percent by end April 2016. As a result, the interest burden is projected to double from around Le 250 billion in 2016 to Le 520 billion in 2017. This poses a serious challenge to budget implementation in 2017 and beyond. We are requesting the IMF for technical assistance to address the issue of domestic debt management.

28. Government recognizes that the there is a large financing gap in fiscal year 2017. This is partly due to declining trend in external budget support, including the non-availability of IMF budget support and higher interest obligations. We are optimistic that the current rising trend in iron ore prices will facilitate the reopening of the second mine, and hence increased production and higher related revenues than envisaged in the program. In addition, we will continue to rein in wage bill increases, and introduce additional tax measures. Together with our commitment to remove the fuel subsidy in 2017, these, coupled with improved revenue collection and expenditure controls and management, particularly on the wage bill, are expected to close the financing gap in 2017.

Monetary and Exchange Rate Policies

29. Monetary policy will continue to be geared toward price stability. In 2016, inflationary pressures are projected to be driven by ongoing depreciation. While we cannot prevent shocks to domestic prices, BSL will remain attentive to potential risks from second round price pressures, and will tighten monetary policy if necessary to achieve our inflation target.

30. BSL will continue to enhance the effectiveness of monetary policy operations, as well as liquidity management, through more active participation in the secondary market and the use of money market operations, via lending and standing deposit facilities. Together, these would allow banks to better manage their liquidity. BSL will also strengthen its own capacity to forecast liquidity on a daily basis, with close cooperation from the Treasury. To support these efforts the Accountant General Department of MoFED will produce a daily cash flow table. In addition, BSL will implement the recommendations of the recently concluded MCM technical assistance missions on monetary policy framework and operations.

31. BSL will consider the following reforms to enhance its monetary policy operations. First, BSL will seek to provide sufficient liquidity to the banking system, including by undertaking the previously planned level of secondary market transactions for 2016. In this context, it will be important to continue efforts to strengthen liquidity management, including by improving liquidity forecasting. Second, the BSL will also consider introducing reserve requirements on foreign currency deposits, in part to eliminate the bias in favor of foreign currency deposits. Third, the BSL will gradually migrate from weekly sales of foreign exchange, reserving their interventions to efforts to offset excessive volatility in the exchange rate. Overall, monetary policy should be geared to keeping inflation broadly unchanged at around 9.5 percent.

32. Vulnerabilities in our banking system have increased, in part due to the pressures created by Ebola and the iron ore crisis. Since January 2015, we have taken steps to address the problems in

two large banks, Rokel Commercial Bank (RCB) and Sierra Leone Commercial Bank (SLCB). These banks also have high NPL ratios (75 and 48 percent, respectively at end 2015), due to problems in credit review, connected and concentrated lending, and some delays in government payments to contractors, which resulted in these contractors being late in payments on loans. As part of the resolution, in December 2015, advertisements were placed for a diagnostic study of the two institutions. Expressions of interests were received from five vendors, and the proposals are under review. Our plan is to award the contract by end-June, with the aim of completing the studies by end-September.

33. To address the more general NPL problem in the banking system, BSL has taken several remedial regulatory and supervisory actions. First, a Loan Write-Off Policy Directive has been issued to banks, which would allow them to clean their balance sheets. The directive took effect in December 2015. In addition, the introduction of the Borrowers and Lenders Act 2014 and the planned Collateral Registry and Credit Administration Bills should improve the standards of credits. Some supervisory actions have also been taken, such as putting a cap on lending or a temporary moratorium on lending for some banks, and ensuring adequate provisions on non-performing facilities. To further strengthen our supervisory abilities, we have requested that the IMF's MCM department provide us with a long-term resident expert in banking supervision.

Borrowing Policies and Financing of the Poverty Reduction Strategy

34. Debt Sustainability Analysis (DSA) indicates that the risk of debt distress remains moderate. Compared to the last program review, vulnerabilities have now reduced helped by the resumption of iron ore exports and ambitious fiscal revenue measures. However, given the uncertain outlook, particularly in the iron ore sector, the government is committed to maintaining prudent borrowing policies, and will give priority to grants and concessional borrowing to finance investment projects. Moreover, the level of public debt and the associated debt service payments are crowding out key priority expenditures necessary for supporting the post Ebola socio-economic recovery. In this regard, Government will work with World Bank to seek additional debt relief from commercial creditors. Finally, only the most critical projects, for which grants and concessional financing are not available, will be undertaken with non-concessional financing, and then only after ensuring that the resultant debt will not harm the country's debt sustainability. We will ensure that the net present value of proposed external borrowing is within the program limits and consult the IMF staff before proceeding with any proposed external borrowing.

35. Borrowing from the Government securities market will be guided by the medium-term debt management strategy. The government will continue to signal its borrowing needs through the publication of a quarterly borrowing calendar. Actual borrowing will not deviate from the calendar by more than 10 percent plus or minus.

STRUCTURAL REFORMS

36. Considering emerging fiscal pressures, the immediate focus of the structural reform agenda is to implement new revenue and expenditure measures that would immediately moderate the risks to the 2016 fiscal program. For the remainder of the ECF program, we will take advantage of the resumption of TA support following the end of Ebola to accelerate the implementation of measures originally programmed for 2014 and 2015. These are on public finance management; monetary and financial sector policies; strengthening economic data collection and reporting; and improving the business environment. In addition, attention will be placed on supporting economic diversification through private sector development.

37. During the rest of the program, we will continue the implementation of previously agreed reforms aimed at reducing discretionary waivers and broadening of the tax base. Key measures are as follows: (i) preparing a quarterly report on duty waivers granted with a view to enhancing the scrutiny of duty waiver requests; and continue our policy of requiring parliamentary approval of any new waivers; and (ii) review, by end-June 2016, the consolidated tax and non-tax obligations for mining companies, and prepare a list of all expired mining agreements **(structural benchmark)**. Following resolution of the contentious issues in the PFM Bill and its passage, we will (iii) establish the Treasury Single Account, by end-June 2016 **(structural benchmark**); (iv) establish the Natural Resource Fund, by end-June 2016 (**structural benchmark**); and (v) submit a new Tax Administration Bill to parliament, by end-June 2016 **(structural benchmark**). The Act would improve compliance with tax obligations by harmonizing administrative provisions and updating them to reflect current approaches in tax administration.

38. The late passage of the Finance Act 2016 meant that some of the measures could not be implemented in the first quarter of 2016. Following Presidential ascent to the bill, NRA will commence the implementation of key provisions contained therein. These include: i) elimination of exemptions and waivers that have not been approved by Parliament, including for MDAs;
ii) increase in PAYE rate for top earners (of Le 2.0 million per month) from 30 percent to 35 percent;
iv) increase in withholding tax on management and technical fees from 10 percent to 15 percent;

and v) introduction of a national health insurance levy of 0.5 percent on the value of all government contracts in support of the proposed National Health Insurance Scheme.

39. In the second half of 2015, NRA implemented the Short Term Revenue Improvement Project (STRIP) which improved GST compliance. In addition, procedures and processes at the Customs Service Department were continuously monitored to reduce revenue leakages and correct inefficiencies. Going forward, implementation of phase II of STRIP measures will focus on GST compliance, compliance of large and medium taxpayers, reorganization of rental income tax administration, special and provincial audits, and target top contractors. In particular, attention will focus on:

- Curbing fraud and tax evasion by building capacity for specialized revenue audits, especially in the mining, financial and telecommunication sectors;
- Implementing the Small Tax Payer Preparer Scheme to add flexibility in compliance management of the hard–to-tax sector;
- Developing and implementing a revenue accounting and reconciliation system for effective reconciliation of transit accounts in the commercial banks and the Central Bank;
- Improving the regulation and capacity of Clearing and Forwarding Agents;
- Expanding on the existing automation drive to include online submission of domestic tax returns and automate non-tax revenue payments especially for mining revenues;
- Rolling out the enhanced DTIS software to transit banks to capture tax payments and issue receipts on time; and enhance the ASYCUDA++ by implementing its remaining modules;
- Improving GST compliance through the application of a penalty of Le 5.0 million on each unauthorized receipt issued by a GST registered business other than that provided or certified by the National Revenue Authority.

40. Furthermore, the NRA will continue to strengthen implementation of administrative measures during 2016–18. It will implement a new Revenue Administration Act with consistent and simplified administrative provisions and rewrite the parent Acts to reflect consequential amendments. Key initiatives planned include:

- Use of electronic cash registers for GST registered vendors which will interface with the Online Tax System and allow real time capture of transactions to enhance GST compliance as well as reduce under-declarations;
- Expand on current automation drive of tax administration, including the introduction of an integrated tax administration system; migration from ASYCUDA++ to advanced ASYCUDA World; (Structural Benchmark);
- Improve cargo clearance through construction of cargo inspection facility at the sea port;
- Improve customs valuation by collaborating with the cargo tracking company through access to their cargo update and pricing database;
- Use mobile scanners for non-intrusive methods of import examination;
- Improve tax collection through modern technology, including further digitization; and
- Tackle transfer pricing advances through increased collaboration with international bodies and partner with MOFED to develop a transfer pricing policy.

41. Our expenditure reforms will focus on speedy response to the management of expenditure overruns and containing risks to the 2016 budget, as enunciated in paragraph 24. The wage bill remains a key risk, and the revised medium-term wage and pay reform strategy paper has already been submitted to Cabinet. Given our inability to meet the end-March deadline for its adoption, Cabinet will adopt the recommendations, by June 2016 **(structural benchmark**). We remain committed to preparing the rolling Treasury Cash Flow Table consistent with the budget and the semi-annual report on PIP execution on a continuous basis, and will now change the frequency from monthly to bi-weekly, so as to improve traction **(structural benchmark)**.

42. Implementation of measures aimed at containing the risks in the financial sector will be accelerated in 2016. Given the delay in finalizing guidelines with Discount Houses, the primary dealer system for the government securities market will now be operational by end-June 2016 **(structural benchmark**). To improve the overall effectiveness of monetary operations, BSL has commenced the operation of a daily liquidity forecasting framework which is linked to daily monetary operations actions **(structural benchmark**). BSL has also completely moved to the wholesale foreign exchange auction system since March 2015. BSL will finalize operational rules for the interbank foreign exchange market **(structural benchmark)**.

43. In the area of banking supervision, reform measures will focus on addressing the challenges in the State-owned banks. Even though the process for conducting the diagnostic audit of Sierra Leone Commercial Bank and Rokel Commercial Bank was initiated, the study could not be completed by end-March due to delays in securing World Bank approval of the Terms of reference. As this issue has now been addressed, we are committed to contracting out the study by end-June 2016 **(structural benchmark)**, with the aim of completing the study by end-September. In addition, financial sector reform will focus on priority areas defined in the road map for the implementation of risk-based supervision completed in June 2014. They include the preparation of an internal contingent manual to guide identification and step-by-step supervisory actions in the event of specific or systemic banking sector distress, by end-June 2016 (**structural benchmark**).

44. The structural reforms aimed at supporting private sector development were implemented as planned. The setting up of registry of moveable collateral was completed in the first quarter of 2016, though the registry did not take off because of delay in procurement of hardware. The business process reengineering for customs single clearance window was completed by end-December 2015, marking an important step towards the introduction of a one-stop window that will contribute to improving the business environment.

45. Following problems discovered in our balance of payments (BOP) data during the joint 3rd and 4th review mission, we have received technical assistance and we await the report so as to implement the recommendations. We have also benefited from technical assistance to strengthen our consumer price index. We will continue to welcome Fund's assistance in significantly strengthening our BOP and other economic and financial sector data.

PROGRAM MONITORING

46. The program is monitored on a semi-annual basis, through quantitative targets (Tables 1, 2 and 3) and structural benchmarks (Tables 3 and 4). Quantitative targets for end-June 2016 are performance criteria. Though the Sixth and final review under the ECF program was initially set to be completed on or after September 10, 2016, the change in scheduled reviews as a result of Ebola outbreak has made it difficult to keep to the time line. Therefore, we will request for a two-month extension, to December 21, 2016, to give sufficient time to complete the review and the sixth review is expected to be completed by this date.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2015

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

	Dec. 2014 Est. Stock	2015 Mar. 1/ Prog.	Adj. Prog.	Prel.	Status	Jun. 2/ Prog.	Adj. Prog.	Prel.	Status	Sept. 1/ Prog.	Adj. Prog.	Prel.	Status
Performance criteria													
Net domestic bank credit to the central government (ceiling)	1939	249	281	143	Met	302	429	317	Met	447	580	661	Not Met
Unadjusted target (ceiling)			249				302				447		
Adjustment for the shortfall (excess) in external budget support			20				99				99		
Adjustment for the issuance of government securities to the nonbank private sector			12				28				34		
Net domestic assets of the central bank (ceiling) 6/	-383	220	239	-33	Met	186	285	219	Met	190	289	401	Not Met
Unadjusted target (ceiling)			220				186				190		
Adjustment for the shortfall (excess) in external budget support			20				99				99		
Gross foreign exchange reserves of the central bank, US$ millions (floor)	553.5	63	58	51	Not Met	63	29	33	Met	20	-14	-14	Met
Unadjusted target (floor)			63				63				20		
Adjustment for the shortfall (excess) in external budget support 3/			-4				-20				-20		
Adjustment for the shortfall in the US$ value of IMF disbursement			0				-13				-13		
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-1				-1				-2		
Ceiling on new nonconcessional external debt (in $ million) 3/	...	30		9	Met	30	...	9	Met	30		9	Met
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 3/	...	0		0	Met	0	...	0	Met	0		0	Met
External payment arrears of the public sector (ceiling) 3/	...	0		0	Met	0	...	0	Met	0		0	Met
Indicative target													
Total domestic government revenue (floor)	...	479		565	Met	1000		1175	Met	1556		1691	Met
Poverty-related expenditures (floor)	...	271		171	Not Met	570		398	Not Met	807		781	Not Met
Domestic primary balance (floor)		-506		-295	Met	-1119		-488	Met	-1420		-959	Met
Memorandum items:													
External budgetary assistance (US$ million) 4/	...	24.8		20.8		62.9		29.5		68.1		34.6	
Net credit to government by nonbank sector 5/	...	0.0		-12.3		10.0		-17.8		20.0		-13.7	
ECF disbursements (US$ millions, flow)		88.0		88.07		12.9		0.0		0.0		0.0	
Exchange rate (Leones/US$)	4953	4953		4953		4953		4953		4953		4953	

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-March and end-September are indicative targets.

2/ End-June and end-December target are performance criteria.

3/ These apply on a continuous basis.

4/ Including grants and loans.

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

6/ End December 2014 NDA and gross foreign reserves reevaluated with the new program exchange rate Le 4953.34/US$.

Table 2. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2015		
Measures	**Timing**	**Status**
Prior Actions		
Submission to parliament of a 2016 budget that contains: elimination of implicit fuel subsidies consistent with the application of the commercial price formula to consumer fuel prices; increasing the PIT rate for the top income bracket from 30 percent to 35 percent; and elimination of all ongoing and future discretionary waivers and exemptions from custom duties and goods and services tax.	November 2015	Met.
Structural Benchmarks		
Revenue Mobilization		
• Prepare a report on duty waivers granted in 2013-14, by category and by sector, specifying the legal basis for the waiver.	End-September	Met.
• Establish a Natural Resource Revenue Fund with legal and procedural characteristics consistent with the new PFM Bill.	End- December	Not met.
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.	End-December	Not met.
• Introduce a new Tax Administration Act.	End-December	Not met.
Expenditure Management		
• Prepare a monthly rolling Treasury Cash Flow table consistent with the 2015 budget	Continuous	Met.
• Prepare a semi-annual report on PIP execution.	Continuous	Met.
• Submit to parliament the new PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds, as well as provisions for the establishment of a Natural Resource Revenue Fund.	End-September (Met in August)	Met.

Table 2. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2015 (Concluded)

Measures	Timing	Status
Financial Sector Development		
• Introduce a wholesale foreign exchange auction.	End-June	Met
• Issue a tender bid for a diagnostic study for Rokel Commercial Bank and Sierra Leone Commercial Bank	End-December	Met.
Business Environment		
• Finalize the business process reengineering for custom single clearance window.	End-December	Met.

Table 3. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2015–16

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

	Dec. 2015 Proj. Stock	2015 Dec. 1/ Prog.	Adj. Prog.	Prel.	Status	2016 Mar. 2/ Prog.	Jun. 1/ Prog.
Performance criteria 1/ 2/							
Net domestic bank credit to the central government (ceiling)	2590	733	676	651	Met	316	556
Unadjusted target (ceiling)			733				
Adjustment for the shortfall (excess) in external budget support			-1.73				
Adjustment for the issuance of government securities to the nonbank private sector			-55				
Net domestic assets of the central bank (ceiling)	48	479	477	431	Met	119	275
Unadjusted target (ceiling)			479				
Adjustment for the shortfall (excess) in external budget support			-1.73				
Gross foreign exchange reserves of the central bank, US$ millions (floor)	603	30	29	50	Met	-15	-11
Unadjusted target (floor)			30				
Adjustment for the shortfall (excess) in external budget support 3/			0.35				
Adjustment for the shortfall in the US$ value of IMF disbursement			0.41				
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-1.75				
Present Value of New External Debt (ceiling) 4/ 7/	...	70		0	Met	70	70
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 3/	...	0		0	Met	0	0
External payment arrears of the public sector (ceiling) 3/	...	0		0	Met	0	0
Indicative target							
Total domestic government revenue (floor)	...	2181		2330	Met	619	1305
Poverty-related expenditures (floor)	...	1128		1253	Met	281	624
Domestic primary balance (floor)	...	-1224		-1143	Met	-305	-643
Memorandum items:							
External budgetary assistance (US$ million, cumulative flow from the start of the year) 5/	...	99.00		99.35		12.6	19.7
Net credit to government by nonbank sector 6/	...	-36.00		18.85		0.0	0.0
ECF disbursements (US$ millions, cumulative flow from the start of the year)	...	136.00		136.41		0.0	35.4
Exchange rate (Leones/US$) 8/	4953	4953				5639	5639

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-December and end-June target are performance criteria.

2/ End-March is an indicative target.

3/ These apply on a continuous basis.

4/ The performance criteria on the ceiling on new nonconcessional external debt was replaced by the ceiling on the Present Value of New External Debt, following the IMF Board approval on November 16, 2015

5/ Including grants and loans.

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

7/ Cumulative from July 1, 2015. The Present Value of New External Debt is applied on continuous basis.

8/ New program exchange rate applies for 2016 is Le 5639.10/US$, reflecting end December 2015 actual rate.

Table 4. Sierra Leone: Structural Benchmarks Under the ECF-Supported Program, 2016		
Measures	**Timing**	**Status**
Expenditure and Debt Management		
• Adoption by Cabinet of a revised medium-term wage and pay reform strategy reflecting the revised economic projections and taking into account promotions and retirements in the civil service.	End-March	Not met. Rescheduled to end-June.
• Prepare a monthly rolling Treasury Cash Flow table consistent with the 2016 budget	Continuous	Met.
• Prepare a semi-annual report on PIP execution.	Continuous	Met.
Monetary Operation		
• Establish a primary dealer agreement system for government securities market.	End-March	Not met. Rescheduled to end-June.
• Introduce a daily liquidity forecasting framework	End-March	Met.
• Finalize draft of BSL's rules governing the operations of the interbank foreign exchange market.	End-June	Not Met.
Financial Sector Development		
• Complete the independent diagnostic study report for Rokel Commercial Bank and Sierra Leone Commercial Bank	End-March	Not met.
• Establish a registry of moveable collateral.	End-March	Met.
• Prepare an internal BSL contingent manual to guide identification and step-by-step supervisory actions in the event of specific or systemic banking distress.	End-June	In progress.
Business Environment		
• Begin the migration from ASYCUDA ++ to ASYCUDA World as the next step for introducing a one-stop window.	End-June	In progress.

Table 5. Sierra Leone: Prior Action for Completion of the Fifth Review and Proposed Structural Benchmarks Under the ECF-Supported Program, 2016		
Measures	**Timing**	**Rationale**
Prior Action		
• Passage by Parliament of the revised PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds, as well as provisions on the take-off of the Treasury Single Account and the establishment of a Natural Resource Fund	By May 31, 2016	Improve PFM practices and mitigate fiscal risks.
Structural Benchmarks		
Revenue Mobilization		
• Establish a Natural Resource Revenue Fund with legal and procedural characteristics consistent with the new PFM Bill.	End- June	
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.	End-June	
• Introduce a new Tax Administration Act.	End-June	
• Review the consolidated tax and non-tax obligations for mining companies, and prepare a list of all expired mining agreements.	End-June	
Monetary Operations		
Link the operation of the daily liquidity forecasting framework to monetary policy actions.	Continuous	Improve overall effectiveness of monetary policy.
Expenditure Management		
• Prepare a bi-weekly rolling Treasury Cash Flow table consistent with the 2016 budget.	Continuous	Changed from "monthly" to "biweekly" to improve traction.
Financial Sector Development		
• Complete the contracting process for an independent diagnostic study report for Rokel Commercial Bank and Sierra Leone Commercial Bank.	End-June	Changed from "complete diagnostic study" to "complete contracting process"

Attachment II. Technical Memorandum of Understanding

Freetown, June 16, 2016

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 performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets (ITs) will be evaluated in terms of cumulative flows from the beginning of the period.

2. **Program exchange rates**.[1] For the purpose of the program, foreign currency denominated values for 2016 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 5639.10/US$ and cross rates as of end December 2015.[2]

Sierra Leone: Program Exchange Rate for ECF Arrangement
Cross Rates as of December 31, 2015

Currency	Sierra Leonean leones per currency unit	US dollars per currency unit
US dollar	5639.1	1
British pound sterling	8356.58	1.48
Japanese yen	46.84	0.008
Euro	6142.11	1.09
SDR	7814.27	1.39

Source: International Financial Statistics.

[1] The source of the cross exchange rates is International Financial Statistics.

[2] For calculating program targets for 2016, all end 2015 stock variables will be based on program exchange rate of Le 5639.10/US$.

QUANTITATIVE PERFORMANCE CRITERIA

A. Gross Foreign Exchange Reserves of the Bank of Sierra Leone

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.

4. **Adjustment clauses**. The floor on the change in gross foreign exchange reserves will be adjusted (a) downward (upward) by U.S. dollars equivalent cumulative shortfall (excess) in programmed external budgetary assistance[3]; (b) downward (upward) for any cumulative shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; and (c) upward (downward) for any increase (decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

B. Net Domestic Assets of the BSL

5. **Definition**. Net domestic assets (NDA) of the BSL are defined as the end-period stock of the reserve money less the end-period stock of net foreign assets calculated at the program exchange rates. Reserve money includes currency issued (equal to currency outside banks plus cash in vaults), deposits of commercial banks with the BSL and the BSL liabilities to other private sector. 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 (excluding a foreign liability to China of Le 35 billion relating to a legacy clearing account for a previous bilateral trading agreement) and the outstanding use of Fund credit. For program purposes, foreign liabilities exclude SDR allocation, and debt relief from the Catastrophe Containment and Relief (CCR) Trust granted in 2015.

6. **Adjustment clauses**. The ceiling on changes in NDA of the BSL will be adjusted upward (downward) by the leone value of the shortfall (excess) in the external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million.

[3] External budgetary assistance is defined as program grants and program loans, excluding HIPC assistance.

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

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

a. the net position of the government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the government; less government deposits in commercial banks;

b. the net position of the government with the BSL, including: (a) treasury bills and bonds, excluding holdings of special bonds provided by government to cover BSL losses (Le 357.5 billion) and to increase its capital (Le 75 billion); (b) ways and means; and (c) any other type of direct credit from the BSL to the government, including the special on-lending arrangements relating to the augmentation of access under the ECF arrangement in 2014 2015 and 2016; less (a) central government deposits; and (b) any debt relief received, notably HIPC, MDRI and relief deposits, as well as debt relief under the CCR Trust.

8. **Adjustment clauses**. The ceiling on changes in NCG will be adjusted (a) upward by the leone value of the shortfall in external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million; (b) 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 assumption (as specified in the memorandum items in Table 1 of the LOI).

9. **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.

10. **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. External Payment Arrears of the Public Sector

11. **Definition**. External payment arrears of the public sector are defined to include all debt-service obligations (interest and principal) arising from loans contracted or guaranteed 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 non-accumulation of external arrears is a continuous performance criterion during the program period. For the purposes of this

performance criterion, external arrears are obligations that have not been paid on due dates (taking into account the contractual grace periods, if any). Excluded from this PC are those debts subject to rescheduling or restructuring, or are under litigation. This PC will apply on a continuous basis.

E. Present Value of New External Debt Contracted or Guaranteed by the Public Sector with an Original Maturity of One Year or More

12. **Definition**. The present value (PV) of public external debt is equal to the sum of all future debt service payments (principal and interest), discounted to the present using a discount rate of 5 percent. The PV is calculated using the IMF concessionality calculator and will be based on the loan amount contracted in a given year. Specifically, it will be assumed that all new loans contracted are fully disbursed at the time when they are contracted. For loans with a grant element of zero or below zero, the PV will be set equal to the nominal value of the loan. The ceiling on the PV of new external debt will be applied on a continuous basis from July 1, 2015.

13. New external debt is defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the public sector (see paragraph 11 for definition of public sector) based on the residency of the creditor. The external debt definition applies not only to debt as defined in the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000, Point 8, as revised on August 31, 2009, (Decision No. 14416-(09/91)) but also to commitments contracted or guaranteed for which value has not been received. For the purposes of this PC, the "public sector" is defined as in paragraph 11 above.

14. For program purposes, the debt is deemed to have been contracted when it is signed by the government of Sierra Leone. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government. The government's current borrowing plan is attached in Table 1.

Table 1. Summary Table of Projected External Borrowing Program
(January 1, 2016 to June 30, 2016)

PPG external debt	Volume of new debt in the first half (H1) of 2016		PV of new debt H1 2016 (program purposes)		PV of new debt H1 2016 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**93.0**	**100**	**58.5**	**100**	**59.8**	**100**
Concessional debt, of which	**52.0**	**56**	**23.0**	**39**	**23.0**	**38**
Multilateral debt	40.0	43	16.8	29	16.8	28
Bilateral debt	12.0	13	6.1	10	6.1	10
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**41.0**	**44**	**35.6**	**61**	**36.9**	**62**
Semi-concessional	20.0	22	14.6	25	14.6	24
Commercial terms	21.0	23	21.0	36	22.3	37
By Creditor Type	**93.0**	**100**	**58.5**	**100**	**59.8**	**100**
Multilateral	60.0	65	31.4	54	31.4	52
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	12.0	13	6.1	10	6.1	10
Other	21.0	23	21.0	36	22.3	37
Uses of debt financing	**93.0**	**100**	**58.5**	**100**	**59.8**	**100**
Infrastructure	60.0	65	31.4	54	31.4	52
Social Spending	12.0	13	6.1	10	6.1	10
Budget Financing	20.0	22	20.0	34	21.8	36
Other	1.0	1.1	1.0	1.7	0.5	0.9
Memo Items						
Indicative projections						
Year 2	**0.0**		**0.0**		**0.0**	
Year 3	**0.0**		**0.0**		**0.0**	

Source: IMF staff estimate.

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

15. **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 (see paragraph 11 for definition of 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 paragraph 11 above. This PC will apply on a continuous basis.

QUANTITATIVE INDICATIVE TARGET

A. Domestic Primary Balance

16. **Definition**. Central Government Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

B. Domestic Revenue of Central Government

17. **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.

C. Poverty-Related Expenditures

18. **Definition**. For program monitoring purposes, poverty-related expenditures are defined as the total of current and capital expenditures of the following ministries and institutions: Education, Health, Social Welfare, Agriculture, Transport and Communications, Energy, Water, Police, Prisons Department, National Fire Authority; and capital expenditure for the Ministry of Works, Energy, Water, Health and Sanitation, Agriculture, Police, Prisons, Local Councils, Commission for Social Action, Anti-Corruption Commission, and Statistics Sierra Leone. Current expenditures are defined as expenditures on goods and services, transfers, and other current spending. Capital expenditures are defined as domestically-financed investment. Poverty-related spending encompasses also budgetary expenditure for the Ebola Response Plan.

PROGRAM MONITORING

19. 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. The committee will provide monthly reports to the IMF on progress in implementing the program's quantitative targets and structural benchmarks.

Annex. Implementation of the Revised Guidelines on Performance Criteria with Respect to Foreign Debt

The term "debt" has the meaning set forth in point No. 8 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 sometime 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 Reporting 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 bases	Monthly	End of month + 6 weeks
	Petroleum product prices and 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 Reporting to IMF Staff (concluded)			
Type of Data	**Tables**	**Frequency**	**Reporting Deadline**
Monetary and financial data	Gross official foreign reserves	Weekly	End of week + 1 week
	Foreign exchange cash flow table	Monthly	End of month + 3 weeks
	Revised balance of payments data	Monthly	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, including the associated concessionality calculation (percentage) for each new loan.	Monthly	End of month + 4 weeks
	External debt service payments (separately on principal and interest payment) to each creditor, including and excluding new disbursements in the debt recording system. Also, including and excluding HIPC relief.	Monthly	End of month + 4 weeks
	Report on the stock of debt outstanding, and loan agreements under discussion	Quarterly	End of month + 3 months
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 Monetary Policy Committee	Monthly	Date of meeting + 2 weeks